COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF

GENERAL ADJUSTMENTS IN	)	
ELECTRIC AND GAS RATES	)	CASE NO. 90-158
LOUISVILLE GAS AND	)	
ELECTRIC COMPANY	)	

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF

THE KENTUCKY INDUSTRIAL UTILITY CUSTOMERS

KENNEDY AND ASSOCIATES
ATLANTA, GEORGIA

SEPTEMBER 1990

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

DOCKET NO. 90-158

LOUISVILLE GAS & ELECTRIC COMPANY

DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

Q. **Please state your name and business address.**

A. My name is Lane Kollen. My business address is Kennedy and Associates, Suite 475, 35 Glenlake Parkway, Atlanta, Georgia 30328.

Q. **What is your occupation and by whom are you employed?**

A. I am a utility rate and planning consultant holding the position of Director, Financial Consulting with the firm of Kennedy and Associates.

Q. **Please describe your education and professional experience.**

A. I received my Bachelor of Business Administration in Accounting from the University of Toledo. I also received a Master of Business Administration from the University of Toledo. I am a Certified Management Accountant ("CMA") and a Certified Public Accountant ("CPA").

I began my professional career with The Toledo Edison Company in 1976 in the Accounting Division. I progressed through the Budget and Accounting Reports, Property Accounting, Tax Accounting, and Internal Audit sections of the Accounting Division. In 1980, I was promoted to the Corporate Planning Division where I assumed the supervisory position over the Company's financial modeling and financial evaluation of the Company's strategic plans. I was responsible for the preparation of the capital budget, various forecast filings with regulatory agencies, and assistance in rate and other strategy formulation. I utilized the strategic planning model PROSCREEN II and other software products to evaluate capacity swaps, sales, sale/leasebacks, cancellations, write-offs, unit power sales, and long term system sales, among other strategic options.

In 1983, I joined the consulting group at Energy Management Associates. I specialized in utility finance, computer financial modeling, and utility accounting issues. I also directed consulting and software projects utilizing PROSCREEN II and ACUMEN proprietary software products to support utility rate case filings, budgets, internal management and external reporting, and strategic and financial analyses.

In 1986, I joined Kennedy and Associates where I specialize in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and non-traditional ratemaking, and other utility strategic and financial issues. I have developed and presented papers on utility rate and tax issues at Energy Management Associates and Electricity Consumers Resource Council ("ELCON") industry conferences.

I have appeared as an expert witness on accounting, finance, and planning issues before regulatory commissions in numerous states including Kentucky. My qualifications and regulatory appearances are further detailed in my Exhibit_____ (LK-1).

Q. **Please describe the firm of Kennedy and Associates.**

A. Kennedy and Associates provides consulting services in the electric, gas and telecommunications utilities industries. Our clients include state agencies and industrial electricity and gas consumers. The firm provides expertise in system planning, load forecasting, financial analysis, revenue requirements, cost of service, and rate design.

Q. **On whose behalf are you presenting testimony?**

A. I am appearing on behalf of the Kentucky Industrial Utility Customers ("KIUC"), a group which includes the largest industrial customers on the Louisville Gas and Electric ("LG&E") system.

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

A. The purpose of my testimony is to review the revenue requirement portion of the LG&E filing in this docket, to determine its appropriateness, and to recommend adjustments to the filing for the Commission's consideration.

Q. Please summarize your testimony.

A. After review of the Company's filing I have reached three primary conclusions. First, the primary reason for this filing is to reflect Trimble County in base rates as plant in service for rate base and operating income purposes prior to its projected commercial operation date. This is contrary to established ratemaking principles which recognize synchronicity and require consistency among <u>all</u> ratemaking components. Recent Commission orders have emphasized the application of these established ratemaking concepts to post-test year additions.

Second, LG&E has purposely created an excessive test year revenue requirement by making selective proforma adjustments to increase rate base and operating expenses while concurrently ignoring equally appropriate proforma adjustments which would reduce its test year revenue requirement by reducing rate base and increasing operating revenues. LG&E has created a biased hybrid test year which is neither fully historic nor fully projected, justifying its proposed proformas as "known and measurable" and "representative" of costs which it projects it will incur in 1991. The Company's attempt to convert its historic test year to at least a partially projected test year is incomplete at best and is inconsistent with the conceptual framework of the recent Commission's orders which require synchronicity and consistency among all ratemaking elements of a forecasted test year.

Third, LG&E has proposed a so-called "phase-in" plan which is in reality, a thinly disguised attempt to inappropriately accelerate its Trimble County cost recovery, rather than to partially and temporarily defer a portion of its associated revenue requirement, as is commonly considered to be a "phase-in" plan within the industry. **A phase-in plan should mitigate the rate impact associated with a new facility, not accelerate it.**

Based upon these conclusions, which I describe in more detail in the body of my testimony, I have developed several recommendations for the Commission's consideration which are consistent with widely utilized ratemaking principles recognized in this and most other regulatory jurisdictions. First, I recommend that the Commission reject the Company's so-called phase-in plan. The Commission should reject LG&E's attempt to preemptively classify the Trimble County facility as plant in service and to include certain related projected 1991 operating expenses in the determination of operating income. I recommend that the Commission continue to consistently apply the regulatory treatment it has afforded LG&E in the past by including Trimble County CWIP in rate base as of April 30, 1990, the end of the Company's test year.

Second, I recommend that the Commission reject LG&E's selective pre test year and post-test year adjustments and instead utilize a historic test year to ensure synchronicity and consistency among all ratemaking components (this includes costs related to Trimble County). The pre test year adjustment is the Company's attempt to retroactively recover the FERC headwater benefit assessment. The post-test year adjustments are the IBEW wage increase projected for November 1990, the three year averaging of future EPRI dues, the Trimble County projected property taxes, the Trimble County depreciation, and the increase in the percentage of costs expensed due to projected Trimble County commercial operation.

As an alternative, in the event the Commission determines to accept the Company's pre and post-test year adjustments, the Commission should make adjustments to reflect projected revenue levels in 1991 and an average year 1991 rate base.

Third, I recommend that the Commission recognize for ratemaking purposes the Company's financial statement recognition on January 1, 1990 of the initial balance of unbilled revenues. This occurred within the test year and should be utilized to offset the Company's requested recovery of downsizing costs which also occurred within the test year. I urge the Commission to apply a consistent standard of recovery in this case.

Fourth, I recommend that the Commission adopt the 11.70% return on common equity recommended by my colleague, Mr. Richard Baudino, on behalf of KIUC. This provides an overall rate of return of 9.54%.

Fifth, I recommend that the Commission recognize a revenue requirement surplus of $27.6 million, consisting of a $22.0 million surplus for electric operations and a $5.6 million surplus for gas operations. The revenue requirement effects of my recommended adjustments are summarized on Table 1.

My testimony supporting these conclusions and recommendations is structured into the following sections:

II. Applicable Test Year Ratemaking Concepts
III. Trimble County
IV. Other Test Year Adjustments
V. Summary of Recommended Revenue Requirement
VI. An Alternative Approach

TABLE 1

SUMMARY OF KIUC REVENUE REQUIREMENT RECOMMENDATIONS
($ Millions)

	Electric	Gas	Total
LG&E Proposed Revenue Requirement Deficiency	$ 30.7	$ 4.1	$ 34.8
KIUC Recommended Adjustments:			
• Limit Trimble County in Rate Base to 4/30/90 CWIP Balance	(4.1)	-	(4.1)
• Exclude 1991 Trimble County Depreciation	(16.0)	-	(16.0)
• Exclude 1991 Trimble County Property Taxes	(1.0)	-	(1.0)
• Exclude Increase in Expense % Due to Trimble County Operation	(5.6)	(1.9)	(7.5)
• Exclude Retroactive Recovery of FERC Headwater Benefit Assessment	(0.1)	-	(0.1)
• Exclude Average Effects of 1990 1991, and 1992 EPRI Dues	(1.3)	-	(1.3)
• Exclude Nov. 1990 IBEW Wage Increase	(1.8)	(0.6)	(2.4)
• Exclude July 1990 Sales Tax Increase	(0.1)	-	(0.1)
• Amortize Initial Balance of Unbilled Revenues Over 3 Years	(4.9)	(5.0)	(9.9)
• Amortize Downsizing Costs Over 10 Years Rather than 3 Years	(1.8)	(0.5)	(2.3)
• Reduce Return on Common Equity to 11.7%; Overall Return to 9.54%	(16.0)	(1.7)	(17.7)
Total KIUC Adjustments	($52.7)	($9.7)	($62.4)
KIUC Recommended Revenue Requirement Deficiency (Surplus)	($22.0)	($5.6)	($27.6)

II. APPLICABLE TEST YEAR RATEMAKING CONCEPTS

Q. Please describe the regulatory concept of a "test year."

A. The test year is typically a twelve month period during which the Company's rate base, operating income, capitalization, and return requirements can be measured to determine whether its existing rates are fair, just, and reasonable. The test year may be a historic, forecasted, or some combination of historic and forecasted period, depending upon the utility's discretion and subject to the constraints of the particular regulatory jurisdiction.

