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PUBLIC SERVICE
COMMISSION

VIA OVERNIGHT MAIL

January 5, 2006

Beth A. O'Donnell, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2005-00351 and Case No. 2005-00352

Dear Ms. O'Donnell:

Please find enclosed the original and twelve (12) copies of responses of Kentucky Industrial Utility Customers, Inc. to Commission Staff's First Set of Data Requests to be filed in the above-referenced matter.

By copy of this letter, all parties listed on the attached Certificate of Service been served. Please place this document of file.

Very Truly Yours,

David F. Boehm, Esq.
Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment
cc: Certificate of Service
A. W. Turner, Esq.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by overnight mail (unless otherwise noted) to all parties on the 5th day of January, 2005.

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David F. Boehm, Esq.
Michael L. Kurtz, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE PLAN OF KENTUCKY UTILITIES COMPANY FOR THE VALUE DELIVERY SURCREDIT MECHANISM	)))	**CASE NO. 2005-00351**

IN THE MATTER OF:

THE PLAN OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE VALUE DELIVERY SURCREDIT MECHANISM	)))	**CASE NO. 2005-00352**

RESPONSES OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO
FIRST SET OF DATA REQUESTS OF COMMISSION STAFF

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1. **In his testimony on behalf of KIUC, Lane Kollen states, "None of the VDT net savings are reflected in present base rates due to the stand-alone nature of the VDT surcredit riders and the manner in which all VDT effects were eliminated from the base on the position evidenced by this statement, Mr. Kollen recommends that the Value Delivery Team ("VDT") surcredit mechanisms of Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E) be continued.**
    a. **Refer to Rives Exhibit 1, Reference Schedules 1.20 and 1.21 in the applications filed by LG&E and KU in Case Nos. 2003-00433[1] and 2003-00434,[2] respectively, and pages 8-9 of the Testimony of Valerie L. Scott filed on behalf of LG&E and KU in those cases. Explain whether these schedules and testimonies from Case Nos. 2003-00433 and 2003-00434 form, to some extent, the bases for Mr. Kollen's recommendation to continue the VDT surcredit mechanisms of KU and LG&E.**

<u>RESPONSE</u>:

1a. Yes. Mr. Kollen is familiar with the referenced testimony and exhibits in Case Nos. 2003-00433 and 2003-00434. Mr. Kollen explained on page 10 lines 1-20 in his Direct Testimony in this proceeding that the filings in the referenced base rate proceedings, and in the ESM filings that preceded those filings, effectively removed the entirety of the effects of the WSP from the revenue requirement under the assumption that the actual savings were equivalent to the projected savings. In his Direct Testimony in this proceeding, Mr. Kollen stated:

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:		
THE PLAN OF KENTUCKY UTILITIES	**)**	
COMPANY FOR THE VALUE DELIVERY	**)**	**CASE NO.**
SURCREDIT MECHANISM	**)**	**2005-00351**

IN THE MATTER OF:		
THE PLAN OF LOUISVILLE GAS AND	**)**	
ELECTRIC COMPANY FOR THE VALUE	**)**	**CASE NO.**
DELIVERY SURCREDIT MECHANISM	**)**	**2005-00352**

RESPONSES OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO
FIRST SET OF DATA REQUESTS OF COMMISSION STAFF

The effects were removed from the annual ESM filings and the base rate filings in Docket Nos. 2003-0433 and 2003-0434. Mechanically, the filings did not incorporate specific proforma adjustments to remove the amortization expense or to eliminate the savings equivalent to the amortization expense. However, these amounts netted to zero and thus had no effect on the present base rates. In the ESM filings and the base rate filings in Docket Nos. 2003-0433 and 2003-0434, the Companies' share of the projected savings, based on Exhibit B to the Settlement Agreement, was added to the test year expense and the ratepayers' share of the projected savings was eliminated from revenues.

In this manner, the ratepayers received no share of net savings through the ESM or the base rates established in Docket Nos. 2003-0433 and 2003-0434. However, in those proceedings, the Companies' base revenue requirement was increased to reflect their share of the net savings in excess of the WSP amortization expense. Mr. Blake confirmed in his testimony (at page 5) in this proceeding that the net impact of the VDT surcredit riders on base rates in the cited base rate proceedings was $0.

