COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY TO FILE DEPRECIATION STUDY	)))	CASE NO. 2007-00564
APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS BASE RATES	))))	CASE NO. 2008-00252

SECOND DATA REQUEST OF COMMISSION STAFF
TO LOUISVILLE GAS AND ELECTRIC COMPANY

Louisville Gas and Electric Company ("LG&E"), pursuant to 807 KAR 5:001, is requested 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 September 11, 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.

LG&E 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 LG&E 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 Volume 1 of 5 of LG&E's application, at Tab 8.

a. For each of the tariffs that include a change in either the kW or kWh to qualify, explain why the change was made.

b. For the tariffs which eliminated the charge for the transmission line, explain why the change was made.

2. Refer to Volume 4 of 5 of LG&E's application, the Testimony of Victor A. Staffieri ("Staffieri Testimony"), at pages 8 and 9.

a. Page 8 refers to $1.5 million contributed by LG&E's parent company, E.ON U.S. LLC ("E.ON U.S."), to the University of Kentucky to fund research on how to reduce carbon emissions from power plants. It goes on to refer to contributions LG&E and its sister utility, Kentucky Utilities Company ("KU"), have agreed to make to the Carbon Management Research Group and the Kentucky Consortium of

Carbon Storage. Identify and describe the criteria used to determine whether these types of research contributions are made by one or more of the utilities or by the parent company.

b. The first full paragraph on page 9 refers to the $25 million pledge LG&E and KU have made to the FutureGen project. Provide the date the pledge was originally made and a schedule showing the amounts paid by calendar year and the account(s) in which recorded, and the amount, if any, of the $25 million pledge that was paid during the test year and the account(s) in which it was recorded. Provide also, the annual amounts anticipated to be paid prospectively.

c. Describe the extent to which the scope of the FutureGen program has changed since the Federal Department of Energy opted not to fund the FutureGen project as originally planned and whether this impacts the level of LG&E's future contributions.

3. Refer to Volume 4 of 5 of the application, the Testimony of Paul W. Thompson ("Thompson Testimony"), at page 8. Mr. Thompson states that LG&E is mitigating the cost of natural gas transportation costs for its Trimble County combustion turbines by purchasing longer-term firm interstate pipeline transportation capacity.

a. Provide the amount of interstate pipeline transportation capacity that LG&E currently has and the amount of the increased capacity that LG&E purchased as part of its cost mitigation activities.

b. Explain how this additional cost is recovered from ratepayers, i.e., is it passed through as part of the transportation cost recovered through the Gas Supply Clause mechanism or recovered in some other rate?

c. Provide the cost/benefit analysis performed by LG&E on the longer-term pipeline capacity purchased as part of this plan.

4. Refer to the Thompson Testimony at page 11.

a. Provide the approximate point in time when LG&E began using thermal-based transmission line ratings, as opposed to seasonal (static) ratings, to measure line capability.

b. Mr. Thompson states that, in his judgment, use of thermal-based line ratings has resulted in a measurable increase in the productivity of the company's assets, which is indicated by a significant decrease in the number of Transmission Line Loading Relief ("TLRs") directives called on LG&E's system since the adoption of thermal-based ratings. Based on the response to part (a) of this request, provide the number of TLRs for LG&E for the three calendar years prior to adoption of the thermal-based approach and for each of the calendar years since the adoption.

5. Refer to the Thompson Testimony at page 15. Explain whether the reference on lines 15 to 17 is to Trimble County 2 or to another future base load unit.

6. Refer to the Thompson Testimony at page 17, specifically, the reference to the July 2007 Request for Proposals seeking long-term capacity and energy supplies from renewable resources. Based on the more detailed discussions entered into with the short-list developers, when does LG&E expect to make a decision and/or selection for acquiring power from renewable resources?

7. Refer to Volume 4 of 5 of LG&E's application, the Testimony of Chris Hermann ("Hermann Testimony"), at page 7. The testimony refers to the upward trend in duration and frequency of interruptions that were indicated in 2003 and improvements

LG&E has seen since making increased investments in reliability, including a new outage management system. Provide LG&E's SAIDI, SAIFI, and CAIDI measurements, on an annual basis, for the years 2003 through 2007.

8. Refer to page 15 of the Hermann Testimony.

a. Explain whether the Mother Ann Lee hydroelectric power station at Lock & Dam 7 on the Kentucky River is a power station previously owned by KU.

b. What amount of Renewable Energy Certificates, or Green Tags, is available to LG&E from the Mother Ann Lee power station?

9. Refer to Volume 4 of 5 of LG&E's application, the Testimony of S. Bradford Rives ("Rives Testimony"), at page 9; the Testimony of Robert M. Conroy ("Conroy Testimony") at page 2; Reference Schedule 1.06 of Exhibit 1 to the Rives Testimony; and Exhibit 1 to the Conroy Testimony.

a. The Rives Testimony refers to the adjustment for the Environmental Cost Recovery ("ECR") "roll-in" into base rates being prepared by Mr. Conroy and being discussed in his testimony. The Conroy Testimony identifies the exhibits which include the adjustment and states that it is consistent with the adjustment in LG&E's previous rate case. As per Conroy Exhibit 1, pages 12-20, explain in detail why the ECR roll-in resulted in reduced rates and revenues for the Industrial Power Time of Day and Special Contract rate classes.

b. The reference schedule shows the amounts of the revenue and expense adjustments related to the ECR roll-in. Provide a detailed explanation for the disparity between the proposed ECR revenue roll-in of $1,215,475 and the proposed ECR expense roll-in of $8,811,442.

10. Refer to Volume 4 of 5 of LG&E's application at page 17 of the Rives Testimony concerning the cost of the letter of credit bank fees associated with the new credit facilities LG&E will require, and Reference Schedule 1.32 of Exhibit 1 to the Rives Testimony.

a. The text beginning on Line 21 of page 17 indicates that the fees are based on "a proposal by a bank willing to provide a portion of these facilities under current market conditions." Provide the number of financial institutions from which LG&E solicited proposals for the new credit facilities, the number of proposals LG&E received and the reasons why the proposal in question was chosen by LG&E.

b. Provide a copy of all the proposals received by LG&E along with any supporting workpapers and related documents that show the derivation of the $2.5 million amount shown in the exhibit as the cost of the new credit facilities.

11. Refer to page 21 of the Rives Testimony. Mr. Rives states that LG&E has a target capital structure of the midpoint of the range for an "A" rating as published by Standard and Poor's. Provide LG&E's current rating.

12. Refer to page 29 of the Rives Testimony, specifically, the discussion of the Mill Creek Ash Dredging Regulatory Asset, and Appendix B, Exhibit 3 to the Rives Testimony. The reference to the Commission's Order in Case No. 2004-00421 reflects that the Commission found that it would "include the unamortized balance of the deferred costs in the environmental rate base."[1] Explain in detail why LG&E now proposes to include the unamortized balance in its rate base in this base rate case.

[1] Case No. 2004-00421, Application of Louisville Gas and Electric Company for Approval of its 2004 Compliance Plan for Recovery by Environmental Surcharge.

