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DEC 03 2008

PUBLIC SERVICE
COMMISSION

Via Overnight Mail

December 2, 2008

Stephanie Stumbo Executive Director,
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2008-00252

Dear Ms. Stumbo:

Please find enclosed the original and twelve (12) copies each of the RESPONSES OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. to STAFF'S FIRST SET OF DATA REQUESTS and LG&E'S FIRST SET OF DATA REQUESTS in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,

Michael L. Kurtz

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by first-class postage prepaid mail, (unless otherwise noted) to all parties on the 2nd day of December, 2008.

Lonnie E Bellar
Vice President - State Regulation an
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Louisville, KY 40202

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Michael L. Kurtz

Michael L. Kurtz, Esq.
Kurt J. Boehm, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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DEC 03 2008

PUBLIC SERVICE
COMMISSION

In The Matter Of:	:	**Case No. 2008-00252**
	:	
Application Of Louisville Gas And Electric Company For An Adjustment of Base Rates	:	

**RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS**

LG&E 1.1 To the extent not previously provided, please provide electronic copies (on CD) of each Exhibit contained in the Kentucky Industrial Utility Customers, Inc. Expert Testimony. Please include all workpapers and supporting documentation used and relied upon by each witness in the preparation of these exhibits. Please provide all electronic spreadsheets with cell formulas, cell references, macros and VBA code intact.

Response:

Refer to the responses to LG&E 1.4 and 1.6.

COMMONWEALTH OF KENTUCKY
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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.2 Please provide copies of all schedules and underlying computations and workpapers developed in the analysis by the KIUC of LG&E's requested rate increase in electronic spreadsheet format with all formulas intact. This request includes, but is not limited to, the analyses of the revenue requirement components and computations, including all ratemaking adjustments to the historic data, and the cost of service model.

Response:

Refer to the response to LG&E 1.4 and 1.6.

COMMONWEALTH OF KENTUCKY
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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.3 Provide a copy of all testimony and exhibits that address electric temperature normalization submitted by Mr. Baron in any regulatory proceeding.

Response:

See attached CD.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.4 Provide a complete copy of all of Mr. Baron's exhibits and workpapers, including electronic copies of Excel spreadsheets with formulas, cell references, macros, and any VBA code intact, and any handwritten notes and calculations.

Response:

See attached CD.

COMMONWEALTH OF KENTUCKY
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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.5 Provide a copy of all testimony and exhibits that address electric temperature normalization submitted by Mr. Kollen in any regulatory proceeding.

Response:

Please see attached CD.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.6 Provide a complete copy of all of Mr. Kollen's workpapers, including electronic copies of Excel spreadsheets with formulas, cell references, macros, and any VBA code intact, and any handwritten notes and calculations. Such workpapers should include all schedules and underlying computations and workpapers developed in the analysis by KIUC of LG&E's proposed depreciation rates, including any analysis of net salvage percentages and annualized depreciation expense.

Response:

Refer to attached CD.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.7 Provide an electronic copy in Excel format of Mr. Kollen's Exhibits with formulas, cell references, macros, and any VBA code intact.

Response:

Refer to the response to LG&E 1.6.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.8 Please refer to the statement made at page 20, lines 6 through 8 of Mr. Kollen's testimony. Provide all documentation that supports the statement that "there has been a warming cycle in temperatures in recent years".

Response:

Please see the file on the attached CD.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.9 Please provide all analysis and studies which Mr. Kollen considered, developed or otherwise relied upon that demonstrate that all LG&E customers will pay their bill by day 10 if the Commission approves the proposed collection cycle.

Response:

There are no responsive documents.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.10 *Does Mr. Kollen agree that the Company's cost of long-term debt should be updated up to the time the record is closed?*

Response:

Yes. This is consistent with the Commission's historic practice.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.11 Please confirm that the amount of the ECR rate base Mr. Kollen is proposing to exclude from LG&E's adjusted jurisdictional capitalization is $13,285,453, which represents 100% of the jurisdictional net ECR rate base amount as shown on Rives Exhibit 3, Column 5, Line No. 23 and Line No. 41 of LG&E filing requirements 807 KAR 5:001 Section 10(6)(i) Net ECR Total Rate Base.

Response:

Confirmed.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.12 Is Mr. Kollen a member of the Society of Depreciation Professionals? If the response is "yes", indicate if Mr. Kollen passed the certification exam and if he is currently certified as a depreciation expert.

Response:

No.

COMMONWEALTH OF KENTUCKY
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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.13 Has Mr. Kollen ever conducted and submitted a depreciation study in any regulatory proceeding? If the response is "yes", indicate the jurisdiction and docket number and include a copy of the all testimony and exhibits.

Response:

Yes. Mr. Kollen has conducted and submitted analyses of selected depreciation issues in the numerous proceedings. These proceedings are listed and copies of the testimonies are provided on the attached CD. In addition to the testimonies on the attached CD, Mr. Kollen has testified in numerous proceedings regarding the recoveries of stranded costs, which represent generally a form of accelerated depreciation that does not reflect estimated useful service lives. These testimonies are identified on Mr. Kollen's Exhibit___(LK-1) attached to his Direct Testimony. These testimonies are numerous and voluminous; copies of these additional testimonies will be made available or provided upon request by the Company to KIUC counsel.