A review of Rives Exhibit 1 from the referenced proceedings demonstrates that there were no adjustments to proforma revenues to remove the effects of the VDT surcredit. Normally, surcredit or surcharge amounts are removed from base revenues in a base rate proceeding. This had the practical effect of understating test year base revenues by the amount of the ratepayer savings that were flowed through to ratepayers through the VDT surcredit. Alternatively, the failure to increase base revenues by removing the VDT surcredit had the equivalent effect of increasing the Companies' expenses by the same amount, or 40% of the net WSP savings. In adjustment 23, Reference Schedule 1.20, the Companies increased expenses by the amount of the shareholder portion, or 60%, of the net WSP savings. Thus, the practical effect of the Companies' filing was to eliminate 100% of the projected net WSP savings from the base revenue requirement.

Although the Company's methodological approach removed all effects of the WSP from the revenue requirement, it was based on the assumption that actual savings were equivalent to the projected savings. In reality, the actual savings were either more or less than the projected savings assumed in this approach. However, the Companies asserted that the actual savings could not be quantified and that the use of the assumption that the actual savings and projected savings were equivalent was necessary and unavoidable. As such, the actual savings were indeed reflected in the Companies' filings in the referenced base rate proceedings. It should be noted that Mr. Kollen testified in his Direct Testimony in those proceedings that the actual savings were substantially less than the projected savings assumed in the VDT proceedings and that, as a consequence, the Companies' base revenue requirement was overstated.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:		
THE PLAN OF KENTUCKY UTILITIES	)	
COMPANY FOR THE VALUE DELIVERY	)	**CASE NO.**
SURCREDIT MECHANISM	)	**2005-00351**

IN THE MATTER OF:		
THE PLAN OF LOUISVILLE GAS AND	)	
ELECTRIC COMPANY FOR THE VALUE	)	**CASE NO.**
DELIVERY SURCREDIT MECHANISM	)	**2005-00352**

RESPONSES OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO
FIRST SET OF DATA REQUESTS OF COMMISSION STAFF

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b. Refer to Item 7 of KU's and LG&E's responses to the Commission Staff's Supplemental Data Requests ("Staff's Supplemental Requests") of November 14, 2005. Does Mr. Kollen agree, or accept as factual, the answers provided in those responses? Explain the response.

RESPONSE:

1b. The Companies' responses to Staff Supplemental 7.a-d in this proceeding are factually correct, but could be misinterpreted. The actual savings, which the Companies could not quantify, were reflected in their filings. As noted in the response to Item 1.a. of this request, the Companies' methodological assumption was that the actual savings were equivalent to the projected savings. Pursuant to this assumption, the Companies included the entirety of the amortization of the deferred costs to achieve, added the Companies' share of the savings in excess of the amortization of the deferred costs to achieve, and eliminated the ratepayers' share of the savings by not removing the revenue effects of the VDT surcredit from retail revenues. The tables on page 5 of Mr. Blake's Direct Testimony in both of the present VDT proceedings portray these specifics of the Companies' filings in the base rate proceedings and demonstrate that there was no effect of the WSP or VDT in base rates under the assumption that the actual savings were equivalent to the projected savings.

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IN THE MATTER OF:		
THE PLAN OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE VALUE DELIVERY SURCREDIT MECHANISM	)))	**CASE NO. 2005-00352**

RESPONSES OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO
FIRST SET OF DATA REQUESTS OF COMMISSION STAFF

As an alternative methodology in the base rate and ESM proceedings, and one that in retrospect would have been more self-evident, the Companies could have removed the amortization of the deferred costs from expense, increased expense by the same amount for the savings and removed the VDT revenue surcredit from the revenues. The result would still have been the complete removal of the WSP and VDT effects from the base revenue requirement under the assumption that the actual savings were the same as the projected savings.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:		
THE PLAN OF KENTUCKY UTILITIES	)	
COMPANY FOR THE VALUE DELIVERY	)	**CASE NO.**
SURCREDIT MECHANISM	)	**2005-00351**
IN THE MATTER OF:		
THE PLAN OF LOUISVILLE GAS AND	)	
ELECTRIC COMPANY FOR THE VALUE	)	**CASE NO.**
DELIVERY SURCREDIT MECHANISM	)	**2005-00352**

RESPONSES OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO
FIRST SET OF DATA REQUESTS OF COMMISSION STAFF

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c. **Explain whether the answers in Item 7 of KU's and LG&E's responses to the Staff's Supplement Requests have any impact on Mr. Kollen's recommendation to continue the VDT surcredit mechanisms of KU and LG&E.**

RESPONSE:

1c. No. The Companies' responses, while factually correct, could be misinterpreted without an understanding of the assumptions and methodology employed by the Companies to remove the entirety of the WSP and VDT effects in the referenced base rate proceedings, including the ESM filings.

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