13. Refer to Volume 4 of 5 of LG&E's application, the Direct Testimony of William E. Avera ("Avera Testimony"), at pages 9-10.

a. To the extent that LG&E's capital requirements are satisfied through its parent company, E.ON AG ("E.ON") explain how E.ON and ultimately LG&E actually obtain this capital.

b. Describe the role that LG&E's credit ratings from Fitch and Standard and Poor's plays in LG&E obtaining capital from its parent.

c. To the extent that LG&E issues tax exempt debt securities to satisfy its capital needs, describe the role that LG&E's credit ratings from Fitch and Standard and Poor's plays in the issuance of this debt.

d. To the extent that LG&E issues tax exempt debt, explain whether E.ON or any subsidiary of E.ON other than LG&E is liable in any way for repayment.

e. To the extent that LG&E issues tax exempt debt, explain how LG&E is able to issue this type of debt and how the issuance actually occurs.

14. Refer to page 14 of the Avera Testimony. Explain whether LG&E has requested that the Commission alter its Fuel Adjustment Clause and Gas Cost Adjustment mechanisms in order to recover costs in a more timely fashion and alleviate investor concerns regarding the lag between when expenses are incurred and when they are recovered through rates.

15. Refer to pages 15-16 of the Avera Testimony.

a. Kentucky is not a restructured state. Describe how investors' views of utilities differ between restructured and traditionally regulated states.

b. Explain whether this Commission has acted in any way that would give investors reason to doubt that LG&E would be able to recover its costs in a timely fashion or in a manner that would lead investors to view the Kentucky regulatory environment as hostile.

16. Refer to pages 17-18 of the Avera Testimony. Provide a copy of Moody's Investors Service, "Credit Opinion: Louisville Gas & Electric Co.," referenced in footnote 34.

Refer to page 24 of the Avera Testimony and Schedule WEA-1. Provide a schedule which lists each of the 17 utilities in the Utility Proxy Group plus LG&E as #18 and which shows the following information for each utility: 2007 total revenue; 2007 electric revenue; 2007 gas revenue; total utility customers served; electric customers served; gas customers served; nuclear generation as a percent of total generating capacity; whether the utility operates in traditionally regulated states or restructured states; the debt-to-equity ratio; whether the utility has a rate mechanism to track changes in fuel costs, and if so, the timeliness of the tracking; and whether the utility has a rate mechanism to track environmental costs, and if so, the timeliness of the tracking.

17. Provide the most current Value Line profile sheet for LG&E and for each of the 17 utilities listed in Mr. Avera's Utility Proxy Group.

18. Refer to pages 26-27 of the Avera Testimony. Provide a copy of the workpapers supporting the constant growth of the DCF model and a detailed explanation of how the stock prices were estimated to determine the expected dividend yield.

19. Refer to page 34 of the Avera Testimony.

a. Provide a copy of the relevant pages in the Federal Energy Regulatory Commission ("FERC") document cited in footnote 50 that discuss FERC's rationale and decision with regard to rate of return and "extreme outliers."

b. What was the reference point to which the 17.7 percent was compared?

c. Is the FERC decision establishing a 17.7 percent DCF estimate as an "extreme outlier" specific to that particular 2004 case or was it meant to be a hard and fast rule to be applied as a ceiling in all cases thereafter? Explain the response.

20. Refer to page 37 of the Avera Testimony and Schedule WEA-3. Explain why the logic FERC applied to returns for regulated firms at the federal level should apply to firms operating in open competitive markets.

21. Refer to page 39 of the Avera Testimony and Schedule WEA-5.

a. Explain why it was necessary to weight the firms in the calculations as opposed to performing the calculations on an unweighted basis.

b. Explain how stock prices were used in calculating the dividend yield referenced in footnote (a). Were the March 27, 2008 closing prices used or were average stock prices used?

c. What were the IBES and the Value Line average growth rates and explain how the 10.9 percent average growth rate was calculated.

22. Refer to Volume 4 of 5 of LG&E's application, the Testimony of Valerie L. Scott ("Scott Testimony"), at pages 3 and 11 and to Reference Schedule 1.15 of Exhibit 1 to the Rives Testimony at page 4 of 4. Provide the calculations showing the

derivation of the $218,397 amount identified as the "Company Match increase from 60% to 70%."

23. Refer to pages 3-4 and 11 of the Scott Testimony and Reference Schedule 1.16 of Exhibit 1 to the Rives Testimony. Provide the calculations, workpapers, etc., which show the derivation of the pension and post-retirement expenses annualized shown on Line 2 of the reference schedule.

24. Refer to pages 4 and 12 of the Scott Testimony and Reference Schedule 1.17 of Exhibit 1 to the Rives Testimony. Provide the calculations, workpapers, etc., which show the derivation of the "post-employment expenses per 2008 Mercer Study" shown on Line 2 of the reference schedule.

25. Refer to pages 4-5 of the Scott Testimony, specifically, the request to defer revenues related to MISO Schedule 10 expenses deferred between the end of the test year and the date new rates go into effect, as well as any future adjustments to the MISO exit fee, as regulatory liabilities until the amounts can be amortized as part of a future rate case.

a. Provide the amount of revenues related to MISO Schedule 10 expenses realized by LG&E during the test year and the amount of such revenues LG&E projects it will realize in the first 12 months after new rates go into effect.

b. Describe the extent of past adjustments to the MISO exit fee and the period of time over which future adjustments are reasonably anticipated to occur.

26. Refer to pages 6-7 of the Scott Testimony. Provide the 2009 date when the coal tax credit statute is to expire.

27. Refer to Volume 4 of 5 of LG&E's application, the Testimony of Shannon L. Charnas ("Charnas Testimony"), at page 3; Reference Schedule 1.14 of Exhibit 1 to the Rives Testimony; and the Joint Rebuttal Testimony of John J. Spanos ("Spanos Rebuttal"), pages 2 through 4, filed in Case No. 2007-00564.[2]

a. Explain how Mr. Spanos's example would be affected if the hypothetical utility performed depreciation studies every 4 years and remaining service life was considered as part of those studies.

b. Assume for purposes of this question that Unit A in Mr. Spanos's example actually remains in service for 6 years and Unit B actually remains in service 12 years. Explain how these additional assumptions would affect Mr. Spanos's example comparing the average service life approach with the equal life group approach.

c. The Spanos Rebuttal often notes that the equal life group approach is the most accurate approach and provides the better match of recovery to consumption. Are there other reasons or events which have occurred at LG&E within the last 5 years that support the adoption and use of the equal life group approach? If yes, describe those reasons or events in detail.

d. As part of the depreciation study, did Mr. Spanos perform a comparison of the theoretic depreciation reserve with the actual depreciation reserve?

(1) If yes, what were the results of this comparison? Describe the actions, if any, resulted from the comparison.

(2) If no, explain why such a comparison was not performed.

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[2] Case No. 2007-00564, Application of Louisville Gas and Electric Company to File Depreciation Study.

28. Refer to the response to the Commission Staff's Second Data Request dated April 14, 2008 in Case No. 2007-00565,[3] Item 3, wherein KU indicated that it was reviewing the recommendations of the Virginia State Corporation Commission ("Virginia SCC") Staff, which rejected the use of the equal life group approach.

a. Provide the status of KU's review of the Virginia SCC Staff's recommendations and describe how KU has determined it will proceed in response.

b. The Virginia SCC Staff cited several concerns related to switching to the equal life group approach. Provide a response for each concern listed below.

