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PUBLIC SERVICE COMMISSION

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July 13, 2006

RE: ***AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-MONTH BILLING PERIODS ENDING OCTOBER 31, 2003, APRIL 30, 2004, OCTOBER 31, 2004, OCTOBER 31, 2005, AND APRIL 30, 2006, AND FOR THE TWO-YEAR BILLING PERIOD ENDING APRIL 30, 2005 – CASE NO. 2006-00130***

Dear Ms. O'Donnell:

Please find enclosed and accept for filing the original and six (6) copies of the Response of Louisville Gas and Electric Company to the Request for Information Posed by the Attorney General on June 30, 2006, in the above-referenced matter.

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

Sincerely,

Kent Blake

Kent Blake

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-MONTH BILLING PERIODS ENDING OCTOBER 31, 2003, APRIL 30, 2004, OCTOBER 31, 2004, OCTOBER 31, 2005, AND APRIL 30, 2006, AND FOR THE TWO-YEAR BILLING PERIOD ENDING APRIL 30, 2005	)	**CASE NO. 2006-00130**

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
REQUEST FOR INFORMATION
POSED BY THE ATTORNEY GENERAL
DATED JUNE 30, 2006

FILED: JULY 13, 2006

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Request for Information
Posed by the Attorney General
Dated June 30, 2006

Case No. 2006-00130

Question No. 1

Witness: Robert M. Conroy

Q-1. At page 7, Robert Conroy's testimony states, "LG&E determined the roll-in amount of $8,669,729 using the base-current methodology as proposed by Commission staff and further recommends adoption of the base-current methodology to calculate the monthly environmental surcharge going forward." With reference to this statement:

A. Is there any change to the base-current methodology approved in Case No. 2003-00236 and the base-current methodology as proposed by Commission staff? If so, please describe the difference(s) specifically.

B. Is there any change to the base-current methodology approved in Case No. 2003-00236 for the calculation of the monthly environmental surcharge factor, other than the change in amounts consequent to the roll-in, or its proposed use in the calculation of the monthly environmental surcharge factors going forward? If so, please describe the change(s) specifically.

A-1. A. No, except that LG&E recommended, and the Commission approved, the use of average ECR rate base to determine the roll-in amount in Case No. 2003-00236. Generally, ECR rate base at the end of the 2-year review period is used to determine the roll-in amount.

B. No.

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Question No. 2

Witness: Robert M. Conroy

Q-2. At page 7-8, Robert Conroy's testimony states, "LG&E is presenting the total revenue method and an alternative methodology for allocating the roll-in amounts to the various classes of service in a way that gives some recognition to the inter-class subsidies that currently exist in LG&E's base rates."

A. Is the total revenues method the method utilized in LG&E's prior roll-in? If not, please describe any differences.

B. Has the Commission either adopted allocations in connection with environmental compliance cost recovery or encouraged LG&E to utilize KRS 278.183 as a tool to address "inner-class rate subsidies that currently exist in LG&E's base rates" as a matter of policy in connection with the roll-in of the environmental surcharge into existing rates? If so, please indicate where and/or when and provide a copy of any writing upon which the company relies for its answer.

C. To LG&E's knowledge, has the Commission either adopted allocations in connection with environmental compliance cost recovery or encouraged any utility to utilize KRS 278.183 as a tool to address any alleged inner-class subsidies that might exist for that electric utility as a matter of policy in connection with any roll-in of any environmental surcharge into existing rates? If so, please indicate where and/or when and provide a copy of any writing upon which the company relies for its answer.

D. Has the Commission adopted any measure to address or encouraged LG&E or any other utility to address any inner-class subsidies that might exist for that electric utility in that utility's base rates as a matter of policy in connection with any aspect (i.e.-establishment, calculation, roll-in) of the environmental surcharge under KRS 278.183? If so, please indicate where and/or when and provide a copy of any writing upon which the company relies for its answer.

A-2. A. Yes.

B. No. The Commission has neither adopted allocations nor encouraged LG&E to utilize KRS 278.183 to address "inner class rate subsidies that currently exist in LG&E's base rates". However, the issue was raised in LG&E's last amended ECR Plan filing in Case No. 2004-00421.

C. No. LG&E is not aware of any instances where the Commission has either adopted allocations or encouraged other utilities to utilize KRS 278.183 to address "inner class" rate subsidies that might exist in that utility's base rates. KRS 278.193 however does not specify, nor does it preclude, a particular roll-in methodology.

