

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES ) CASE NO. 2007-00565  
COMPANY TO FILE DEPRECIATION STUDY )

APPLICATION OF KENTUCKY UTILITIES )  
COMPANY FOR AN ADJUSTMENT ) CASE NO. 2008-00251  
OF ELECTRIC BASE RATES )

FIRST DATA REQUEST OF COMMISSION STAFF  
TO KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc. ("KIUC"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due not later than December 3, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

KIUC shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though

correct when made, is now incorrect in any material respect. For any request to which KIUC fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the Direct Testimony and Exhibits of Lane Kollen ("Kollen Testimony"), page 4. At the top of the page, Mr. Kollen identifies the increase requested by KU in the initial filing as \$22,742,000 and the corrections filed by KU on October 10, 2008 as \$2,259,000. Provide a copy of the source documents upon which these amounts are based.

2. Refer to the Kollen Testimony, pages 10 and 13, where Mr. Kollen states that KU's investment in Electric Energy, Inc. ("EEI") is not a "non-utility" investment. Explain why the investment is not a "non-utility" investment, state whether Mr. Kollen believes the investment to be a utility investment, and if yes, explain why. Also provide citations to any parts of the Uniform System of Accounts which support Mr. Kollen's position.

3. Refer to the Kollen Testimony, pages 10-11. Starting at line 22 on page 10, Mr. Kollen, in response to a question asking why the Commission has excluded KU's EEI investment and EEI revenues for rate-making purposes, states that,

"[h]istorically, it was necessary to exclude KU's investment in EEI from its capitalization to avoid providing KU with a return on its EEI investment twice, once through the recovery of its cost-based purchased power expense, which included a return on EEI's capitalization, and then again through a return on KU's capitalization, which includes KU's investment in EEI." *Cite any specific Orders, including page number, in which the Commission stated this as the reason for its rate-making treatment of KU's EEI investment and revenues.*

4. Refer to the Kollen Testimony, pages 17-18, concerning what is identified as the *first premise underlying KU's proposed weather normalization of electric revenues* and Mr. Kollen's disagreement with that premise. Mr. Kollen indicates that the Commission has historically not favored normalization of Operations and Maintenance ("O&M") expenses with exceptions for items such as the annualization of payroll and benefits expenses.

a. Explain whether Mr. Kollen is recommending that KU's proposed electric weather normalization adjustment be evaluated solely on the Commission's historical rate-making practices regarding *normalization adjustments* or whether the adjustment should be considered on its merits based on the evidence of record.

b. Provide appropriate citations and specific language from previous rate Orders in which the Commission explicitly stated that it did not favor normalization of revenues or O&M expenses.

c. Explain whether Mr. Kollen is aware of the type of normalization adjustments the Commission typically accepts based on multi-year averages of items such as storm damage expenses and injuries and damages expenses.

5. Refer to the Kollen Testimony, page 20.

a. Mr. Kollen opposes KU's proposal for the weather normalization of electric revenues, in part, because KU has presented no evidence that 30 years of weather data from the National Oceanic and Atmospheric Administration ("NOAA") does not contain an inherent bias which masks the effects of recent warming trends, and cites KU's use of 20 years of data for budgeting and forecasting purposes. Explain whether Mr. Kollen is aware that the Commission generally accepts weather normalization of gas revenues based on NOAA's 30-year data or that it has accepted a 25-year period for weather normalizing gas revenues in natural gas rate cases of Atmos Energy Corporation and Duke Energy Kentucky, Inc.<sup>1</sup>

b. Explain whether the use of 25 years of temperature data would alleviate KIUC's concerns regarding weather normalization of electric revenues. If no, provide a time period for temperature and weather data that KIUC would recommend.