(1) Average service life approach tends to produce more stable rates, all other variables being equal.

(2) A switch to the equal life group approach can compound any inaccuracies in estimation of the retirement dispersion.

(3) A switch to the equal life group approach can introduce inter-generational inequities.

(4) A switch to the equal life group approach can be more costly and time-consuming to maintain.

29. LG&E and KU jointly own 10 combustion turbines ("CTs"). The CTs are Paddy's Run – Generator 13, E. W. Brown CTs 5 through 7, and Trimble County CTs 5 through 10. The proposed depreciation rates for these 10 CTs are not the same for KU and LG&E. Recalculate LG&E's proposed depreciation expense adjustment reflecting the KU proposed depreciation rates for the E. W. Brown CTs 5 through 7 and the LG&E

[3] Case No. 2007-00565, Application of Kentucky Utilities Company to File Depreciation Study.

proposed depreciation rates for Paddy's Run – Generator 13 and Trimble County CTs 5 through 10.

30. Provide a recalculation of LG&E's proposed depreciation expense adjustment based upon the following assumptions.

a. Depreciation expense is calculated utilizing the depreciation rates provided by LG&E in response to Item 27 of the AG's Initial Request for Information (dated February 4, 2008) in Case No. 2007-00564. For the 10 CTs jointly owned by LG&E and KU, the recalculation should use the KU depreciation rates for the E. W. Brown CTs 5 through 7 and the LG&E depreciation rates for the Paddy's Run – Generator 13 and the Trimble County CTs 5 through 10.

b. Depreciation expense is calculated utilizing the depreciation rates proposed by the AG's witness, Michael J. Majoros, Jr. For the 10 CTs jointly owned by LG&E and KU, the recalculation should use the KU depreciation rates for the E. W. Brown CTs 5 through 7 and the LG&E depreciation rates for the Paddy's Run – Generator 13 and the Trimble County CTs 5 through 10.

31. Refer to the Charnas Testimony at pages 5-6 and 10-11. Provide with this response, and every month thereafter at the time it files its monthly financial statements with the Commission, an update on LG&E's actual rate case expenses.

32. Refer to page 6 of the Charnas Testimony and Reference Schedule 1.28 of Exhibit 1 to the Rives Testimony.

a. Provide a detailed description of the criteria used by LG&E to determine that the cost of the lease for demineralization equipment at the Cane Run

and Mill Creek generating facilities should have been recorded as a capital lease rather than an operating lease.

b. Explain in detail why LG&E initiated a review of its initial decision to record the lease as an operating lease.

c. Provide the accounting entries made when LG&E initially recorded the lease as an operating lease and those it made when it determined that it should have been recorded as a capital lease.

d. Describe the reasoning for reversing the rent expense for the duration of the lease and the adjustment to remove the impact of reversing the rent expense.

33. Refer to pages 7 and 11 of the Charnas Testimony and Reference Schedule 1.29 of Exhibit 1 to the Rives Testimony.

a. Provide the accounting entries made in July 2007 to correct the accounting for LG&E's Information Technology maintenance contracts.

b. Provide the calculations, workpapers, etc., that show the derivation of the proper amount of expense for the contracts during the test year.

34. Refer to pages 8 and 11 of the Charnas Testimony and Reference Schedule 1.31 of Exhibit 1 to the Rives Testimony. Provide the source and derivation of the 61.91 percent ratio shown on Line 6 of the reference schedule as the portion of the increased "vehicle fuel cost applicable to O & M."

35. Refer to Volume 4 of 5 of LG&E's application, the Testimony of Lonnie E. Bellar ("Bellar Testimony"), at pages 4-7. The pro forma electric class rates of return reflect that the rate of return for Special Contracts is slightly lower than the rate of return

for Residential Rate RS. Given that, unlike its gas operations, there is no threat of physical bypass by its electric customers, explain why none of LG&E's proposed increase in electric revenues is allocated to Special Contracts.

36. Refer to Volume 4 of 5 of LG&E's application at page 7 of the Bellar Testimony. Mr. Bellar states that LG&E decided to follow the cost-of-service study ("COSS") for its gas customers more closely than it did for the electric customers. Explain further why LG&E chose to follow the COSS more closely for gas customers than for electric customers.

37. Refer to Volume 4 of 5 of LG&E's application, the Testimony of J. Clay Murphy ("Murphy Testimony"), at pages 4-6, which deals with the issue of declining residential gas consumption. Lines 10-16 reflect the amount of decline, from its last rate case to the current rate case, in the temperature normalized average annual consumption of LG&E's residential gas customers. Provide, on an annual basis, the temperature normalized average of LG&E's residential gas customers for the calendar years 2003 through 2007.

38. Refer to page 9 of the Murphy Testimony. Mr. Murphy states that LG&E is proposing to modify rate schedule FT to require the customer electing service under this rate schedule to provide notice to LG&E no later than March 31 and to execute a contract for service by April 30 in order to begin receiving service by the following November 1. For clarification, is this requirement for the first time a customer elects this rate schedule or must the customer notify LG&E by March 31 each year in order to be served under this rate schedule?

39. Refer to page 10 of the Murphy Testimony. Referring to Rider RBS, Mr. Murphy states that this service provides firm balancing up to a stated amount of the daily mismatches between volumes delivered and volume used by the customer. LG&E is proposing to withdraw this rider because no customers have used it since 2000. Explain how the mismatch is handled if not under this rider.

40. Refer to page 12 of the Murphy Testimony.

a. Mr. Murphy discusses the new Distributed Generation Gas Service rate that LG&E is proposing. Under what rate schedules are these customers currently being served?

b. Have any customers objected to the change?

41. Refer to the Conroy Testimony at page 4. Mr. Conroy states that LG&E and KU have not been able to completely harmonize their rate schedules. Explain in detail why the companies have been unable to do so.

42. Refer to page 6 of the Conroy Testimony. Explain why LG&E decided to eliminate the summer and winter rates in Rate GS and propose a flat rate.

43. Refer to Volume 4 of 5 of the application, the Sidney L. "Butch" Cockerill Testimony ("Cockerill Testimony"), at page 2.

a. Explain more fully the nature of the Meter Pulse Charge.

b. Refer to page 2 of the Cockerill Testimony. Mr. Cockerill states that LG&E is proposing to eliminate its policy of paying for customers' meter bases.

(1) What is the current cost for a meter base?

(2) Provide the total costs incurred by KU to supply meter bases for the test year and annually for calendar year 2005, 2006, and 2007.

(3) Are all of KU's costs for meter bases capitalized or expensed?

(4) Has KU historically maintained the meter bases that it provided to customers? If yes, will KU continue to maintain those meter bases?

(5) If KU has historically maintained the meter bases that it provided, does KU intend to maintain the customer-supplied meter bases in the future?

(6) Explain why LG&E is proposing to change this policy.

44. Refer to page 5 of the Cockerill Testimony. Mr. Cockerill states that customers whose payments are received more than 10 days after the bills are issued will have their behavioral scores affected in the behavioral scoring system.