The reason that a test year is selected is to provide a basis for the determination of the utility's revenue requirements. Inherent in the determination of a test year are the concepts of "synchronicity," "consistency," "representative," and "matching."

Q. Please describe how "synchronicity" is relevant to a discussion of the test year.

A. Synchronicity describes the complex interrelationships between all the ratemaking components of rate base, operating income, and return. Each affects the other. The reflection in operating income of depreciation expense affects the reflection in rate base of the level of accumulated depreciation. Likewise with deferred tax expense and accumulated deferred taxes. Likewise for operation and maintenance expense and cash working capital. The level of rate base investment affects the capitalization and the required return on the rate base.

It is clear that the test year involves the synchronicity of complex interrelationships. In order to obtain a meaningful and proper determination of revenue requirements, care must be taken to properly reflect all synchronous interrelationships whether within a historic test year, a fully projected test year, or some combination. It is the role of the Commission, in determining fair, just, and reasonable rates, to assure itself that <u>all</u> components of the test year reflect the synchronicity of their complex interrelationships.

Q. Please describe how "consistency" is relevant to a discussion of the test year.

A. Consistency is closely allied with synchronicity; it requires that similar items or costs within a test year be treated similarly. In other words, if costs of a certain nature are given operating income recognition, other costs of a similar nature should also be given operating income recognition. If new plant additions are included in rate base on a forecasted basis as plant in service, then existing plant additions net of retirements should also be included in rate base on a forecasted basis. In addition, accumulated depreciation and accumulated deferred taxes should be forecasted to the date of the post-test year new plant additions which are included. Consistency requires that similar ratemaking elements of the test year be treated similarly. Otherwise, distortions occur in the test year revenue requirement that prevent the establishment of rates which are fair, just, and reasonable.

Q. Please describe how "representative" is relevant to a discussion of the test year.

A. Once again, this term is intertwined with synchronicity and consistency. A test year should be representative of the relationships between ratemaking components which are reasonably anticipated to be in effect during the rate effective period. However, a test year cannot be representative without proper attention to synchronicity and consistency. **Consequently, whether a component is representative must be viewed in a broad sense for all ratemaking components, not just individual revenue, expense, or rate base items.**

Q. Please describe how "matching" is relevant to a discussion of the test year.

A. The concept of matching has relevance both in the necessity for consistency among similar ratemaking items as well as the necessity for a representative test year. Oftentimes, the term matching is invoked as justification for proforma adjustments to only certain test year expenses or other ratemaking components, to more closely "match" the expense or other component level forecasted to the rate effective period. However, this limited application of the matching concept clearly results in a nonsynchronous, inconsistent, and nonrepresentative test year unless all ratemaking components are similarly "matched" to the rate effective period. **Consequently, whether there is a proper "matching" must also be viewed in a broad sense for all ratemaking components, not just individual revenue, expense, or rate base items.**

Q. Please address the concept of "known and measurable" insofar as it relates to the test year.

A. Oftentimes a historic test year is adjusted for what are termed "known and measurable" changes. There is a wide degree of regulatory discretion exercised in the definition, the identification and the utilization of known and measurable changes to test year ratemaking components. There are known and measurable changes which have occurred during a historic test year which result in adjustments to exclude or amortize nonrecurring or abnormal items, or adjustments to annualize items to reflect representative or ongoing levels. These are generally highly certain and readily quantifiable.

There are also known and measurable changes which are projected to occur subsequent to the end of a historic test year. These post-test year occurrences vary widely in the level of uncertainty and the ability to quantify their effects. Some post-test year occurrences are highly certain due to contractual commitments. Others, such as projections of sales or inflationary increases in expenses may be somewhat less certain but are no less real.

Regulatory commissions must exercise care to avoid creating a "fine line" definitional distinction between known and measurable changes with higher levels of quantifiable certainty versus known and measurable changes with lower levels of quantifiable certainty. All projections of known and measurable changes are inherently forecasts. Recognition of known and measurable changes is a matter of judgment for regulatory commissions guided by the concepts of synchronicity, consistency, representative, and matching.

Q. Please describe the test year selected by LG&E in light of appropriate test year ratemaking concepts.

A. LG&E purports to have selected a historic test year ending with April 30, 1990. In reality, the Company has created a hybrid historic and forecasted test year, inconsistently relying upon actual historic costs in some instances and totally forecasted costs in other instances. LG&E has included non-Trimble County rate base as of April 30, 1990 while concurrently including Trimble County as plant in service in rate base as of December 31, 1990. LG&E has reflected in operating income a diverse mixture of 1988 calendar year expenses, April 30, 1990 test year ending expenses, 1990 annualized expenses, and 1991 calendar year expenses. LG&E has included some test year proforma adjustments as "known and measurable" while concurrently ignoring other obvious adjustments which were also "known and measurable." It is obvious that LG&E has created its test year, utilizing a mixed grab bag of adjustments, to inappropriately inflate its filed revenue requirement.

The test year created by LG&E violates every test year regulatory concept underlying the determination of fair, just, and reasonable rates. The LG&E test year ratemaking components are nonsynchronous, inconsistent, nonrepresentative, and mismatched. This has resulted in the creation, by LG&E, of a test year revenue requirement deficiency which does not exist. In reality, if the basic test year requirements of synchronicity, consistency, representative, and matching are properly followed and applied, the Company has a revenue requirement surplus.

I respectfully submit to the Commission that it must apply the concepts of synchronicity, consistency, representative, and matching to all elements of the Company's filing in order to properly determine the level of fair, just, and reasonable rates.

Q. Please describe the test year selected by LG&E in light of recent Commission orders.

A. The Company chose a hybrid historic and forecasted test year even though the Commission had signaled its intent to allow a fully forecasted test year in at least two recent rate decisions. In the recent rate cases of Kentucky-American Water Company, Inc. and Columbia Gas of Kentucky, Inc., prior to the orders in Administrative Case No. 331, the Commission addressed the issue of large post-test year property additions. The Commission provided notice in these cases that it would allow utilities to file rate cases based on forecasted test years. In Case No. 10481 (Kentucky-American Water Company), the Commission made an "exception" to its traditional ratemaking and allowed post-test year plant in service additions to rate base. However, the commission stated its belief that this treatment was not a "panacea" for the problem of regulatory lag occurring during periods of significant additions to plant in service. The Commission further stated its belief that the best solution was the use of a forecasted test year. In the final order, the Commission stated that:

> **"... in cases filed subsequent to the date of this order, the Commission gives notice to Kentucky-American, and other utilities under its jurisdiction, that: <u>1) adjustments for post-test-year additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions</u>; 2) it will accept a forecasted test period in lieu of the adjusted historical test period; and 3) if a forecasted test year is used in a rate case, the utility should also file historical test period information for a 12-month period."** (emphasis added)

This Commission has already clearly addressed the very issues that it again confronts in this LG&E case. It has recognized that all ratemaking components need to be synchronous, consistent, representative, and matching. LG&E, as well as other utilities under the Commission's jurisdiction, were provided advance notice of the Commission's concerns and its prospective resolution of the problem.