D. No. See the response to part B.

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Question No. 3

Witness: Robert M. Conroy / Steve Seelye

Q-3. At page 4-5 of his testimony, Steven Seelye states that in connection with LG&E's last general rate case, Case No. 2003-00433, LG&E submitted a fully-allocated embedded class cost of service study based on pro-forma revenues and costs for the test year, which he has updated to reflect current class rate of return based on the rates approved in the general rate case.

A. What was the test year for the general rate case?

B. Does Mr. Seelye agree that the general rate case cost of service study allocated costs related to transmission and distribution as well as to generation? If not, please explain.

C. Does Mr. Seelye agree that the general rate case cost of service study allocated costs related to generation that does not involve the coal combustion wastes and byproducts from facilities utilized for the production of energy from coal? If not, please explain.

D. Does Mr. Seelye agree that the rates approved by the Commission in case No. 2003-00433 are those that reflect the rate allocation agreed to by all parties to the case? If not, please explain.

E. Does Mr. Seelye agree that the rates approved by the in Case No. 2003-00433 Commission are the existing rates? If not, please explain.

F. Does Mr. Seelye agree that the class rates of return shown in the table on page 4 of his testimony are the natural consequence of the allocation agreed to by the parties of the increase awarded in Case No. 2003-00433? If not, please explain.

G. Has the contribution of each class to LG&E's cost of service subsequent to the Commission's approval of the revenue increase agreed to by all parties other than the Attorney General and the allocation of that increase as agreed to by all parties in Case No. 2003-00433 differed from the contribution that was expected under that agreement? If yes, please explain in detail.

A-3. A. The test year for LG&E's last general rate case (Case No. 2003-00433) was the twelve months ending September 30, 2003.

B. Yes.

C. Yes.

D. Yes.

E. No. LG&E's base rates were modified in July 2005 by the roll in of the fuel adjustment clause base amount ordered by the Commission in Case No. 2004-00466.

F. The rates of return shown in the table on page 4 of Mr. Seelye's testimony reflect the allocation of the revenue increase agreed to by the parties in Case No. 2003-0043

G. The rates approved by the Commission in Case No. 2003-00433 were implemented by LG&E and the revenues collected from each class generally reflect what was expected under the agreement, subject to changes in the number of customers served and sales volumes.

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Question No. 4

Witness: Robert M. Conroy

Q-4. With reference to the general rate increase and the increase in the environmental surcharge that are the subject of this roll-in proposal:

A. Since base rates were raised in Case No. 2003-00433, has LG&E been told by any customer that the loss of that customer's load through complete or partial shut down is due to that increase in electric rates?

B. Since base rates were raised in Case No. 2003-00433 and the monthly environmental surcharge to collect the amounts now subject to roll-in went into effect under Case No. 2004-00236, has LG&E been told by any customer that the loss of that customer's load through complete or partial shut down is due to that increase in electric rates?

C. Please identify all electric providers known to LG&E that serve customers more cheaply than LG&E and that are not now facing increasing rates to accommodate increasing costs related to achieving compliance with statutes and regulations pertaining to coal combustion wastes and by-products from facilities utilized for production of energy from coal.

A-4. The question mischaracterizes the nature of this proceeding. This proceeding does not propose a general rate increase or an increase to the environmental surcharge.

A. LG&E is not aware of any customers who shut down (either fully or partially) due to the increase in rates approved in Case No. 2003-00433.

B. The Commission's Order in Case No. 2003-00421 did not affect the monthly surcharge amounts subject to a roll-in in this case.

LG&E is not aware of any customers who shut down (either fully or partially) due to the increase in base rates approved in Case No. 2003-00433 and the increase in the ECR surcharge as a result of the Commission's order in Case No. 2004-00421.

C. LG&E has not made a comparison of all LG&E rate schedules to those rate schedules of all other electric providers. Based on recently published reports from Edison Electric Institute, LG&E's rates remain among the lowest in the region. It is reasonable to expect other electric utilities will be facing increased costs associated with environmental compliance.

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Question No. 5

Witness: Robert M. Conroy

Q-5. With reference to the following rates:

A. Please identify all customers of LG&E served under the General Service rate who are not in the business of providing goods or services to the consuming public directly (by sale to the consuming public) or indirectly (by sale of goods or services to others for use in creating those goods or services that are sold to the consuming public).