45. Explain the behavioral scoring system.

a. Identify all the ways that a customer can be affected by a negative behavioral score.

b. Explain in detail the effect of LG&E's proposed 10-day collection cycle on a customer who has no deposit with LG&E, whose historic bills have been paid within 11 to 15 days, and whose future bills are paid within 11 to 15 days.

46. Refer to page 5 of the Cockerill Testimony. Provide any studies or analyses of the impacts on revenues, uncollectibles, and cash flow of having payments due 10 days after the date of the bill, with a penalty imposed for payment after the 15th day, versus bills due 15 days after the date of the bill, with a penalty imposed for payment after the 15th day.

47. Refer to SLC Exhibit 3 to the Cockerill Testimony. Provide the derivation of the $14.50 amount used in the calculation.

48. Refer to Volume 5 of 5 of LG&E's application, the Testimony of William Steven Seelye ("Seelye Testimony"), at page 2, and Seelye Exhibits 25-35. Provide an electronic copy of both the electric and gas cost-of-service studies with all formulas intact.

49. Refer to pages 6-9 of the Seelye Testimony and Seelye Exhibit 2.

a. The testimony, at page 6, indicates that, relying heavily on the results of its electric cost-of-service study, LG&E is proposing to increase rates for only the residential and lighting rate schedules. Explain why no increases are proposed for the Large Commercial Time-of-Day or Industrial Power Time-of-Day customers served at primary voltages, since, according to the cost-of-service study, the rates of return for those groups are below the total system average rate of return.

b. The testimony, at pages 8-9, indicates that LG&E's residential customer charge is too low and that its residential energy charge is too high. LG&E is proposing to increase the customer charge from $5.00 to $8.23 and make no change to the energy charge. To what extent did LG&E consider a larger increase to the residential customer charge and a decrease, of some magnitude, to the residential energy charge?

50. Refer to page 16 of the Seelye Testimony. Provide a sample bill for a transmission customer under the current KW basis billing method and a sample bill for that same customer under the proposed kVa billing method.

51. Refer to page 19 of the Seelye Testimony. Mr. Seelye discusses the threat of bypass by large industrial customers. Provide the number of customers who have bypassed LG&E since its last rate case.

52. Refer to page 22 of the Seelye Testimony. Explain the basis for the proposed increase in the residential distribution cost component.

53. Refer to pages 28-37 of the Seelye Testimony and Seelye Exhibit 15 concerning the proposed electric temperature normalization adjustment.

a. Identify which 30-year period is used to represent the "normal" average degree days for 30 years and explain why that specific period is being used.

b. Provide, by month and annually for the 30-year period identified in the response to part (a) of this request, along with the totals and the averages for the 30-year period identified in the response to part (a), the cooling and heating degree day amounts relied upon by LG&E in calculating its electric temperature normalization adjustment. Identify whether all these degree day numbers are based on degree day measurements provided by the National Oceanic and Atmospheric Administration ("NOAA").

c. If the 30-year period ending December 31, 2000 represents a different period than identified in the response to parts (a) and (b) of this request, provide, by month and annually for the 30-year period ended December 31, 2000, plus the totals and averages for the same period, the 30-year "normal" cooling and heating degree days reported by NOAA.

54. Refer to pages 43-57 of the Seelye Testimony and Seelye Exhibits 15-20 concerning the proposed electric temperature normalization adjustment.

a. Pages 42 through 46 include a discussion of the step-wise regression procedure performed using the "Stepwise" model selection method in the SAS statistical software package and a description of the variables, or regressors, that

were considered in the step-wise regression process. Explain whether the headings of Columns 1-6 in Seelye Exhibit 18 reflect the variables that were not deleted by the model under the step-wise regression process.

b. Are the amounts in the "Total Adjustment" column for the first 12 lines on Exhibit 18, page 1 of 6, intended to sum to the amount of (178,518,000) kWh shown on the first line of Column 1 of Exhibit 19?

c. The first and second numbered columns in Exhibit 18 appear to have the headings HDD60 and HDD65, which represent heating degree days using a 60 and 65 degree base, respectively. Explain why amounts based on heating degree days for month 4 are included in Exhibit 18 when Exhibit 15 shows heating degree days outside "the range" only during months, 5, 9 and 10.

d. Is it correct that the results from the "Stepwise" model selection method, as shown on Exhibit 18, page 1 of 6, produce kWh adjustments for the residential class in the following months based on these different variables/regressors:

(1) Month 5 – CDD70 and Maximum Temperature

(2) Month 6 – CDD65

(3) Month 8 – CDD70 and Minimum Temperature

(4) Months 9 and 10 – CDD70

e. The testimony, at page 43, states that step-wise regression removes the risk of judgment and bias on the part of the analyst in determining which subset of regressors should be included in a model. Explain whether the removal of such risk outweighs the expectation of a greater degree of consistency in quantifying the relationship between temperature and electricity consumption.

f. Provide two revised runs of Seelye Exhibits 18 and 19, one which includes HDD65 and CDD65 as the only variables and a second which includes HDD60 and CDD70 as the only variables.

g. The Seelye Testimony, at page 53, discusses the expense component of the proposed electric temperature normalization adjustment. Explain how it was determined that the specific expense accounts listed on Exhibit 20, which are all production expense accounts, are the only expense accounts to be included in calculating the expense portion of the adjustment.

55. Refer to page 58 of the Seelye Testimony and Seelye Exhibit 21, which pertain to the electric year-end customer adjustment. For the Industrial Power Rate LP rate class shown on page 2 of the exhibit as having 324 secondary voltage customers and 44 primary voltage customers, respectively, at test year end, provide the average monthly kWh sales volumes for the test year of the largest and smallest customers served at each of these voltage levels.

56. Refer to pages 59-62 of the Seelye Testimony and Seelye Exhibit 22.

a. Explain why the 30-year period ended December 31, 2007 was used to derive the 30-year average heating degree days used to calculate the gas temperature normalization adjustment.

b. Provide, by month, annually for the 30 years ended December 31, 2007, and showing the totals and the averages for the 30-year period ended December 31, 2007, the heating degree day amounts relied upon in calculating LG&E's proposed gas temperature normalization adjustment. Identify whether all these degree day numbers are based on degree day measurements provided by NOAA.

c. Provide a detailed description of the overall approach taken in the development of the gas temperature normalization adjustment, specifically addressing (1) whether the heating degree days are based on an average daily temperature of 65 degrees or some other average, (2) if some other average, identify that specific average and explain why it was selected, (3) the reasons for why a "Step-wise" approach which incorporate multiple variables is not used in developing the adjustment.

57. Refer to pages 66-67 of the Seelye Testimony and Seelye Exhibit 25.

a. Explain how the minimum system demand figure was calculated or whether it is simply the low point on the system load curve.

b. Explain how the winter and summer peak hours are calculated.

58. Refer to pages 68-70 of the Seelye Testimony and Seelye Exhibit 26, pages 43-45.

a. Explain and define the functional vectors PROFIX and PROVAR.

b. For each of the functional vector allocators, internally generated or otherwise, listed in the Exhibit, provide an explanation of how they were derived and the locations of the calculations inside the cost-of-service study.

