COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF GAS AND ELECTRIC RATES)
OF LOUISVILLE GAS AND ELECTRIC COMPANY) CASE NO. 10064

O R D E R

IT IS ORDERED that the Kentucky Industrial Utility Customers ("KIUC") shall file an original and 16 copies of the following information with the Commission with a copy to all parties of record within 7 days of receipt of this Order, but no later than March 10, 1988. If the information cannot be provided by this date, KIUC should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

The following questions are addressed to Mr. Kollen:

1. Please explain how the inflation and growth factors included in Exhibit LK-5 were determined. Include workpapers and a narrative explanation of assumptions.

2. Other than the apparent lack of justification for the increased operation and maintenance ("O&M") expenses, explain why you are advocating an O&M benchmark expense mechanism in this proceeding?

3. Does the Florida Public Service Commission utilize an O&M expense containment mechanism in each of its general rate proceedings?

4. What other commissions use this type of mechanism in general rate proceedings?

5. Have you attempted to analyze the specific cost increases to determine their reasonableness?

6. Have you requested information related to the specific cost increases from Louisville Gas and Electric Company ("LG&E")?

7. Please explain why you agree with the first component of LG&E's labor adjustment which increases operating expenses by $784,852?

8. Please explain to the best of your knowledge how this adjustment of $784,852 for labor expense was determined?

The following questions are addressed to Mr. Baron:

1. Please explain why KIUC believes that the Trimble County Unit should have been cancelled by summer 1987.

2. Please explain why you believe that the sunk costs should be amortized over 35 years, the expected life of the Trimble County Unit.

3. Do you believe that a regression analysis, such as shown in Ryan Exhibit 5, if performed on a class-by-class basis using degree days as the only independent variable, would be sufficient to reasonably determine an estimate of weather sensitivity? Explain why or why not.

4. Please explain why the use of an average fuel and O&M value is inappropriate for weather normalization adjustments and why the incremental cost is appropriate.

5. Please explain how and why you determined that the most reasonable cooling degree day regression model was one that used

an indicator variable when the average temperature of the day exceeds 75 degrees. Why is this temperature more appropriate than 65 degrees?

6. Please explain how and why you determined that the data base for the heating degree day regression model should be limited to those days where the average temperature was 56 degrees or lower.

7. In Exhibit SJB-5 you present the results of a multiple regression run in which the independent variables are cooling degree days ("CD") and an indicator variable ("CDX"), which measures average daily temperatures exceeding 75 degrees. CDX has a corresponding t-statistic of 2.00757. Using a two-tailed t-test with 95 percent confidence, this t-statistic implies that the variable CDX is on the boundary between being a significant explanatory variable (i.e., different from zero) and an insignificant explanatory variable (i.e., equal to zero). Since the explanatory power of CDX is questionable, have you considered a regression model excluding CDX? Provide the results of such a regression run.

8. The regression equation estimated in Exhibit SJB-5 has a negative intercept. This implies that on a day when the average temperature is 65 degrees (i.e., CD=0, CDX=0) usage will be -18,415 KWH. Explain how negative KWH usage is possible.

The following questions are addressed to Mr. Eisdorfer:

1. On page 10, line 15 of your testimony, you state that LG&E allocated the cost of gas stored underground (current) to transportation service. Substantiate this claim by describing

where in the company's cost-of-service study this allocation is made.

2. Provide all workpapers used to develop Exhibit KE-1, Schedule 2.

3. Describe the methodology you used in disaggregating LG&E's non-residential Rate G-1 and Rate G-6 categories.

4. If not included in the workpapers for Exhibit KE-2, Schedule 2 requested above, describe the methodology used in allocating gas stored underground (current) to sales service.

5. Provide all workpapers used to develop Exhibit KE-1, Schedule 3.

Done at Frankfort, Kentucky this 29th day of February, 1988.

PUBLIC SERVICE COMMISSION

Richard D Heman Jr
For The Commission

ATTEST:

Executive Director