Two months later, in Administrative Case No. 331, the Commission issued preliminary guidelines for the use of a projected test year. LG&E participated in the proceeding, and filed comments regarding the preliminary guidelines in January 1990. In its April 1990 order in the same case, the Commission authorized the actual use of the guidelines and stated that it had:

> **"... made its decision to allow forecasted test periods following a number of cases wherein the use of historical test periods coupled with traditional matching adjustments did not, in the Commission's opinion, produce results representative of current conditions. In the Kentucky-American and Columbia Gas cases, the Commission noted that significant new plant constructed and placed in-service after the end of the historical test period made the historical test period non-representative of current conditions."**

The Commission thus expressed clearly its frustration with and the unacceptability of what it termed "historical test periods coupled with traditional matching adjustments" that made the historical test period "non-representative." This precisely describes the test year filed by LG&E.

In light of the recent Commission orders, and prior to the filing of this case, LG&E was given a golden opportunity to file either a properly adjusted historical test year or a fully forecasted test year wherein all synchronous components would be consistent, representative, and matched. Yet, the Company chose not to do so and instead created an inconsistently and partially projected test year that improperly inflated its revenue requirements. This absolutely flies in the face of the recent Commission orders addressing the very same situation of large post-test year property and expense additions for which LG&E now seeks relief. The Commission should thus reject the Company's ill-conceived and manipulated test year revenue requirement.

Q. If the Commission rejects LG&E's biased test year, what options are available to it in order to determine the Company's revenue requirement?

A. The Commission has three options consistent with its recent orders including Case No. 10481 and Administrative Case No. 331 and consistent with its apparent understanding of and willingness to apply the underlying test year concepts of synchronicity, consistency, representative, and matching. The first is to utilize a fully historic test year with no projected proforma adjustments. I recommend this treatment since the Company will not provide the projected data from its 1990 or 1991 budgets to develop other equally appropriate projected proforma adjustments ignored by LG&E. The second option available is to attempt to properly adjust the Company's historic test year to include <u>all</u> appropriate proforma adjustments based upon calendar year 1990. I don't recommend this option for two reasons. The most accurate data to compute the projected proformas ignored by LG&E is not available due to the unwillingness of the Company to provide its budgets in response to discovery. Additionally, it would be inconsistent to utilize only partially adjusted 1990 revenue and expense levels for non-Trimble County in conjunction with the utilization of projected 1991 levels of certain expenses for Trimble County. The third option available is to attempt to create a fully forecasted test year for calendar year 1991, the first rate effective period. I don't recommend this option due to the extent of the data that would be required, in essence another rate filing package.

III. TRIMBLE COUNTY

Q. What is the impact of Trimble County on the Company's filed revenue requirements?

A. The revenue requirement portion of the Company's rate filing can be segregated into two components, Trimble County and non-Trimble County. The Company has thus included the projected cost of the Trimble County facility as plant in service in its rate base at a level of $536.3 million (75% of the projected $715.0 million completion cost). The level of Trimble County CWIP at April 30, 1990, the test year end, was $507.9 million (75% of the actual $677.2 million CWIP balance). LG&E has included $28.4 million in rate base (capitalization) in excess of the test year end level. LG&E has also requested recovery of certain projected post-test year expenses related to Trimble County. These projected expenses include depreciation, $16.0 million (based upon 75% of the projected completion cost), property taxes, $1.0 million, and an increase in the expense percentage from 66.2% to 71.2% applied to labor and labor related costs in order to reflect Trimble County commercial operation, $7.5 million. The total revenue requirement associated with the Trimble County facility in this filing is $102.9 million, consisting of $74.3 million related to the CWIP balance at April 30, 1990, and $28.6 million related to post-test year rate base and operating expense adjustments. The $28.6 million in revenue requirements related to Trimble County post-test year adjustments represents more than 80% of the total $35.5 million in additional base revenues requested by the Company. The Trimble County revenue requirement computations are documented on my Exhibit __ (LK-2).

Q. **Is the Company's request for post-test year adjustments to rate base and operating income consistent with the basic regulatory concepts underlying the determination of test year revenue requirements in order to achieve fair, just, and reasonable rates?**

A. No. The Company's proposed treatment lacks synchronicity and consistency. For rate base (capitalization), LG&E has proposed recognizing an additional $28.4 million of Trimble County's costs compared to the April 30, 1990 test year end balance of CWIP. Yet, the Company has ignored the projected and readily quantifiable growth in other non-Trimble County rate base (capitalization) components including gross plant additions, accumulated depreciation, and accumulated deferred income taxes. If only these three adjustments are included in the non-Trimble County rate base at year end 1990, the Company's rate base at year end 1990 will have declined, even including the additional Trimble County costs projected to be incurred between April 30, 1990 and December 31, 1990.

For operating income, the Company has proposed three proforma adjustments to recognize projected levels of Trimble County 1991 expense. LG&E has not recognized any increased off-system sales as a result of the additional capacity, nor has the Company recognized any increases in base revenues which it can reasonably project and quantify to reflect continuing historic growth in the number of customers and to normalize the average use per customer which was historically depressed in the actual test year ending April 30, 1990. Once again, it is absolutely clear that the Company has selectively chosen proforma adjustments to its historic test year which increase its revenue requirement deficiency without properly incorporating appropriate and relevant adjustments which would reduce its revenue requirement deficiency.

It should be abundantly clear that the Company's adjustments to rate base (capitalization) and operating income are inconsistent with the basic regulatory concepts underlying the determination of test year revenue requirements. This should not be allowed.

Q. Has the Commission recently addressed the issue of post-test year plant additions?

A. Yes. To my knowledge, there have been three recent orders of the Commission which addressed this issue, Case No. 10481 (Kentucky-American Water Company), Case No. 1020 (Columbia Gas), and the Commission's Administrative Order No. 331. In all three cases, the commission stated its objective to allow the use of forecasted test years subject to specific guidelines which recognize the synchronicity of all ratemaking components and the necessity for a consistent forecast or projection of all ratemaking components.

Q. Please comment on the Company's proposed Trimble County "phase-in" plan.

A. The Company's so-called "phase-in" plan is nothing more than a thinly disguised attempt to inappropriately accelerate the Trimble County cost recovery. A phase-in plan should mitigate the rate impact associated with a new facility, not accelerate it.

The Company's plan is flawed for other reasons. First, the final cost of the Trimble County facility is unknown. LG&E's plan assumes a final cost of $715 million but incorporates no true-up provision. Second, most phase-in plans directly incorporate the concept of negative attrition, i.e., the rate base investment declines during the phase-in period due to increases in accumulated depreciation and accumulated deferred taxes. If these two Trimble County attrition items were considered, rate base (capitalization) would be reduced $14.4 million by mid-1991. LG&E has ignored this aspect of ratemaking reality. Third, the phase-in plan limits itself to only three issues next year, the increase in Trimble County O&M expense, the off-system sales associated with the allowed portion of Trimble County and the reduction of Cane Run 3 expense. Yet, non-Trimble County accumulated depreciation increased approximately $50 million during the test year. Non-Trimble County accumulated deferred taxes increased nearly $8 million during the test year. If these annual amounts were extrapolated to mid-year 1991, the first rate effective year, revenue requirements would be lower by more than $8.5 million. The Trimble County rate base (capitalization) attrition would reduce revenue requirements by another $2.9 million, for a combined reduction of $11.4 million (utilizing the Company's proposed rate-of-return). The Commission simply cannot and should not limit itself in the self-serving manner proposed by the Company. It should reject the Company's so-called phase-in plan.

Q. Please summarize your recommendation with respect to Trimble County.

A. I recommend that the Commission reject LG&E's requested post-test year Trimble County adjustments. Instead, 75% of the Trimble County investment cost should be included in rate base (capitalization) as CWIP at April 30, 1990, the test year end. No recognition should be given in this docket to post-test year projected Trimble County operating expenses. This is consistent with prior Commission treatment for Trimble County and other Kentucky utility generating facilities. It is also consistent with recent Commission orders regarding projected test years requiring that <u>all ratemaking components</u> be appropriately and consistently projected. Further, I recommend that the Commission reject the Company's proposed Trimble County "phase-in" plan as premature and poorly designed.

The KIUC Trimble County recommendation results in a reduction of $28.6 million to the Company's request of $35.5 million as shown in Table 2.

TABLE 2

SUMMARY OF KIUC RECOMMENDED TRIMBLE COUNTY REVENUE REQUIREMENT REDUCTIONS

Description	Electric	Gas	Total
Return on $28.4 million T.C. after April 30, 1990	$ 4.1	$ -	$ 4.1
T. C. Property Taxes	1.0	-	1.0
T. C. Depreciation	16.0	-	16.0
Increase in Expense % from 66.2% to 71.2%	5.6	1.9	7.5
Total	$26.7	$1.9	$28.6

Q. If the Commission rejects your recommendation and instead accepts LG&E's proposal to include the projected completion cost of Trimble County as plant in service in rate base, are there any other adjustments which should be made?