59. Refer to page 75 of the Seelye Testimony and Seelye Exhibit 26, page 44, and Exhibits 28, 29 and 30.

a. Explain how the weights for the zero intercept calculations were derived.

b. Explain the rationale for how the results of the zero intercept calculations are being split between the Distribution Primary and Distribution Secondary Lines.

c. Explain why the numbers in Exhibit 26 page 44 for Underground Conductors and Devices do not sum to the results of the zero intercept calculations in Exhibit 28. Also, explain how this may change the results of the cost-of-service study.

d. Page 2 in Exhibits 28 and 29 shows a zero intercept that appears to be negative. Show how the positive intercept presented on page 1 of the exhibits was derived.

e. Page 4 of Exhibits 28 and 29 shows an estimated Y value. Explain how this was derived and show how it was used in the zero intercept calculations.

f. Page 2 in Exhibits 28, 29 and 30 appears to illustrate unweighted size and cost data, yet the results of the zero intercept calculations are based upon weighted data. Show calculations supporting the zero intercept and zero intercept cost on page 1 in each of the exhibits.

60. Refer to Seelye Exhibit 27. For each of the allocation vector allocators listed in the exhibit, provide an explanation of how they were derived and the locations of the calculations inside the cost-of-service study.

61. Refer to Volume 1 of 3, Item 7, of the response to the Commission Staff's First Data Request dated July 16, 2008 ("Staff's first request"). Identify and describe any specific factors LG&E has identified, such as construction of Trimble County Unit 2, which have contributed to the lower Ratio of Earnings to Fixed Charges in the test year.

62. Refer to Volume 1 of 3, Item 9(c), of the response to Staff's first request. Page 2 of 2 of the response reflects a 39.3-day supply of coal in inventory for LG&E at test year-end.

a. Provide the dollar value of LG&E's test year-end coal inventory.

b. Describe LG&E's basic policy for maintaining its coal inventory and whether a 39.3-day supply falls within the inventory levels set forth in that policy.

c. Current coal prices are substantially higher than coal prices at the time of LG&E's last general rate case. Describe the extent to which the higher prices have impacted LG&E's coal inventory management, given that such prices not only increase the fuel costs recovered through its fuel adjustment clause but also increase the rate base and capitalization levels upon which it seeks to earn a rate of return. Is this issue contained within LG&E's written coal procurement procedures and policies?

63. Refer to Volume 1 of 3, Item 23(a), of the response to Staff's first request. For each of the following electric expense accounts, provide the reasons for the change in the amount of expense from the 12 months immediately preceding the test year to the 12 months of the test year.

a. Account 512, Maintenance of Boiler Plant, which increased from $30.8 million to $39.9 million.

b. Account 553, Maintenance of Generating and Electric Equipment, which increased from $0.686 million to $1.9 million.

c. Account 557, Other Expenses, which decreased from $6.7 million to a credit of $0.57 million.

d. Account 561, Load Dispatching, which decreased from $1.9 million to $0.7 million.

e. Account 566, Miscellaneous Transmission Expenses, which increased from approximately zero to $3.7 million.

f. Account 904, Uncollectible Accounts, which decreased from $1.7 million to $0.85 million.

g. Account 926, Employee Pensions and Benefits, which decreased from $24.0 million to $20.4 million.

h. Account 928, Regulatory Commission Expenses, which increased from approximately zero to $1.1 million.

i. Account 935, Maintenance of General Plant and Equipment, which decreased from $6.1 million to $4.9 million.

64. Refer to Volume 1 of 3, Item 23(a), of the response to Staff's first request. For each of the following gas expense accounts, provide the reasons for the change in the amount of expense from the 12 months immediately preceding the test year to the 12 months of the test year.

a. Account 874, Mains and Services Expenses, which increased from $2.5 million to $3.4 million.

b. Account 887, Maintenance of Mains, which increased from $4.7 million to $6.3 million

c. Account 802, Maintenance of Services, which increased from $1.0 million to $2.2 million.

d. Account 904, Uncollectible Accounts, which decreased from $2.5 million to $0.65 million.

e. Account 923, Outside Service Employed, which increased from $1.0 million to $2.0 million.

f. Account 926, Employee Pensions and Benefits, which decreased from $6.3 million to $5.2 million.

65. Refer to Volume 1 of 3, Item 24, of the response to Staff's first request. Employees of the bargaining unit received salary/wage increases during the test year of 3.5 percent. Non-union salaried employees received increases ranging from 3.5 to 3.7 percent. Based on the timing and magnitude of the increases, explain whether the non-salaried employees' increases are generally intended to "track" the percentage increase of the union employees.

66. Refer to Volume 1 of 5 of LG&E's application, Tab 8, proposed P.S.C. No.14, Original Sheet No. 20, and the report filed by LG&E on July 18, 2008 which provided its review of the Small Commercial Time-of-Day ("STOD") Rate pilot program. It appears that if the STOD tariff is cancelled, customers who meet the load requirements would be eligible to take service under the proposed Time-of-Day Service ("TOD").

a. For the TOD rate, explain why LG&E is proposing an on and off-peak demand charge and eliminating the on and off-peak energy charge.

b. If the proposed TOD rate had been in effect for the past 12 months, provide the effect it would have had on the bills of customers currently being billed under the STOD rate.

67. Refer to pages 4 and 5 of the Cockerill Testimony. Mr. Cockerill states that in Case No. 2007-00410[4] the Commission ordered LG&E and KU to synchronize their

[4] Case No. 2007-00410, Application of Louisville Gas and Electric Company for Approval of a Revised Collection Cycle for Payment of Bills, final Order dated April 24, 2008.

collection cycles and late payment policies or explain why it is not appropriate to do so. In this proceeding and in Case No. 2008-00251,[5] KU and LG&E are proposing a collection cycle of 10 days and a late payment penalty if bills are not paid within 15 days.

a. Explain in detail why LG&E is proposing to use KU's 10-day collection cycle rather than maintain LG&E's current 15-day collection cycle.

b. Provide a list including name, physical address and mailing address of all locations from which customer monthly bills are sent.

c. Provide a list of all call centers receiving customer inquiries along with the physical address, mailing address and telephone numbers provided to the customers.

d. Provide a listing of all locations where customer payments are received.

e. Provide a listing of all locations where customer payments are processed (i.e., posted to customer accounts).

f. Provide the timeline for the posting of payments to customer accounts.

68. Refer to Volume 1 of 5 of LG&E's application, Tab 8, proposed P.S.C. 14 Original Sheet 102.

a. Provide a copy of all credit scoring services, public record financial information, financial scoring and modeling services and information provided by independent credit/financial watch services used by LG&E.

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[5] Case No. 2008-00251, Application of Kentucky Utilities Company for an Adjustment of Base Electric Rates.

b. Will the mailing of a late payment notice be considered as a negative for the customer and used as a requirement for a new or recalculated deposit? If yes, how and when will the increased deposit be applied to a current customer that has a deposit on file?

69. Refer to SLC Exhibit 2, page 1 of 1, and SLC Exhibit 4, page 1 of 1. Explain why the average hourly rate for all employees is shown as $41.26 on Exhibit 2 and $54.69 on Exhibit 4.