6. Refer to pages 21-22 of the Kollen Testimony concerning the first problem Mr. Kollen identifies regarding KU's methodology to compute the reduction in expenses related to the proposed weather normalization-related reduction in revenues.

a. Mr. Kollen contends that the change in expenses should be computed using the same method used to compute changes in expenses related to annualizing revenues for year-end customers. Mr. Kollen's contention appears to be based solely on the fact that the method proposed by KU results in less expense than

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<sup>1</sup> Case No. 1990-00013, Rate Adjustment of Western Kentucky Gas Company, Order dated September 13, 1990, Case No. 2005-00042, An Adjustment of the Gas Rates of The Union Light, Heat and Power Company, Order dated December 22, 2005.

the method used for the year-end customer adjustment. Explain whether Mr. Kollen has concerns with KU's proposed method other than the outcome it produces.

b. In response to KIUC's First Data Request, Item 12, KU indicated that the reason for the different methodologies was that the weather normalization adjustment affects only variable costs while the year-end customer adjustment affects both variable costs and fixed costs. Explain whether Mr. Kollen disagrees with KU's reasoning.

7. Refer to the Kollen Testimony, page 22, concerning the second problem Mr. Kollen identifies regarding KU's computation of expenses related to the proposed weather normalization-related reduction in expenses.

a. Mr. Kollen claims that KU improperly used a test year average Fuel Adjustment Clause ("FAC") factor to compute the expenses related to the weather normalization adjustment rather than the actual fuel cost and FAC factor for the months included in the adjustment. In the event the Commission accepts some form of an electric weather normalization adjustment, explain whether Mr. Kollen believes it would be necessary to modify the expense component to reflect the actual fuel cost and FAC factor for the months included in the adjustment.

b. Explain why Mr. Kollen chose to raise this issue without providing a calculation of the impact of what he identifies as a clear mismatch between the revenue adjustment and the proposed expense adjustment.

c. Explain whether Mr. Kollen is able to provide the calculation of the impact of using what he believes are the appropriate fuel cost and FAC factor. If Mr. Kollen is able to do so, provide the calculation.

8. Refer to the Kollen Testimony, pages 29-31, relating to the appropriateness of including the Kentucky coal tax credit as a reduction to KU's income tax expense.

a. Explain why Mr. Kollen annualized the first quarter of 2008 of this credit in developing the amount he has applied to the determination of KU's revenue requirement rather than using the actual credit included in the test year.

b. Mr. Kollen states, at pages 30-31, that, "[I]f the variability of the credit is an issue, then the Commission could simply move the credit from base rates, where it is now, to the fuel adjustment clause, where it could be used dollar for dollar to reduce fuel costs until such time as the credit expired." Explain whether Mr. Kollen has determined that a tax credit falls within the definition of fuel cost established in Kentucky Administrative Regulation 807 KAR 5:054, which governs the application of the FAC for Kentucky's jurisdictional electric utilities.

9. Refer to the Kollen Testimony, pages 38-41, regarding his proposed adjustment for consolidated income taxes. Explain whether Mr. Kollen is familiar with the methodology found appropriate by the Commission for Kentucky-American Water Company in Case No. 2004-00103<sup>2</sup> to calculate a consolidated income tax adjustment. If he is familiar with that method, describe what consideration Mr. Kollen gave to following that method in calculating his adjustment.

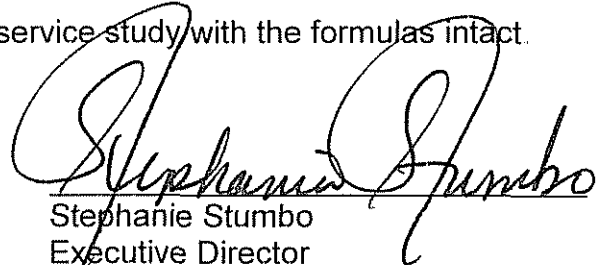
10. Refer to the Kollen Testimony, page 42, lines 6-12, regarding the Commission's historic method used to remove the Environmental Cost Recovery rate base amounts from capitalization. Provide the case names, case numbers, dates of

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<sup>2</sup> Case No. 2004-00103, Adjustment of the Rates of Kentucky-American Water Company, final Order dated February 28, 2005.

Orders, and specific pages where the Commission has previously rejected the methodology proposed by KU in this case.

11. Refer to the Direct Testimony and Exhibits of Stephen J. Baron. Provide an electronic version of Mr. Baron's cost-of-service study with the formulas intact.



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DATED November 14, 2008

cc: All Parties

Case No. 2007-00565  
Case No. 2008-00251

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