A. Yes. The most obvious ones are to project the December 31, 1990 balances of non-Trimble County rate base components. As indicated previously, the historic test year includes approximately $58 million of book depreciation and deferred tax expense. Eight months worth of these annual amounts could be utilized to extrapolate an increase to both associated reserves and a concurrent reduction to rate base (capitalization) from the April 30, 1990 test year end to December 31, 1990. This would result in an effective reduction of $38.7 million in test year rate base (capitalization). Further, non-Trimble County additions to gross plant in service (net of retirements and adjustments) were $1.7 million for the first four months of 1990. Extrapolating an additional eight months of similar levels of additions to gross plant in service would result in an increase to rate base of $3.5. million. The net effect of these adjustments to reflect a December 31, 1990 balance of non-Trimble County rate would be to reduce rate base (capitalization) by $35.2 million. This would reduce revenue requirements by $5.1 million ($35.2 million * 14.62%, the Company's requested 10.33% return grossed up for taxes).

The second necessary adjustment is to reflect the projected December 31, 1990 balance of accumulated deferred taxes due to Trimble County tax depreciation. Trimble County is projected by LG&E to enter commercial operation for tax purposes by year end 1990. Consequently, LG&E will be entitled to commence tax depreciation on Trimble County under the MACRS tax depreciation tables as fifteen year property subject to the mid 4th quarter convention. On this basis, LG&E will be able to depreciate 1.25% of $536.3 million (75% of $715 million projected completion cost) or $6.7 million. At a combined federal and state tax rate of 39.445%, this will generate a $2.6 million December 31, 1990 balance of accumulated deferred taxes equating to a revenue requirement reduction of $0.4 million ($2.6 million * 14.62%, the Company's requested 10.33% return grossed up for taxes).

These two adjustments are the minimal necessary if the Commission accepts the Company's proposed Trimble County rate base treatment. The combination of the two adjustments would reduce LG&E's request by $5.5 million, all electric.

IV. OTHER TEST YEAR ADJUSTMENTS

Summary

Q. Please summarize your other recommended test year adjustments.

A. I recommend that all non-Trimble County pre and post-test year adjustments proposed by LG&E be rejected as inconsistent with the basic underlying concepts of determining the test year basis for fair, just, and reasonable rates. These adjustments proposed by LG&E include the pre test year adjustment for the FERC headwater benefit assessment. They also include the post-test year adjustments for a November 1990 classified employee wage increase, the three year averaging of future EPRI dues, and the July 1990 sales tax increase.

I also recommend that the initial balance of unbilled revenues recognized by LG&E in January 1990 for financial statement purposes be recognized for ratemaking purposes. Further, I recommend that the Commission provide recovery of downsizing costs, albeit over a longer amortization period than proposed by the Company, but only if the Commission accepts my recommendation to recognize the initial balance of unbilled revenues for ratemaking purposes. If the Commission does not accept my recommendation to amortize the initial balance of unbilled revenues for ratemaking purposes, then I recommend that the Commission also disallow recovery of the Company's downsizing costs as a matter of consistency.

Pre-Test Year Adjustments

Q. Should the Company recover the cost it incurred for the FERC headwater benefit assessment?

A. No. The FERC headwater benefit assessment payment occurred in July 1988, prior to the current test year which runs from May 1, 1989 through April 30, 1990. This is a pre test year adjustment. There are several problems with allowing the recovery of this cost. First, the Company had no regulatory authority to defer this cost for future recovery. Consequently, it should have been expensed when it was paid. Second, the Company has selectively identified this cost as recoverable since it was not specifically identified as an expense in its last case. The Company has not specifically identified any pre-test year costs which have not been incurred but which were included as recoverable costs in its last case, such as certain SDRS renovation costs. To be consistent, the Company should have recorded reductions in specific expenses, such as the FERC headwater benefit assessment, as deferred credits (liabilities to ratepayers) to offset increases in specific expenses recorded as deferred debits (accounts receivables from ratepayers). The Company's position is logically inconsistent and indefensible. Third, it is established ratemaking theory that the utility bears the risks and rewards associated with actual increases or reductions in operating income, rate base, and return requirements outside of the test year, absent specific regulatory authorization for differing treatment. In fact, it is likely that LG&E would consider it improper retroactive ratemaking if the Commission were to require it to refund to ratepayers all base revenues it collected since its last rate case order which exceeded the level of revenues included in operating income by the Commission in that case. Fourth, if the Commission accepts a pre test year adjustment in this case, even of relatively small magnitude, it could establish a precedential basis for future manipulation of actual earnings (through selective deferral of expenses) and improper increases to future filed revenue requirements by the utilities under the Commission's jurisdiction.

Consequently, it is clear that the Company's request for a pre test year adjustment is inappropriate and should be rejected by the Commission. LG&E has provided no compelling reason for recovery which would overwhelm the multitude of arguments against recovery.

Non-Trimble County Post-Test Year Adjustments

Q. **Please identify the Company's proposed non-Trimble County post-test year adjustments.**

A. The Company has proposed three non-Trimble County post-test year adjustments. They are a November 1990 classified employee wage increase, $1,702,000 (71.2% of $2,391,332 November 1990 classified wage increase from Fowler Exhibit 1, Schedule D, page 2 of 4, line 10) included in Adjustment D, the three year averaging of EPRI dues, $1,311,826, included as Adjustment C, and the July 1990 sales tax increase, $163,000, included as Adjustment O. These three post-test year adjustments total $3,176,826 in proposed LG&E revenue requirements.

Q. Should the Company recover its proposed non-Trimble County post-test year adjustments?

A. No. I extensively discussed the necessity for synchronicity, consistency, representative, and matching in the determination of test year revenue requirements in the "Applicable Test Year Ratemaking Concepts" section of my testimony. These three adjustments occur fully after the end of the historic test year. Each selective adjustment represents a projection by the Company of its expenses during the rate effective period. The non-Trimble County post-test year adjustments proposed by the Company have been selectively chosen to bias the revenue requirement upward. The problem isn't the fact that the Company has proposed post-test year proforma adjustments. The problem is the fact that not all appropriate proforma adjustments have been proposed by the Company, many of which would reduce the Company's requested revenue requirement deficiency.

Q. What adjustments are missing from the Company's filing?

A. The Company has not proposed adjusting its base revenues to reflect a continuation of the historic growth in customers beyond test year end April 30, 1990 or to reflect normalized average usage per customer for the rate effective period. The Company has not proposed adjustments to rate base to reflect the balance of plant in service, accumulated depreciation, or accumulated deferred taxes at calendar year end 1990 for non-Trimble County rate base. There is no valid argument that measures such as these are not known and measurable. Each one of these adjustments is quantifiable, and in fact, can be obtained as an inherent component from the Company's 1990 budget. The significance of the fact that the Company is unwilling to provide its budget in response to discovery should not be underestimated (AG 1st, #29). Nor should its failure to provide its budget serve to limit the Commission's ability to determine the appropriate test year revenue requirement in order to determine fair, just, and reasonable rates.

The Commission should reject all proforma adjustments proposed by the Company in the absence of a <u>complete</u> set of appropriate proforma adjustments to non-Trimble County operating income and rate base and in light of the unwillingness of the Company to provide the data for such adjustments. Otherwise, the Commission will place itself in the position of accepting a false, incorrect, and improper test year determination of a nonexistent revenue requirement deficiency.

Q. **Please quantify the impact of rejecting the Company's proposed non-Trimble County post-test year adjustments.**

A. The impact of rejecting the Company's non-Trimble County post-test year adjustments is slightly less than the Company's proposed revenue requirements for the same adjustments. This is due to the fact that I have already recommended rejection of the Company's proposed operating expense increase from 66.2% to 71.2% in the earlier Trimble County section of my testimony. Consequently, the reduction for the November 1990 classified employee wage increase should be $1,583,000 (66.2% of $2,391,332 from Fowler Exhibit 1, Schedule D, page 2 of 4, line

10). When this is combined with the post-test year EPRI dues amount of $656,000 and the sales tax amount of $163,000, the total reduction in LG&E revenue requirements is $2.4 million.