70. Refer to SLC Exhibit 3, page 1 of 1 of the Cockerill Testimony. Provide the cost support detail for the labor, transportation, supplies and equipment used to calculate the $14.50 cost per service order.

71. Refer to page 70 of the Seelye Testimony. Mr. Seelye states that allocation factors YECust05 and YECust06 were used to allocate meter reading, billing costs, and customer service expenses on the basis of a customer weighting factor based on discussions with LG&E's meter reading, billing and customer service departments.

a. Explain how these discussions were used to determine the allocation factors.

b. Provide examples of questions asked and how the answers were used to calculate the factors.

72. At account 173 - Accrued Utility Revenues, the Uniform System of Accounts states that "[i]n case accruals are made for unbilled revenues, they shall be made likewise for unbilled expenses, such as for purchased power."

a. State the amount of all "unbilled expenses," by account, which was accrued in concurrence with the recording of unbilled revenues as required by the USoA.

b. State why the "unbilled expenses" were not removed from test year operations following the removal of the unbilled revenues.

73. Refer to page 56 of the Seelye Testimony.

a. Provide a list of any instances including utility name, case number and jurisdiction where Mr. Seelye has proposed and a utility regulatory commission has accepted the exact method of analysis used in this case to develop a temperature normalization adjustment for an electric utility.

b. From the list provided in response to (a), provide copies of the commission final Orders for the two most recent cases approving the temperature normalization method used by Mr. Seelye.

c. Provide a list of any instances including utility name, case number and jurisdiction where Mr. Seelye has proposed and a commission has rejected the exact method of analysis used in this case to develop a temperature normalization adjustment for an electric utility.

d. From the list provided in response to a., provide copies of the commission final orders for the two most recent cases denying the temperature normalization method used by Mr. Seelye.

74. In Case No 2007-00564, LG&E has proposed to switch from the average life group method to the equal life group method. In that case, LG&E also calculated depreciation using the average life group method.

a. Provide workpapers used to derive LG&E's 2006 depreciation expense that demonstrate the core differences between average life group method and equal life group method for LG&E.

b. Explain why the decision was made to switch from average life group method to the equal life group method.

c. Provide a list of cases known to Mr. Spanos where a regulatory commission has explicitly accepted the equal life group method where the issue was fully litigated.

d, Provide the two most recent orders in which a regulatory commission explicitly accepted the equal life group method at the recommendation of Mr. Spanos.

e. Provide the two most recent orders in which a regulatory commission explicitly rejected the equal life group method recommended by Mr. Spanos.

75. Refer to Exhibit 1, Reference Schedule 1.14 of the Rives Testimony.

a. Provide a schedule in the same format as used in Case No. 2007-00564 in the Application and Testimony at Exhibit 2 comparing test year depreciation expense to depreciation expense calculated using the proposed rates. This schedule should not include reflect the impact of annualization. It should only demonstrate the impact of using the proposed depreciation rates compared to the existing depreciation rates.

b. Using the schedule provided in a. demonstrate the test year annualization adjustment.

76. Refer to page 12 of the Rives Testimony and Reference Schedule 1.14 of Exhibit 1 to the testimony.

a. Provide a schedule in the same format shown in Case No. 2007-005645 in the Application and Testimony at Exhibit JJS-KU, page III-4 detailing the calculation of test year depreciation expense as shown at Exhibit 1, Reference Schedule 1.14, of the Rives Testimony. This schedule should not reflect the impact of annualization of plant balances at test year-end. This response should also indicate which assets are considered to be post-1995 ECR assets and ARO assets. If post-1995 ECR assets and ARO assets are not included on this schedule, provide a separate schedule detailing their depreciation.

b. Provide a schedule in the same format as provided in a. recalculating test year depreciation using depreciation rates based on the average life group method. This schedule should not reflect the impact of annualization of plant balance at test year-end. This response should also indicate which assets are considered to be post-1995 ECR assets and ARO assets. If post-1995 ECR assets and ARO assets are not included on this schedule, provide a separate schedule detailing their depreciation.

77. a. In Case No. 2003-00433 the Commission's June 30, 2004 Order reduced LG&E's capitalization to account for the removal ARO assets. Has LG&E adjusted its capitalization in this case to remove ARO assets? If no, explain.

b. State the amount of the adjustment necessary in this case to follow the method used in the Commission's Order to adjust LG&E's capitalization to account

for the removal of ARO assets. Show the calculation of the adjustment and its impact on LG&E's capitalization.

78. Explain whether AROs are included in the estimated cost of removal as stated as a percentage of original costs in the depreciation study submitted in Case No. 2007-00564.

79. Refer to Exhibit 1, Reference Schedule 1.33, of the Rives Testimony and pages 6-7 of the Scott Testimony.

a. Provide the amount of the coal tax credits applied against property taxes by KU for each year since the inception of the credit.

b. Provide the amount of the coal tax credit first applied against income for each year since the inception of the credit.

c. To what portion of income taxes must the credit first be applied before the credit can be applicable to property taxes?

80. Refer to Exhibit 1, Reference Schedule 1.41, of the Rives Testimony.

a. Provide workpapers and tax returns supporting the 2006 federal and state tax "true-ups" and the Kentucky Coal Credit adjustment.

b. Provide the tax returns on which the basis for the "true-ups" originated.

c. Provide a detailed description of the "true-ups" and explain why it is appropriate to include them in rates.

81. Refer to Exhibit 1, Reference Schedules 1.33 and 1.41 to the Rives Testimony. Explain why it is appropriate to remove the coal tax credits from test year operations for rate-making purposes.

82. Refer to page 7 of the Thompson Testimony.

a. Discuss fully the tightening of environmental constraints and its impact on the retirement dates of generating facilities. This discussion should specifically address anticipated EPA regulations and their impact on specific generating units.

b. Discuss how the uncertainty of the retirement dates of the generating units discussed in a. was accounted for in the depreciation study submitted by LG&E in Case No. 2008-00564.

83. Refer to page 9 of the Bellar Testimony which discusses the proposed unbilled revenue adjustment.

a. Describe the methods used to calculate and record unbilled revenues. This should include discussion of accruals and subsequent reversals to all accounts used to account for unbilled revenues.

b. Explain whether LG&E accrues unbilled revenues on a monthly basis.

c. If yes to (b), provide a schedule showing all entries to all accounts affected by the accounting for unbilled revenues for each month of the test year and workpapers, calculations, etc., showing how the amounts were determined.

84. Provide workpapers demonstrating that the test year sales volumes as shown in the billing analysis in Exhibit 3, pages 2 through 24, of the Seelye Testimony includes a full 12 months' usage for all customers. These workpapers should include a comparison of customer billing cycles for the month preceding the test year and the last month of the test year.

85. Compare and contrast, in full detail, the method used by Mr. Seelye to develop his weather normalization adjustment as discussed in his testimony to the methods used by LG&E weather normalize revenues and expenses when developing annual budgets and forecasts.