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.14 Provide a copy of all testimony and exhibits that address the equal life group depreciation procedure submitted by Mr. Kollen in any regulatory proceeding.

Response:

There are no responsive documents.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.15 Provide a copy of all testimony and exhibits that address the average life group depreciation procedure submitted by Mr. Kollen in any regulatory proceeding.

Response:

Refer to the responses to LG&E 1.13. The utilities in the proceedings in which Mr. Kollen addressed depreciation issues only used the average life group depreciation procedure and not the equal life depreciation procedure. Consequently, Mr. Kollen only addressed the average life depreciation procedure.

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RESPONSE OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.16 Provide a copy of all testimony and exhibits that address the net salvage rates and cost of removal components of depreciation rates submitted by Mr. Kollen in any regulatory proceeding.

Response:

Refer to the response to LG&E 1.13.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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RESPONSE OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.17 Please provide Mr. Kollen's authority for his proposition that the coal credit could be included in the calculation of the Fuel Adjustment Clause.

Response:

Mr. Kollen's position is that the coal credit should be reflected in the base revenue requirement. As an alternative, he suggested that it could be incorporated in the fuel adjustment clause. However, upon review of KRS 278.030(1), it appears that the Commission does not have the discretion to include the coal credit in the FAC. Consequently, if the Commission decides not to include the coal tax credit in the base revenue requirement, then the flow through would have to be through a separate surcredit rider established for that purpose.

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.18 Please identify any proceedings in which Mr. Kollen has made recommendations concerning the treatment or computation of income tax expense included in revenue requirements, including the name of the proceeding, case number and jurisdiction and provide a summary of the recommendation made.

Response:

Please refer to Exhibit___(LK-1) attached to Mr. Kollen's testimony. All proceedings in which Mr. Kollen addressed rate base or capitalization or quantified the revenue requirement effect of the return on common equity incorporated the related income tax expense effects.

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.19 Please identify any proceedings in which Mr. Kollen has made recommendations concerning the treatment or computation of income tax expense included in revenue requirements and comparable to his recommendation in this proceeding, including the name of the proceeding, case number and jurisdiction and provide a summary of the recommendation made.

Response:

Refer to the response to LG&E 1.18.

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TO LG&E'S FIRST SET OF DATA REQUESTS

LG&E 1.20 For the purpose of revising Rives Exhibit 2 with KIUC's recommendations, please confirm that the LG&E Electric Rate Base Percentage (Rives Exhibit 2, Column 5) that Mr. Kollen would recommend is 80.53%.

Response:

No. The allocation factor to be applied to KIUC's collection period capitalization adjustment is 100%. Computationally, Mr. Kollen based his computation of the capitalization effects of the acceleration of the collection cycle on jurisdictional revenues, which are 100% jurisdictional by definition.

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO STAFF'S FIRST SET OF DATA REQUESTS

STAFF 1.1 Refer to the Direct Testimony and Exhibits of Lane Kollen ("Kollen Testimony"), pages 3-4.

a. Provide clarification that KIUC's testimony addresses only the proposed electric rate increase of Louisville Gas and Electric Company ("LG&E").

b. If the answer to Item 1(a) of this request is affirmative, explain why KIUC is not addressing LG&E's proposed gas rate increase.

Response:

a. Confirmed.
b. KIUC elected not to address LG&E's proposed gas rate increase.

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

STAFF 1.2 Refer to the Kollen Testimony, pages 17-18, concerning what is identified as the first premise underlying LG&E'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 & 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 LG&E'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 relevant 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.

Response:

a. The Commission should consider its precedent on this issue as well as the merits.

b. This is a general statement based on Mr. Kollen's experience in LG&E and KU and other jurisdictional utility ratemaking proceedings. Nevertheless, for citations from previous rate orders addressing LG&E and KU requests for weather normalization of revenues, please see pages 46-48 of Mr. Seelye's Direct Testimony in this proceeding.

c. Yes.

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RESPONSE OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
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STAFF 1.3 Refer to the Kollen Testimony, page 20.

a. Mr. Kollen opposes LG&E's proposal for the weather normalization of electric revenues, in part, because LG&E 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 LG&E's use of 20 years of data for budgeting and forecasting purposes. Explain whether Mr. Kollen is aware that the Commission has historically accepted weather normalization of gas revenue adjustments 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.

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 the time period for temperature and weather data KIUC would recommend.

Response:

a. Yes.

b. No. The point made by Mr. Kollen is that the Company failed to justify the use of 30 years of data, to assess alternatives or to assess whether there were recent cyclical warming trends in the data that should be explicitly considered or weighted more heavily rather than averaged downward through the use of 30 years of data, thereby increasing the effects of the weather normalization adjustment. If indeed the temperature data indicate that there is a recent cyclical warming trend in the data, then it would be appropriate to use less than 30 years of data, perhaps 20 years.