B. Please identify all customers of LG&E served under the Rate LC who are not in the business of producing goods or providing services to the consuming public directly (by sale to the consuming public) or indirectly (by sale of goods or services to others for use in creating those goods or services that are sold to the consuming public).

C. Please identify all customers of LG&E served under Rate LC-TOD that are not in the business of producing goods or providing services to the consuming public directly (by sale to the consuming public) or indirectly (by sale of goods or services to others for use in creating those goods or services that are sold to the consuming public).

D. Please identify all customers of LG&E served under the Rate LP that are not in the business of producing goods or providing services to the consuming public directly (by sale to the consuming public) or indirectly (by sale of goods or services to others for use in creating those goods or services that are sold to the consuming public).

A-5. LG&E's customer information system does not contain the information necessary to specifically determine if the customer is in the business of producing goods or providing services to the consuming public either directly or indirectly. However, based on the terms of the "Availability of Service" condition specified in LG&E's Rate Schedules, it is reasonable to assume that a significant portion, if not all, of the customers served under these specific rate schedules will meet the criteria specified by the Attorney General.

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Question No. 6

Witness: Steve Seelye

Q-6. Please confirm that the process for the conduct of the cost of service study contained at pages 5 through 8 of Steven Seelye's testimony refers to that that was used in preparing the cost of service studies for the general rate case, Case No. 2003-00434. If not, please explain.

A-6. Mr. Seelye affirmatively states that the process described on pages 5 through 8 of his testimony generally describes the process used to prepare the cost of service study submitted by LG&E in its last general rate case, Case No. 2003-00433.

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Question No. 7

Witness: Robert M. Conroy

Q-7. Please explain the level of elasticity and responsiveness to price signals demonstrated by residential customers taking service under bundled rates. In your explanation, please identify the percentage of change in usage that occurs in relation to price changes unaccompanied by metering changes that allow tracking of usage on a real-time basis. In your explanation, please identify the percentage of change in usage that occurs absent capital investment in energy saving appliances or energy efficient heating and cooling systems. To the extent that you rely on any studies or reports to support your explanations, please provide a copy of the material utilized.

A-7. LG&E has not performed a study analyzing the level of elasticity and responsiveness to price signals demonstrated by residential customers taking service under LG&E's bundled rates. Industry research has indicated that the long-term price elasticity of demand for electric residential customers is relatively limited. In the case of LG&E and KU, price response is further muted due to the relatively low cost of electricity in the Companies' service territories.

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Question No. 8

Witness: Steve Seelye

Q-8. Under the alternative 2 methodology for the incorporation of surcharge amounts into base rates described in Steven Seelye's testimony and demonstrated in the exhibits to his testimony:

A. Would those classes that receive a charge to increase the share of rolled-in amounts collected from that class above the amount that is allocated on the basis of base-rate revenues and the amount that class has paid under the monthly surcharge prior to the roll-in also pay a proportionately larger share of all future environmental costs on a going forward basis through the monthly environmental surcharge and any future roll-ins? If not, explain.

B. Would those classes that receive a credit to reduce the share of rolled-in amounts collected from that class below the amount that is allocated on the basis of base-rate revenues and the amount that class has paid under the monthly surcharge prior to this roll-in also pay a proportionately smaller share of all future environmental costs on a going forward basis through the monthly environmental surcharge and any future roll-ins? If not, explain.

C. Under the alternate roll-in methodology would you agree that the share of those environmental compliance costs being rolled-in that the residential class pays would increase by 62% over the share of environmental costs the class paid under the monthly surcharge?

D. Under the alternate methodology would you agree that the share of those environmental compliance costs being rolled-in that General Services class pays would decrease by 74% from the share of environmental costs the class paid under the monthly surcharge?

E. Under the alternate methodology would you agree that the share of those environmental compliance costs being rolled-in that Rate LC pays would decrease by 55% from the share of environmental costs the class paid under the monthly surcharge?

F. Under the alternate methodology would you agree that the share of those environmental compliance costs being rolled-in that LP pays would decrease 12% from the share of environmental costs the class paid under the monthly surcharge.

G. Under the alternate methodology would you agree that the share of those environmental compliance costs being rolled-in that LP-TOD pays would decrease 35% from the share of environmental costs the class paid under the monthly surcharge.

A-8. A. No. The alternative methodology presented in Mr. Seelye's testimony only relates to the allocation of the roll-in and not the allocation of monthly surcharge amounts. LG&E has not presented an alternative methodology for the determination of monthly environmental surcharges. The methodology used for the current and future roll-ins is a matter to be decided by the Commission.