Unbilled Revenues

Q. Please define the term "unbilled revenues".

A. The term unbilled revenues is defined by the Edison Electric Institute as:

> **Revenues applicable to electric energy consumed but not yet billed to the customer because of bimonthly or cycle billing, or for other reasons."** (Glossary of Electric Utility Terms, Statistical Committee of EEI, page 78).

The recording of unbilled revenues simply provides a current period recognition of revenues which are actually owed to and ultimately receivable by the Company but which will not be billed for until the next billing cycle. In essence, the recognition of revenues is simply accelerated.

Q. Please describe the determination of and accounting for unbilled revenues.

A. At end of each month, the net change in revenues applicable to energy consumed but not yet billed to the customers compared to the prior month is estimated by the utility. The net change represents a reversal of the prior month's balance of unbilled revenue, which has now actually been recovered, and its replacement with the current month's balance. The net change in the month end balances is then reflected in the current month's revenue amount to be included in the determination of the utility's operating income.

Q. Please provide an example of how unbilled revenues are determined and recognized.

A. Assume that a Company has recognized revenues on the basis of meters read and has not recognized or accounted for unbilled revenues prior to this time. Assume also that its unbilled revenues approximate 40% of its non-fuel monthly revenues. Assume further that the Company converts from the meters read basis to the unbilled basis for revenue recognition. Table 3 below shows, on a hypothetical basis for a three month period, this conversion. The table shows non-fuel monthly revenues actually billed on a meters read basis, the initial recognition of unbilled revenues, the month end balances of unbilled revenues, the net changes, and the monthly reported and recognized revenues under the unbilled revenues methodology.

TABLE 3

CONVERSION FROM METERS READ REVENUES TO UNBILLED REVENUES

	Month 1 ($000)	Month 2 ($000)	Month 3 ($000)
Billed Revenues on Meters Read Basis	210,000	210,000	210,000
Reversal of Prior Month Unbilled Revenues	-	(84,000)	(84,000)
Current Month Unbilled Revenues Accrual	84,000[1]	84,000	84,000
Net Change in Monthly Unbilled Revenues	84,000	-	-
Revenues on Unbilled Revenues Basis	294,000	210,000	210,000

[1] Initial Balance

This example illustrates the initial recognition of unbilled revenues in Month 1, the ongoing monthly reversal of the prior month's unbilled revenue accrual commencing in Month 2, the ongoing nature of the current month's accrual, the resultant net change in the monthly accruals, and the effects of the unbilled revenues on the reported and recognized revenues.

Q. **Do all utilities reflect unbilled revenues for financial and ratemaking purposes?**

A. No. Recording of unbilled revenues is not currently a requirement under generally accepted accounting principles for electric utilities. Nevertheless, the majority of utilities do record unbilled revenues to more closely match the recognition of revenues and expenses. Many utilities in the past did not book unbilled revenues for financial and ratemaking purposes to be consistent with their claims that such revenue recognition was not taxable income.

Q. Has this changed in the last several years?

A. Yes. There is no longer any dispute over whether unbilled revenues are to be included in taxable income. The Tax Reform Act of 1986 required that unbilled revenues be included in taxable income. However, it is important to understand that except for the initial phase-in recognition of the taxable income effect, that the reflection of unbilled revenues in taxable income on an ongoing basis represents only the net change in the balance from month end to month end or year end to year end. Since the tax avoidance reason to not book unbilled revenues no longer exists, many utilities have commenced booking unbilled revenues for financial and ratemaking purposes as well.

Q. Please describe LG&E's current book accounting and proposed regulatory treatment of unbilled revenues.

A. On January 1, 1990, LG&E commenced recognition of unbilled revenues for book accounting purposes. The Company booked an initial balance of unbilled revenues of $29.8 million, before taxes, and $18.0 million after taxes, below the line to nonoperating income. The $29.8 million initial balance[1] actually booked by LG&E is similar to the $84 million initial balance for Month 1 presented in my Table 3 example. LG&E utilized the balance resulting from the initial recognition to boost its earnings. The Company now also recognizes the ongoing changes in the balance of unbilled revenues for book accounting purposes.

The Company has decided to ignore its book accounting for unbilled revenues for regulatory purposes in this filing. In essence, the Company proposes to pretend that it still recognizes revenues on the meters read basis for regulatory purposes. The benefit of the initial balance of unbilled revenues was retained by the Company for its shareholders, despite the fact that it occurred during the test year and despite the fact that Commission authorization for this treatment was not sought nor obtained. The Company then made two other adjustments in this filing to exclude the ongoing effects of its book accounting for unbilled revenues in order to assure there was absolutely no regulatory effect. The first of these two adjustments was Adjustment L on Fowler Exhibit 1 to restate revenues recognized for book accounting purposes on the unbilled revenues basis to LG&E's proposed revenues for regulatory purposes on a meters read basis. The second of the two ongoing adjustments was to exclude the test year end balance of unbilled revenues, net of tax, from the Company's common equity capitalization (Fowler Exhibit 2 page 1 of 2 line 12, column 2, and footnote (d)).

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[1] The initial balance referenced here was an unrecognized asset. The recognition of this asset produces an increase in income.

Q. Please comment on LG&E's proposed regulatory treatment of the unbilled revenues issue.

A. The Commission should reject LG&E's proposal to ignore the issue of unbilled revenues for ratemaking purposes. First, there is the overriding issue of the consistency of treatment of one-time events within the test year. The Company proposes that the Commission ignore the revenue requirement reduction effect of recognizing the initial balance of unbilled revenues for ratemaking purposes. Concurrently, however, LG&E has proposed to recover for ratemaking purposes its costs associated with the recent downsizing effort over a three year period. Second, both the initial unbilled revenues balance recognition and the downsizing costs were incurred during the test year. Third, both were one time occurrences. Fourth, both require specific regulatory treatment to defer the balances and amortize them for regulatory purposes. Yet, LG&E seeks to have the Commission ignore the one that would reduce revenue requirements and to provide recovery of the one that would increase revenue requirements. Certainly this is not consistent and it is not equitable.

Q. What is your recommendation with respect to the unbilled revenues issue?

A. I recommend that the Commission recognize the <u>initial balance</u> of unbilled revenues for ratemaking purposes. This would require LG&E to defer the January 1, 1990 initial balance of unbilled revenues in Account 253, Other Deferred Credits, as deferred revenues or some other account with similar effect.

I recommend that the Commission allow the Company to amortize the deferred initial balance of unbilled revenues over a three year period commencing with the rate effective date of the final order ensuing from this proceeding. This would require LG&E to amortize the deferred initial balance as an increase to Account 456, Other Electric Revenues or some other account with similar effect.

Q. Why do you recommend a three year amortization period?

A. The primary reason for a three year period is to mitigate the rate effects of Trimble County, which are, of course, the highest in the first several years of operation. The primary reason for commencing the amortization with the rate effective date of the final order is to ensure that all benefits associated with the initial balance of the unbilled revenues inure to the benefit of the Company's ratepayers.

Consequently, the Company would defer the initial balance of $29.8 million ($14.7 million electric and $15.1 million gas) before tax in Account 253. The annual amortization over three years would be $9.9 million ($4.9 million electric and $5.0 million gas). Of course, there would be appropriate entries to the deferred tax expense and accumulated deferred tax accounts as well.

Q. Assuming the Commission adopts your recommendation to recognize the initial balance of unbilled revenues for ratemaking purposes, would the Company's two specific adjustments related to unbilled revenues require modification?

A. No. The purpose of the first adjustment (L) was to place the Company's revenues on the same basis as if it was not recognizing unbilled revenues for book accounting purposes. LG&E witness Mr. Benjamin McKnight, of Arthur Andersen, properly describes this adjustment as being necessary to compensate for the fact that LG&E did not utilize the unbilled revenues methodology for the entire test year. The adjustment was only to place the Company's twelve months of revenues on a consistent basis, in this case, on the meters read basis. An adjustment could just as well have been made which would place the entire test year on the unbilled revenues basis. In any event, as Mr. McKnight properly described, the Company's twelve month revenues should have been approximately the same regardless of which adjustment had been made. Consequently, I recommend that the Commission adopt LG&E's proposed adjustment (L) regardless of whether it accepts my recommendation for deferring and amortizing the initial balance of unbilled revenues.