86. Refer to Exhibit 21, page 1, of the Seelye Testimony. For each rate class shown, provide the number of customers for each month used to calculate the 13-month average. If Exhibit 21 is based on a 12-month average, provide a revised Exhibit 21 utilizing a 13-month average which includes the number of customers at the beginning of the test year (May 1, 2007) and at the end of the test year (April 30, 2008).

87. Refer to Exhibit 1, Reference Schedule 1.08, of the Rives Testimony.

a. Explain the process through which LG&E markets, negotiates, finalizes, and delivers brokered sales. This explanation should discuss who LG&E's existing brokerage customers and potential brokerage customers are, how brokered sales are priced, delivered, and recorded on the books, and the resources used in this process.

b. The following accounts were taken from Volume 1 of 3 of LG&E's response to Staff's first request, Item 13. Provide a schedule showing all entries to these accounts during the test year. A description of each entry should be included along with customer names.

447200 - Brokered Purchases;

447210 - Settled Swap Expense;

447220 - Settled Swap Expense – Proprietary;

447221 - Settled Swap Expense – Proprietary – Netting

c. Explain the accounting process employed by LG&e to ensure that all expenses related to brokerage sales are accounted for properly in the accounts listed in (b) instead of being incorrectly charged to operation and maintenance expenses.

d. Provide a discussion describing KU's trading sales activities.

88. Refer to Exhibit 1, Reference Schedule 1.09, of the Rives Testimony.

a. Provide a calculation for each of the accrued revenues shown.

b. For each of the accrued revenue items, state the account, number and name, in which it is recorded in the trial balance provided in Volume 1 of 3 of LG&E's response to Staff's first request, Item 13.

89. Refer to Exhibit 1, Reference Schedule 1.15, page 2, of the Rives Testimony.

a. Provide workpapers supporting the construction/other labor rate of 21.3 percent. These workpapers should separate construction labor from other labor. Provide a detailed description for all entries on these workpapers for other labor.

b. Provide workpapers supporting the calculation of:

(1) Number of union employees and gross pay of 665 and $38,582,482, respectively.

(2) Number of exempt employees and gross pay of 212 and $18,075,790, respectively.

(3) Number of non-exempt employees and gross pay of 87 and $3,772,476, respectively.

(4) Number of exempt SERVCO employees and gross pay allocated to LG&E of 331 and $28,923,371, respectively.

(5) Number of non-exempt SERVCO employees and gross pay allocated to LG&E of 102 and $4,148,040.

(6) The SERVCO allocation percentage to LG&E of 42.1 percent.

(7) The union overtime premium.

(8) Non-Exempt/SERVCO overtime/Premium.

90. Refer to Item 13 in Volume 1 of 3 of the response to Staff's first request.

a. Provide a schedule listing all accounts shown in Volume 1 of 3, Item 13 to which salaries and payroll overheads were reported for LG&E employee salaries and salary overheads during the test year. State the amount of salaries and each individual payroll overhead charged to each account separately.

b. Provide a schedule listing all accounts as shown in Item 13 to which salaries and payroll overheads were reported by LG&E for services provided by SERVCO employees during the test year. State the amount of salaries and each individual payroll overhead charged to each account separately.

c. Provide a schedule listing all accounts as shown in Item 13 to which salaries, other compensation and payroll overheads were reported by LG&E during the test year for services provided by the executive employees listed in Volume 3 of 3 of LG&E's response to Staff's first request, Item 46. State the amount of salaries, other compensation and each individual payroll overhead charged to each account separately.

d. Provide a schedule listing all accounts as shown in Volume 1 of 3 of LG&E's response to Staff's first request, Item 13, to which salaries and payroll

overheads were reported by LG&E for services provided by KU employees during the test year. State the amount of salaries and each individual payroll overhead charged to each account separately.

e. Provide a schedule listing all accounts as shown in Volume 1 of 3 of LG&E's response to Staff's first request, Item 13 to which any salaries, other compensation and payroll overheads were reported during the test year that are not captured in the responses to (a), (b), (c), and (d). State the amount of salaries, other compensation and each individual payroll overhead charged to each account separately. Provide an employer name for all employees included in this response.

91. Refer to Volume 3 of 3 of LG&E's response to Staff's first request, Item 46.

a. State the name of the employer of each executive officer.

b. Provide a list of "other compensation" paid to each executive officer separately stating the amount and description of each component of other compensation.

c. For each executive officer whose annual salary increased by more than 3.7 percent, describe in detail the reason(s) for the officer's annual increase being greater than the increase granted to other employees during the test year.

d. Provide all executive salary studies and surveys relied upon to determine the test year and pro forma level of executive employee compensation.

e. At page 1 it is stated that 35.3 percent of the executive pay was included in the cost of providing service to LG&E ratepayers.

(1) Provide a schedule detailing the distribution of each individual's salary listed on page 1 to LG&E and each of LG&E's affiliates separately. The total for LG&E on this schedule should equal 32.5 percent of the total distributed salary. On this schedule show separately the amounts that were directly assigned to LG&E and each of its affiliates from the amounts that were allocated.

(2) For each allocation provided in response to (1), state the method of allocation and explain why the method of allocation is appropriate.

f. At page 1 it is stated that 4.2 percent of other compensation is included in the cost of providing service to LG&E ratepayers.

(1) Provide a schedule detailing the distribution of each individual's other compensation listed on page 1 to LG&E and each of LG&E's affiliates separately. The total for LG&E on this schedule should equal 4.2 percent of the total distributed other compensation. On this schedule show separately the amounts that were directly assigned to LG&E and each of its affiliates from the amounts that were allocated.

(2) For each allocation provided in response to (1), state the method of allocation and explain why the method of allocation is appropriate.

92. Refer to Reference Schedule 1.15 of Exhibit 1 to the Rives Testimony.

a. Provide the total operating costs of SERVCO for the test year.

b. Provide a schedule detailing the full distribution of SERVCO's operating costs as reported in (a) to LG&E and LG&E's affiliates. Separate directly assigned costs from allocated costs on this schedule.

c. Provide the allocation factor used for the allocated costs reported in (b) and explain how each allocation factor is appropriate.

d. Provide a schedule detailing all charges by LG&E to SERVCO.

93. For the test year actual, test year adjusted and calendar year and 2007:

a. Provide the total annual costs of pensions, post-retirement benefits, and post-employment benefits for LG&E with the total costs for each period separate into the following components: Service Costs, Interest Costs, Return on Assets, Amortization of Transition Obligation, Amortization of Prior Service Costs and Gains and Losses.

b. Provide the actuarial studies relied upon to respond to item (a) for the test year actual and test year adjusted. Demonstrate how the test year actual and test year adjusted were derived from these studies.

c. On the schedule provided in a. apply the capitalization rate used to determine LG&E's annual expense for each year in the analysis and state how the capitalization rate was determined.

94. Refer to Volume 1 of 3 of LG&E's response to Staff's first request, Items 30(a) and 30(b).

a. Provide the level of conservation advertising reported for the years 2007, 2006, and 2005.

b. Discuss the decision making process when determining whether an advertising expense is institutional (not includable for rate recovery) or conservation (includable for rate recovery). Include in this discussion how advertisements that

include both institutional and conservation advertising are split into these two categories of expense.

c. Explain why LG&E ratepayers should fund payments to the Chambers of Commerce included in account 930904.

d. What is the E.ON Loyalty Survey and explain why LG&E ratepayers should fund payments for it.

e. Describe the nature of each charge to account 930904 for JD Power and Associates, Chartwell Inc., Management Consultant, Schmidt Consulting, and Guideline and explain why these expenses should be funded by KU ratepayers.