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RESPONSE OF
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TO STAFF FIRST SET OF DATA REQUESTS

STAFF 1.4 Refer to pages 21-22 of the Kollen Testimony concerning the first problem Mr. Kollen identifies regarding LG&E'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 LG&E results in less expense than the method used for the year-end customer adjustment. Explain whether Mr. Kollen has concerns with LG&E's proposed method other than the outcome it produces.

b. In response to KIUC's First Data Request, Item 12, LG&E indicated 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 LG&E's reasoning.

Response:

a. The assertion in the question is incorrect. The basis for Mr. Kollen's position is one of consistency. All adjustments to base revenues are short term in nature, whether the adjustment is to annualize based on year end customers or to weather normalize revenues. The Commission already has determined that there is some increase in both fixed and variable costs associated with the year end customer adjustment even though that adjustment is based on an increase in energy sales to and revenues from those customers. Similarly, there is some increase in both fixed and variable costs associated with increased sales due to weather. The increase in fixed costs would include additional maintenance due to additional stress on the system, additional customer service, and additional bad debt expense, among other costs.

b. See response to part (a) of this question.

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KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
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STAFF 1.5 Refer to page 22 of the Kollen Testimony concerning the second problem Mr. Kollen identifies regarding LG&E's computation of expenses related to the proposed weather normalization-related reduction in expenses.

a. Mr. Kollen claims that LG&E 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 will 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.

Response:

a. Yes.

b. Mr. Kollen does not believe the Commission should adopt this adjustment and removed the effect of the Company's proposed adjustment from the revenue requirement. This did not require the computation of a corrected adjustment.

c. No. Mr. Kollen does not have that information readily available. Mr. Seelye apparently computed an annual FAC factor for use in his Exhibit 14 based on the title indicating the "12 Months Ended April 30, 2008, but this value is input on the electronic version of his exhibits. However, it would be relatively straightforward to make the computation using each month's FAC factor.

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STAFF 1.6 Refer to the Kollen Testimony, pages 30-31, relating to the appropriateness of including the Kentucky coal tax credit as a reduction to LG&E'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 LG&E'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.

Response:

a. The Companies record these credits in the year after the coal purchases are made. The credit applicable to the coal purchases in 2007 will not be recorded on the Companies' accounting books until 2008. Thus, the credit the Companies are recording in 2008 is based on actual test year data.

b. Mr. Kollen's position is that the coal credit should be reflected in the base revenue requirement. As an alternative, he suggested that it could be incorporated in the fuel adjustment clause. However, upon review of KRS 278.030(1), it appears that the Commission does not have the discretion to include the coal credit in the FAC. Consequently, if the Commission decides not include the coal tax credit in the base revenue requirement, then the flow through would have to be through a separate surcredit rider established for that purpose.

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STAFF 1.7 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[1] 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.

Response:

Yes. Mr. Kollen has reviewed the Commission's Order and the methodology that it used in that proceeding. In that case, the Commission reduced KAW's income tax expense by the KAW share of the total savings achieved by the consolidated parent company by filing a consolidated income tax return for the affiliate group. This is known as the "effective tax rate methodology." By contrast, Mr. Kollen believes that it is more appropriate to provide the utility's ratepayers a rate of return on the cumulative amount of the consolidated savings provided by the utility based on the premise that these savings are temporary and that the loss affiliates will be able to use their loss carryforwards in future years. The methodology proposed by Mr. Kollen is known as the "interest credit" methodology. The methodology proposed by Mr. Kollen results in a more accurate quantification of the cumulative benefits provided by the utility and its ratepayers compared to a standalone tax return methodology and compared to the effective tax rate methodology.

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STAFF 1.8 Refer to the Kollen Testimony, page 42, lines 6-12, regarding the Commission's historic method used to remove the Environmental Cost Recovery ("ECR") rate base amounts from capitalization. Provide the case names, case numbers, dates of Orders, and specific pages where the Commission has previously rejected the methodology proposed by LG&E in this case.

Response:

Refer to the Commission Orders in Case Nos. 1998-426 and 1998-474, including Orders on Rehearing.

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

STAFF 1.9 Refer to the Kollen Testimony, pages 44-45, regarding his proposed adjustment to capitalization if LG&E's request to reduce its collection cycle from 15 to 10 days is granted. Given that the Commission uses the "one-eighth" formula to derive the allowance for working capital included in rate base, rather than using a lead-lag study, explain why it is appropriate to reflect a change in LG&E's collection cycle in its capitalization.

Response:

This adjustment is not a rate base adjustment, but rather quantifies the effect on the Company's capitalization from receiving cash from its customers earlier than if it had to wait 15 days. The effects on KU's 10 days collection cycle already are reflected in its capitalization. This is true because accelerating cash receipts by 5 days results in a reduction in financing requirements, all else equal. The fact that the Commission uses the one eighth formula for rate base is irrelevant, except for allocating the Company's capitalization between electric and gas, because the Commission uses capitalization to compute the revenue requirement.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:	:	**Case No. 2008-00252**
	:	
Application Of Louisville Gas And Electric	:	
Company For An Adjustment of Base Rates	:	

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

STAFF 1.10 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.

Response:

Please refer to the attached CD.