The purpose of the Company's second adjustment was to remove the after tax below the line earnings it had recognized for book accounting purposes from the common equity component of its capitalization. In this manner, the Company's ratepayers would not be penalized through a higher common equity capitalization and a higher rate of return for this specific below the line income activity of LG&E. A similar adjustment would be necessary if the Commission accepts my recommendation for deferring and amortizing the initial balance of unbilled revenues. Consequently, I recommend that the Commission adopt LG&E's proposed adjustment regardless of whether it accepts my recommendation.

Downsizing Costs

Q. Please describe the Company's proposed recovery of downsizing costs.

A. The Company restructured its management and professional workforce in the last quarter of 1989. The net cost of the downsizing program was recognized in 1989 and consisted of $14.2 million in expensed amounts ($5.7 million for separation allowance payments, $6.2 million for enhanced early retirement benefits, $2.3 million for post-retirement health care benefits related to early retirements), offset by a $4.7 million gain resulting from the purchase of non-participating annuities for employees who retired. The Company has not deferred any of these amounts. However, due to the nonrecurring nature of this occurrence, LG&E seeks recovery over a three year amortization period.

Q. Please comment on the propriety of allowing the Company recovery of its downsizing costs.

A. In order to be consistent with the Company's proposed treatment of the initial balance of unbilled revenue which I previously discussed, the Company should not be allowed recovery of its downsizing costs. However, if the Commission accepts my recommendation to recognize the initial balance of unbilled revenues over a three year period for ratemaking purposes, then I would recommend that LG&E be allowed to recover its downsizing costs. To reiterate, my recommendation is internally consistent and stands in direct contrast to LG&E's biased and one-sided proposed treatment. Either the Commission should recognize both the initial balance of unbilled revenues and downsizing costs for ratemaking purposes or they should both be rejected.

Q. **If the Commission allows recovery of downsizing costs, do you have any recommendations as to the time period of amortization?**

A. Yes. The three years proposed by the Company is too short a time period for several reasons. First, the Trimble County revenue requirements are the highest in the earliest years; consequently, it isn't logical to increase those earlier year revenue requirements to a higher level than is necessary. Second, the cost reduction benefits of the downsizing are anticipated to extend well beyond a three year period as a result of fundamental organizational changes and staffing reductions, affecting not only expense levels but construction as well. The effects of reduced construction costs will occur through reduced return requirements over the next thirty or more years. Third, although LG&E was required for book accounting purposes to account for the downsizing costs as it did, it will not incur the enhanced early retirement benefits or post-retirement health care costs immediately or even over three years. It will incur those costs over the remaining lives of the employees who elected early retirement, or at least fifteen years! Likewise, the gain recognized on the purchase of non-participating annuities for the employees who retired will result in higher pension expense for the remaining employees over at least the next fifteen years! This is because the gain built into the assets which were converted into nonparticipating annuities could have continued to result in higher returns on the pension plan's assets thereby reducing the annual cost. Out of the four components of LG&E's downsizing costs, only one, the separation allowance payments, has actually been incurred by LG&E.

Consequently, I recommend that the Commission allow recovery over a ten year period. A ten year period more closely matches the time period during which the Company will actually incur the costs associated with its downsizing.

Q. **What is the impact of your ten year recommendation on the Company's requested revenue requirement?**

A. The impact on the Company's revenue requirement is $2.3 million, consisting of $1.8 million electric and $0.5 million gas. The following table summarizes the calculation of this recommendation compared to the Company's proposed treatment.

TABLE 4

ADJUSTMENT TO AMORTIZE DOWNSIZING COSTS OVER TEN YEARS ($ 000)

	Electric	Gas	Total
Downsizing Costs Incurred During Test Year	$7,494	$1,992	$9,487
LG&E Proposed Annual Amortization Over Three Years	2,498	664	3,162
KIUC Recommended Annual Amortization Over Ten Years	749	199	949
Reduction in Annual Amortization and Revenue Requirement	$1,749	$ 465	$2,213

V. SUMMARY OF RECOMMENDED REVENUE REQUIREMENT

Q. Please summarize your recommendations.

A. My recommendations result in a test year revenue requirement surplus of $27.6 million, consisting of $22.0 million for electric and $5.6 million for gas. The following tables provide a summary of the revenue requirement, capitalization and return on requirements, and operating income. Adjustments to capitalization and operating income are presented on an incremental basis. The KIUC recommended rate of return summarized on Table 7 reflects the 11.70% return on common equity recommended by KIUC witness Mr. Baudino.

TABLE 5

SUMMARY OF KIUC RECOMMENDED REVENUE REQUIREMENT ($ Millions)

	Electric	Gas	Total
KIUC Adjusted Capitalization	$1,222.7	$133.4	$1,356.1
KIUC Adjusted Return	9.54%	9.54%	9.54%
Required Operating Income	$ 116.6	$ 12.7	$ 129.4
KIUC Adjusted Operating Income	130.0	16.2	146.2
KIUC Adjusted Operating Income Deficiency (Surplus)	($ 13.4)	($ 3.4)	($ 16.8)
Conversion Factor	0.606	0.606	0.606
KIUC Adjusted Revenue Requirement Deficiency (Surplus)	($ 22.0)	($ 5.6)	($ 27.6)

TABLE 6

KIUC RECOMMENDED CAPITALIZATION
($ Millions)

	Electric	Gas	Total
LG&E Proposed Capitalization	$1,251.1	$133.4	$1,384.5
Less: KIUC Adjustment to Exclude T. C. 5/1/90 - 12/31/90 Expend.	(28.4)	-	(28.4)
KIUC Recommended Total Capitalization	$1,222.7	$133.4	$1,356.1
LG&E Common Equity %	43.96%	43.96%	43.96%
KIUC Recommended Common Equity	$ 537.5	$ 58.6	$ 596.1

TABLE 7

KIUC RECOMMENDED RETURN

	LG&E Capitalization Structure	KIUC Recommended Cost	KIUC Recommended Return
Long-Term Debt	47.82%	7.82%	3.74%
Preferred Stock	8.22	8.09	0.66
Common Stock	43.96	11.70	5.14
KIUC Recommended After Tax Cost			9.54%
KIUC Recommended Cost Before Tax			13.318%

TABLE 8

KIUC RECOMMENDED OPERATING INCOME
($ Millions)

	Electric	Gas	Total
LG&E Proposed Operating Income	$110.6	$11.4	$122.0
Add: KIUC Adjustments			
• Exclude 1991 Trimble County Dep.	16.0	-	16.0
• Exclude 1991 Trimble County Property Taxes	1.0	-	1.0
• Exclude Increase in Expense % Due to Trimble County Operation	5.6	1.9	7.5
• Exclude Retroactive Recovery of FERC Headwater Benefit Assessment	0.1	-	0.1
• Exclude Average of 1990, 1991 and 1992 EPRI Dues	1.3	-	1.3
• Exclude Nov. 1990 IBEW Wage Increase	1.8	0.6	2.4
• Exclude July 1990 Sales Tax Increase	0.1	-	0.1
• Amortize Initial Balance of Unbilled Revenues Over 3 Years	4.9	5.0	9.9
• Amortize Downsizing Costs Over 10 Years Rather than 3 Years	1.8	0.5	2.3
Subtotal KIUC Operating Income Adjustment	$ 32.6	$ 8.0	$40.6
• Tax Effect of KIUC Operating Income Adjustments	(12.8)	(3.2)	(16.0)
• Interest Synchronization Tax Effect of KIUC Rate Base Adjustment	(0.4)	-	(0.4)
Total KIUC Operating Income Adjustments	$ 19.4	$ 4.8	$ 24.2
KIUC Adjusted Operating Income	$130.0	$16.2	$146.2

IV. AN ALTERNATIVE APPROACH

Q. Has the Commission previously considered the use of a fully projected test year?

A. Yes. As previously discussed, the most comprehensive consideration of the subject was in Administrative Case No. 331. LG&E participated in that proceeding. In Case No. 331, the Commission established guidelines for utility companies to use in filing rate cases based on a forecasted test year.