B. No. The alternative methodology presented in Mr. Seelye's testimony only relates to the allocation of the roll-in and not the allocation of monthly surcharge amounts. LG&E has not presented an alternative methodology for the application of monthly surcharges. The methodology used for the current and future roll-ins is a matter to be decided by the Commission.

C. LG&E has not prepared an analysis comparing the amount the class would pay under the roll-in methodology to the actual amount paid. However, the share of those environmental compliance costs being rolled in to the residential class would increase by 57% compared to the amount allocated based on base-rate revenues, according to Revised Exhibit WSS-2 provided in response to Question 3 of the Commission Staff's data request dated June 29, 2006.

D. LG&E has not prepared an analysis comparing the amount the class would pay under the roll-in methodology to the actual amount paid. However, the share of those environmental compliance costs being rolled in to the General Services class would decrease by 75% compared to the amount allocated based on base-rate revenues, according to Revised Exhibit WSS-2 provided in response to Question 3 of the Commission Staff's data request dated June 29, 2006.

E. LG&E has not prepared an analysis comparing the amount the class would pay under the roll-in methodology to the actual amount paid. However, the share of those environmental compliance costs being rolled in to the Rate LC class would decrease by 45% compared to the amount allocated based on base-rate revenues, according to Revised Exhibit WSS-2 provided in response to Question 3 of the Commission Staff's data request dated June 29, 2006.

F. LG&E has not prepared an analysis comparing the amount the class would pay under the roll-in methodology to the actual amount paid. However, the share of those environmental compliance costs being rolled in to the LP class would decrease 65% compared to the amount allocated based on base-rate revenues, according to Revised Exhibit WSS-2 provided in response to Question 3 of the Commission Staff's data request dated June 29, 2006.

G. LP-TOD would pay the same amount under either roll-in methodology, according to Revised Exhibit WSS-2 provided in response to Question 3 of the Commission Staff's data request dated June 29, 2006.

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Question No. 9

Witness: Robert M. Conroy

Q-9. Would you agree that prior to this proceeding, LG&E has allocated all of its environmental cost roll-ins under KRS 278.183 on a percentage of revenue basis?

A-9. Yes.

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Question No. 10

Witness: Robert M. Conroy

Q-10. KU posed the first environmental surcharge in Case No. 93-465. The Order establishing that surcharge and the allocation of costs was dated July 19, 1994. In that case the Commission ruled that a percentage of revenues method should be used to allocate the costs among the classes after hearing arguments from various intervenors concerning the allocation of the environmental costs under the surcharge mechanism as it maintains the allocations in the existing rates saying specifically, "In a limited proceeding such as this, the allocation of costs reflected in existing rates should be maintained absent a compelling argument to the contrary." (Order, Page 21). Please identify LG&E's compelling argument to the contrary.

A-10. Two recent events have occurred that led LG&E to present two alternatives to accomplish the roll in to base rates in this proceeding. First, LG&E filed and received approval for a change in base rates (Case No. 2003-000433). During that proceeding, cost of service studies were presented that clearly showed there were customer classes with comparatively higher rates of return than other customer classes. In recognition of the magnitude of this disparity and considering the regulatory principle of rate stabilization and gradualism, the parties to that proceeding settled upon a rate design that partially reduced the inter-class rate subsidies.

Second, LG&E filed and received approval for an amended ECR Plan (Case No. 2004-00421). During that proceeding, the issue of inter-class rate subsidization was raised in intervenor testimony and discussed during the public hearing and in the Commission's order.

For these reasons and the reasons set forth in the testimony filed by LG&E in this proceeding, LG&E proposed the alternative methodology for consideration by the Commission.

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Question No. 11

Witness: Robert M. Conroy

Q-11. The amounts to be rolled-in are for the two-year period ending April 30, 2005. Are any of these environmental compliance costs those that were being recovered when Case No. 2003-00434 was filed and when the settlement agreement resolving the allocation of rates for that case was entered into by the parties and approved by the Commission?

A-11. The roll-in being considered in this case is for the 12-month billing period ending April 30, 2005. The costs being considered for the roll-in are those costs associated with approved projects that have been incurred since March 1, 2004. Some of the environmental compliance costs being reviewed in this case were being recovered through the ECR when Case No. 2003-00433 was initiated.