95. Refer to Exhibit 1, Reference Schedule 1.25 of the Rives Testimony and Volume 1 of 3 of LG&E's response to Staff's first request, Item 13.

a. Using the accounts provided in Item 13, provide a schedule of test year expenses paid to OVEC and state the basis for each charge.

b. Explain how the change from allocating demand charges based on the percent of generation contributed to off-system sales to allocating demand charges based on ownership share better aligns OVEC charges used to serve native loads. This response should explain the relationship between native load use and ownership share.

96. Refer to Exhibit 1, Reference Schedule 1.26, of the Rives Testimony and to Volume 3 of 3 of LG&E's response to Staff's first request, Item 57(b). Provide the actual rate case expenses incurred for LG&E's previous rate case.

97. Refer to Exhibit 1, Reference Schedule 1.31, of the Rives Testimony.

a. Provide the average per gallon costs for fuel for each of the 5 months immediately preceding April 2008.

b. Provide the average per gallon costs of fuel for each month subsequent to the test year up to and including August 2008.

98. Describe the safeguards in place to protect LG&E from unauthorized employee use of its credit cards and credit accounts.

99. a. For the test year and the 3 previous calendar years provide the annual expense incurred by LG&E for contracted labor related to the following services.

Vegetation Management

Storm Damage

Meter Reading

Maintenance Contracts

Temporary Clerical/Accounting Services

Temporary Legal

b. Explain how LG&E selects the contractors providing the services listed in (a) and how it ensures that it is securing a competitive market based cost.

100. Provide a discussion of LG&E's current vegetation management program and explain any changes made to that program since LG&E's last general rate case.

101. Provide an analysis showing test year amortization of debt issuance costs and debt discounts and premiums.

102. List all adjustments to its test that were developed and contemplated by LG&E when preparing its application but were not included in its application. Explain why LG&E decided not to include these adjustments in its application.

103. Refer to Volume 2 of 3 of KU's response to Staff's first request, Item 31, concerning outside legal services. For each of the outside legal service providers listed below, describe the legal service provided and indicate whether the level of expense constitutes a recurring expense.

1) Boehl Stopher and Graves, LLP

2) Frost Brown Todd, LLC

3) Hunton & Williams

4) Jones Day Reavis & Pogue

5) Stoll Keenon and Ogden PLLC

104. For the 3 most recent years for which tax returns have been filed, provide a list of the companies that have filed a consolidated federal income tax return with LG&E. Identify which companies are regulated and which are not. For each year provide the taxable income or tax losses incurred by each company.

105. For the 3 most recent years for which tax returns have been filed, provide a list of the companies that have filed a consolidated state income tax return with LG&E. Identify which companies are regulated and which are not. For each year provide the taxable income or tax losses incurred by each company.

106. Refer to Volume 1 of 3 of LG&E's response to Staff's first request at Item 4(a), page 3 of 3, which includes among the list of long-term debt instruments several issuances of variable rate "Pollution Control Bonds" which the Commission has granted LG&E authority to refinance.

a. For each pollution control debt instrument provide the following:

(1) The anticipated date refinancing will be completed.

(2) The anticipated cost rate to maturity.

(3) Updates to this request as new information becomes available.

b. If the specific cost rates to maturity cannot be reasonable estimated at the time of this response, state whether the anticipated cost rates are expected to be higher or lower than those shown in Item 4(a), page 3 of 3.

107. Refer to pages 21-23 of the Rives Testimony.

a. Provide the article entitled "U.S. Utilities Ratings Analysis Now Portrayed in the S&P Corporate Ratings Matrix" dated November 30, 2007.

b. The testimony states that LG&E is committed to maintaining its financial strength. Mr. Rives states that based on the financial scoring systems established by Standard and Poor's, LG&E has targeted an equity ratio of 52 percent. The equity ratio in this case approximates the target ratio at 52.48 percent (unadjusted) and 51.35 percent (adjusted to include imputed debt for purchased power agreements). Discuss the anticipated impacts on LG&E's stockholders and its customers, if its equity ratio dropped significantly below the target. When responding, include discussion of LG&E's resultant financial score using Standard and Poor's scoring system. Explain how these scores could limit LG&E's future access to attractively priced debt.

108. Does Fidelia Corporation provide financing to any companies outside of the E.ON AG family? If yes, state the percentage of loans outside of the E.ON AG family to total loans issued by Fidelia.

109. Provide the capital structures for years 2007, 2006, and 2005 for the 17 entities included in Mr. Avera's Utility Proxy Group as shown on Schedule WEA-1 of the

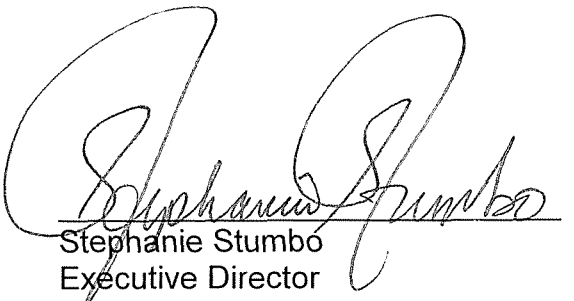
Avera Testimony. Also provide the cost of each debt and preferred stock component in the capital structures and the most recent authorized return on common equity.

110. Refer to Volume 1 of 5 of LG&E's application, Tab 7, at gas tariff sheet No. 30, Rate FT, and gas tariff sheet No. 50, Rate TS, and Volume 4 of 5 at pages 8-9 of the Murphy Testimony. A comparison of these transportation service tariffs to the transportation service tariffs of Kentucky's other major gas distribution utilities, Atmos Energy Corporation, Columbia Gas of Kentucky, Inc. ("Columbia"), Delta Natural Gas Company, Inc., and Duke Energy Kentucky, Inc., shows that only LG&E has tariffs that contain a minimum daily volume requirement, which, in the case of LG&E is 50 Mcf at each individual delivery point. Rate TS includes an alternate minimum volume requirement of 50,000 Mcf annually at each individual delivery point.

a. Even though LG&E is not proposing to change these volume requirements as part of this case and these requirements have been in existence for a number of years, explain in detail why it is necessary for LG&E's transportation service tariffs to include a minimum daily volume requirement.

b. The alternate annual volume requirement of 50,000 Mcf in the Rate TS tariff is twice the size of the next largest volume requirement among Kentucky's other major gas utilities, Columbia's 25,000 Mcf requirement. Explain in detail why it is necessary for the alternate annual volume requirement for Rate TS to be at this level.

c. Describe the extent to which LG&E periodically reviews its tariffs in conjunction with changes within the natural gas industry to determine whether changes to items contained in its tariffs, such as minimum volume requirements for transportation service, might be in order.



Stephanie Stumbo
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DATED: August 27, 2008

cc: Parties of Record

Case No. 2007-00564
Case No. 2008-00252