Q. Could a fully projected test year be developed for LG&E in this proceeding?

A. Yes, but only on a very rough basis. The Company has resolutely refused to provide copies of its 1990 and 1991 budgets or any projected financial data other than that which was necessary to support the proforma adjustments for the limited and selective adjustments it supports. The budgeted and projected information would, of course, be the best data to utilize in developing a fully-projected test year. Nevertheless, rough approximations of all ratemaking components can be developed to ascertain whether the Company would have a revenue requirement deficiency or surplus at its existing rate levels for the first rate effective year after this proceeding, calendar year 1991.

Q. Have you developed a fully projected 1991 test year for LG&E based upon information that has been provided by the Company in this proceeding and publicly available documents?

A. Yes. I have developed a fully projected 1991 test year incorporating both Trimble County and non-Trimble County ratemaking components. I have assumed that the Commission accepts the KIUC recommended adjustments in this proceeding. I have made further assumptions, of necessity, regarding the level of O&M expense growth, base revenue growth, non-Trimble County rate base attrition, and the O&M expense and off-system sales revenues associated with Trimble County (LG&E has also refused to provide these Trimble County amounts).

Q. What is the result of fully projecting a 1991 test year for LG&E?

A. The following table summarizes my findings. **Even with a fully projected 1991 test year and fully including the 75% of Trimble County in rate base and operating expense, LG&E does not have a revenue requirement deficiency**. LG&E not only has a revenue surplus when its test year is determined properly as I have outlined in my testimony, it also has a surplus on a fully-projected basis including all of Trimble County's costs. No rate increase is justified in this proceeding.

TABLE 9

1991 PROJECTED YEAR REVENUE REQUIREMENT
($ Millions)

	Electric	Gas	Total
1991 Forecasted Rate Base (Capitalization)	$1,185.6	$118.8	$1,304.0
KIUC Adjusted Return	9.54%	9.54%	9.54%
1991 Forecasted Required Operating Income	$ 113.1	$ 11.3	$ 124.4
1991 Forecasted Operating Income	115.2	14.2	129.5
1991 Forecasting Operating Income Deficiency (Surplus)	($ 2.1)	($ 2.9)	($ 5.1)
Conversion Factor	0.606	0.606	0.606
1991 Forecasted Revenue Requirement Deficiency (Surplus)	($ 3.5)	($ 4.8)	($ 8.4)

Q. **Do you recommend that the Commission attempt to develop and utilize a fully projected test year in this proceeding?**

A. No. My recommendation is to adjust the Company's filing as I have outlined in the earlier sections of my testimony. **However, I believe that the development of a fully projected test year, even on a rough basis, provides confirming evidence that the Commission should grant no increase in this proceeding and should reject outright the Company's unnecessary and poorly designed "phase-in" plan.**

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

A. Yes.

Lane Kollen

State of Georgia
County of Fulton

Subscribed and sworn to before me, a notary public in and for the State and County aforesaid.

My commission expires:

Notary Public, Fulton County, Georgia
My Commission Expires Jan. 10, 1993

September 28, 1990

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF

GENERAL ADJUSTMENTS IN	)	
ELECTRIC AND GAS RATES	)	CASE NO. 90-158
LOUISVILLE GAS AND	)	
ELECTRIC COMPANY	)	

EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF

THE KENTUCKY INDUSTRIAL UTILITY CUSTOMERS

KENNEDY AND ASSOCIATES
ATLANTA, GEORGIA

SEPTEMBER 1990

LANE KOLLEN, CPA, CMA

DIRECTOR, FINANCIAL CONSULTING

KENNEDY AND ASSOCIATES

Fourteen years utility industry experience in the financial, rate, and planning areas. Specialization in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisition diversification. Expertise in proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

EDUCATION

University of Toledo, BBA
Accounting

University of Toledo, MBA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)

Certified Management Accountant (CMA)

PROFESSIONAL AFFILIATIONS

Georgia Society of Certified Public Accountants

Institute of Certified Management Accountants

National Association of Accountants

Experience, cont.

1983 to 1986:

Energy Management Associates: Lead Consultant.
Consulting in the areas of strategic and financial planning, traditional and nontraditional ratemaking, rate case support and testimony, diversification and generation expansion planning. Directed consulting and software development projects utilizing PROSCREEN II and ACUMEN proprietary software products. Utilized ACUMEN detailed corporate simulation system, PROSCREEN II strategic planning system and other custom developed software to support utility rate case filings including test year revenue requirements, rate base, operating income and pro-forma adjustments. Also utilized these software products for revenue simulation, budget preparation and cost-of-service analyses.

1976 to 1983:

The Toledo Edison Company: Planning Supervisor.
Responsible for financial planning activities including generation expansion planning, capital and expense budgeting, evaluation of tax law changes, rate case strategy and support and computerized financial modeling using proprietary and nonproprietary software products. Directed the modeling and evaluation of planning alternatives including:

- Rate phase-ins.
- Construction project cancellations and write-offs.
- Construction project delays.
- Capacity swaps.
- Financing alternatives.
- Competitive pricing for off-system sales.
- Sale/leasebacks.

CLIENTS SERVED

Utilities

Allegheny Power System
Atlantic City Electric Company
Carolina Power & Light Company
Cleveland Electric Illuminating Company
Delmarva Power & Light Company
Duquesne Light Company
General Public Utilities
Georgia Power Company
Middle South Services
Nevada Power Company
Niagara Mohawk Power Corporation
Otter Tail Power Company
Pacific Gas & Electric Company
Public Service Electric & Gas
Public Service of Oklahoma
Rochester Gas and Electric
Savannah Electric & Power Company
Seminole Electric Cooperative
Southern California Edison
Talquin Electric Cooperative
Tampa Electric
Texas Utilities
Toledo Edison Company

Regulatory Commissions and Government Agencies

Georgia Public Service Commission
Kentucky Attorney General's Office, Division of Consumer Protection
Louisiana Public Service Commission
New York State Energy Office

Industrial Groups

Alcan Aluminum
Connecticut Industrial Energy Consumers
Florida Industrial Power Users Group
GPU Industrial Intervenors
Kentucky Industrial Utility Consumers
National Southwire
North Carolina Industrial Energy Consumers
Occidental Chemical Corporation
Ohio Industrial Energy Consumers
Taconite Intervenors (Minnesota)
West Virginia Energy Users Group

Kennedy and Associates
Expert Testimony Appearances
of
Lane Kollen
As of May 1990

Date	Case No.	Jurisdict.	Party	Utility	Subject Matter	Cross Exam
10/86	U-17282 Interim	LA	LPSC Staff	Gulf States Utilities	Cash Revenue Requirements Financial Solvency.	Yes
11/86	U-17282 Interim Rebuttal	LA	LPSC Staff	Gulf States Utilities	Cash Revenue Requirements Financial Solvency.	Yes
12/86	9613	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp	Revenue Requirements Accounting Adjustments Financial Workout Plan.	Yes
1/87	U-17282 Interim	Louisiana 19th Judicial District Court	LPSC Staff	Gulf States Utilities	Cash Revenue Requirements Financial Solvency.	Yes
3/87	General Order 236	WV	W. Va. Energy Users Group	Monongahela Power	Tax Reform Act of 1986.	Yes
4/87	U-17282 Prudence	LA	LPSC Staff Utilities	Gulf States	Prudence of River Bend 1 Economic Analyses, Cancellation Studies.	Yes
4/87	M-100 Sub 113	NC	North Carolina Industrial Energy Consumers	Duke Power	Tax Reform Act of 1986.	No
5/87	86-524-E-	WV	West Virginia Energy Users' Group	Monongahela Power	Revenue Requirements. Tax Reform Act of 1986.	Yes

Kennedy and Associates
Expert Testimony Appearances
of
Lane Kollen
As of May 1990

Date	Case No.	Jurisdict.	Party	Utility	Subject Matter	Cross Exam
5/87	U-17282 Case In Chief	LA	LPSC Staff	Gulf States Utilities	Revenue Requirements, River Bend 1 Phase-in Plan, Financial Solvency.	Yes
7/87	U-17282 Case In Chief Surrebut	LA	LPSC Staff	Gulf States Utilities	Revenue Requirements River Bend 1 Phase-in Plan, Financial Solvency.	Yes
7/87	U-17282 Prudence Surrebut	LA	LPSC Staff	Gulf States Utilities	Prudence of River Bend 1, Economic Analyses, Cancellation Studies.	Yes
7/87	86-524-E-Rebuttal	WV	West Virginia Energy Users' Group	Monongahela Power	Revenue Requirements, Tax Reform Act of 1986.	Yes
8/87	9885	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corporation	Financial Workout Plan.	Yes
8/87	E-015/GR-87-223	MN	Taconite Intervenors	Minnesota Power & Light	Revenue Requirements, O&M Expense, Tax Reform Act of 1986.	Yes
10/87	870220-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue Requirements, O&M Expense, Tax Reform Act of 1986.	Settled
11/87	87-07-01	Conn. Dept. of Public Utility Control	Conn. Industrial Energy Consumers	Conn. Light and Power	Tax Reform Act of 1986.	Yes

Kennedy and Associates
Expert Testimony Appearances
of
Lane Kollen
As of May 1990

Date	Case No.	Jurisdict.	Party	Utility	Subject Matter	Cross Exam
1/88	U-17282	Louisiana 19th Judicial District Court	LPSC Staff	Gulf States Utilities	Revenue Requirements, River Bend 1 Phase-in Plan, Rate of Return.	Yes
2/88	9934	KY	Kentucky Industrial Utility Customers	Louisville Gas & Elec.	Economics of Trimble County Completion.	Yes
2/88	10064	KY	Kentucky Industrial Utility Customers	Louisville Gas & Elec.	Revenue Requirements, O&M Expense, Capital Structure, Excess Deferred Income Taxes.	Yes
5/88	10217	KY	Alcan Aluminum National Southwire	Big Rivers	Financial Workout Plan.	Yes
5/88	M-87017 -1C001	PA	GPU Industrial Intervenors	Metropolitan Edison	Nonutility Generator Deferred Cost Recovery.	Yes
5/88	M-87017 -2C005	PA	GPU Industrial Intervenors	Pennsylvania Electric	Nonutility Generator Deferred Cost Recovery.	Yes
6/88	U-17282	Louisiana 19th Judicial District Court	LPSC Staff	Gulf States Utilities	Prudence of River Bend 1 Economic Analyses, Cancellation Studies, Financial Modeling.	Yes
7/88	M-87017- -1C001 Rebuttal	PA	GPU Industrial Intervenors	Metropolitan Edison	Nonutility Generator Deferred Cost Recovery, SFAS No. 92	Waived
7/88	M-87017- -2C005 Rebuttal	PA	GPU Industrial Intervenors	Pennsylvania Electric	Nonutility Generator Deferred Cost Recovery, SFAS No. 92	Waived

Kennedy and Associates
Expert Testimony Appearances
of
Lane Kollen
As of May 1990

Date	Case No.	Jurisdict.	Party	Utility	Subject Matter	Cross Exam
9/88	88-05-25	CT DPUC	Connecticut Industrial Energy Consumers	Connecticut Light & Power	Excess Deferred Taxes, O&M Expenses.	Yes
9/88	10064 KY Rehearing	KY	Kentucky Industrial Utility Customers	Louisville Gas & Elec.	Premature Retirements, Interest Expense.	Yes
10/88	88-170-EL-AIR	OH	Ohio Industrial Energy Consumers	Cleveland Electric	Revenue Requirements, Phase-In, Excess Deferred Taxes, O&M Expenses, Financial Considerations, Working Capital.	Yes
10/88	88-171-EL-AIR	OH	Ohio Industrial Energy Consumers	Toledo Edison	Revenue Requirements, Phase-In, Excess Deferred Taxes, O&M Expenses, Financial Considerations, Working Capital.	Yes
10/88	8800 355-EI	FL	Florida Industrial Power Users Group	Florida Power & Light	Tax Reform Act of 1986, Tax Expenses, O&M Expenses, Pension Expense (SFAS No. 87).	Yes
10/88	3780-U	GA	Georgia Staff	Atlanta Gas Light	Pension Expense (SFAS No. 87).	Yes
11/88	U-17282 Remand	LA	LPSC Staff	Gulf States Utilities	Rate Base Exclusion Plan (SFAS No. 71)	Yes
12/88	U-17970	LA	LPSC Staff	AT&T Comm. of South Central States	Pension Expense (SFAS No. 87).	Yes

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Date	Case No.	Jurisdict.	Party	Utility	Subject Matter	Cross Exam
12/88	U-17949 Rebuttal	LA	LPSC Staff	South Central Bell	Compensated Absences (SFAS No. 43), Pension Expense (SFAS No. 87), Part 32, Income Tax Normalization.	Yes
2/89	U-17282 Phase II	LA	LPSC Staff	Gulf States Utilities	Revenue Requirements, Phase-in of River Bend 1, Recovery of Cancelled Plant.	Yes
6/89	881602-EU 890326-EU	FL	Talquin Electric Cooperative	Talquin/City of Tallahassee	Economic Analyses, Incremental Cost of Service, Average Customer Rates.	Settled
7/89	U-17970	LA	LPSC Staff	AT&T Comm. of South Central States	Pension Expense (SFAS No. 87), Compensated Absences (SFAS No. 43), Part 32.	Yes
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Company	Cancellation Cost Recovery, Tax Expense, Revenue Requirements.	Pending
8/89	3840-U	GA	GPSC Staff	Georgia Power Company	Promotional Practices, Advertising, Economic Development.	Yes
9/89	U-17182 Phase II Detailed	LA	LPSC Staff	Gulf States Utilities	Revenue Requirements Detailed Investigation.	Yes
10/89	8880	TX	Enron Gas Pipeline	Texas-New Mexico Power	Deferred Accounting Treatment, Sale/Leaseback.	Yes

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As of May 1990

Date	Case No.	Jurisdict.	Party	Utility	Subject Matter	Cross Exam
10/89	8928	TX	Enron Gas Pipeline	Texas-New Mexico Power	Revenue Requirements, Imputed Capital Structure, Cash Working Capital.	Yes
10/89	R-891364	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric	Revenue Requirements.	Yes
11/89 12/89	R-891364 Surrebuttal (2 Filings)	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric	(1) Revenue Requirements, (2) Sale/Leaseback.	(1) Yes (2) Yes
1/90	U-17282 Phase II Detailed Rebuttal	LA	LPSC Staff	Gulf States Utilities	Revenue Requirements Detailed Investigation.	Yes
1/90	U-17282 Phase III	LA	LPSC Staff	Gulf States Utilities	Phase-In of River Bend 1, Deregulated Asset Plan.	Yes
3/90	890319-EI	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M Expenses, Tax Reform Act of 1986.	Yes
4/90	890319-EI Rebuttal	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M Expense, Tax Reform Act of 1986.	Yes
4/90	U-17282	LA 19th Judicial District Court	LPSC Staff	Gulf States Utilities	Fuel Clause, Gain on Sale of Utility Assets	Yes

TRIMBLE COUNTY REVENUE REQUIREMENTS
($millions)

Return:			
CWIP @ April 30, 1990	($677.1 million * 75% * 14.62% LGE requested return grossed up for taxes)		$74.3
Post-Test Year Trimble County Additions	($37.9 million * 75% * 14.62% LG&E requested return grossed up for taxes)		4.1
Total LG&E Requested Trimble County Return			$78.4
Operating Expenses:			
Depreciation (Fowler Exhibit 1, Schedule Q, line 16)			16.0
Property Taxes			1.0
Increase in Expense % from 66.2% to 71.2%			
Labor (1)		$6.64	
Pension Expense (2)		0.159	
Dental (3)		0.057	
Life (4)		0.039	
Health (5)		0.558	
Total Operating Expenses			$24.5
Total LG&E Requested Trimble County Revenue Requirement			$102.9

1. $132,837,847 Total Annualized Labor * (71.2% - 66.2%) (Fowler Exhibit 1, Schedule D, page 2 of 4, line 15)
2. $3,170,000 Total Pension Cost * (71.2% - 66.2%) (Wood Exhibit 1, page 4 of 4).
3. $1,135,920 Total Dental Cost * (71.2% - 66.2%) (Wood Exhibit 1, page 3 of 4)
4. $767,524 Total Life Insurance * (71.2% - 66.2%) (Wood Exhibit 1, page 2 of 4)
5. $11,156,921 Total Health Insurance * (71.2% - 66.2%) (Wood Exhibit 1, page 1 of 4)