COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF AN ALTERNATIVE METHOD OF REGULATION OF ITS RATES AND SERVICES	) CASE NO. 98-426

O R D E R

IT IS ORDERED that the Kentucky Division of Energy (KYDOE), Department of Defense (DOD), and the Kentucky Industrial Utility Customers, Inc. (KIUC) shall file with the Commission the original and 12 copies of the following information relating to their respective witnesses no later than April 27, 1999, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

KYDOE Witness G. M. Young

1. Refer to page 5 of Geoffrey M. Young s Testimony. Is it Mr. Young s understanding that the price cap referenced in the LG&E performance-based regulation (PBR) proposal is a part of this proposal or a preexisting condition in the merger case involving LG&E Energy Corp. and KU Energy Corp.?

2. Refer to page 5 of Mr. Young s Testimony, concerning the LG&E Demand Side Management (DSM) Collaborative.

a. Was Mr. Young aware that the LG&E DSM Collaborative was established prior to the enactment of KRS 278.285?

b. Was Mr. Young aware that the programs proposed by LG&E and the DSM Collaborative were developed and submitted for Commission approval under the terms of the Collaborative s Principles of Agreement and not the provisions of KRS 278.285?

c. Does the KYDOE participate in the LG&E DSM Collaborative? If yes, describe KYDOE s role in the Collaborative.

d. Did the KYDOE participate in any of the LG&E DSM Collaborative proceedings when the Commission considered new DSM programs or revisions to existing DSM programs?

3. On page 6 of Mr. Young s Testimony it is stated, Under the status quo, LG&E faces no financial penalty for failing to implement cost-effective DSM programs.

a. Define what Mr. Young means by the phrase cost-effective DSM.

b. Has Mr. Young performed an analysis or study of what DSM programs would be cost-effective for LG&E? If yes, what were the results of his analysis or study?

c. For each of the traditional DSM cost/benefit tests listed below, indicate whether Mr. Young supports the use of the particular test when determining if a DSM program is cost-effective.

(1) Total Resource Cost Test.

(2) Ratepayer Impact Measure Test.

(3) Utility Cost Test.

(4) Participants Test.

4. Refer to page 9 of Mr. Young s Testimony. Did the KYDOE participate in LG&E s most recent integrated resource plan filing with the Commission?

5. Page 9 of Mr. Young s Testimony begins a discussion of revenue indexing and the establishment of a Z-factor as an alternative to LG&E s proposed PBR.

a. How many states have adopted revenue indexing to address the problem of lost revenues associated with DSM programs? Provide a listing of the states.

b. Does Mr. Young propose that all of LG&E s revenues be covered by his revenue indexing plan, or only those associated with DSM programs?

c. How familiar is Mr. Young with the DSM cost recovery mechanism in place at The Union Light, Heat and Power Company? Is the KYDOE a participant in that company s DSM collaborative?

d. How many states have adopted the statistical recoupling method mentioned by Mr. Young on page 11 of his testimony? Provide a list of the states.

e. Explain in detail why Mr. Young did not propose a precise specification of the Z-factor to be included in the LG&E PBR formula.

6. Refer to page 13 of Mr. Young s Testimony.

a. Provide a listing of the states that have instituted net metering.

b. Did any of these states institute net metering in conjunction with that state s compliance with the Public Utility Regulatory Policies Act of 1978? If yes, identify the states.

DOD Witness K. L. Kincel

7. Refer to page 9 of the Direct Testimony of Kenneth L. Kincel. For each of the adjustment clauses or surcharges listed below, indicate whether Mr. Kincel would propose to continue the item in addition to the earnings sharing mechanism proposed. Explain why the item would or would not be continued.

a. Fuel Adjustment Clause.

b. Environmental Surcharge.

c. Demand Side Management Rider.

8. Concerning the earnings sharing mechanism proposed by Mr. Kincel:

a. Explain why Mr. Kincel believes a deadband of plus or minus 1 percent is reasonable for LG&E.

b. If the Commission were to adopt the earnings sharing mechanism proposed by Mr. Kincel, explain why Mr. Kincel has assumed that the rate ceiling imposed by the merger Order would remain in effect.

c. Assume that the Commission adopts Mr. Kincel s earnings sharing mechanism and at the same time eliminates the rate ceiling. Explain how this mechanism would work if LG&E s rate of return on common equity fell below the low end of the proposed deadband.

d. Has Mr. Kincel performed an analysis or study of LG&E s exposure to stranded assets relating to its utility plant? If yes, what were the results of the analysis or study?

e. Has Mr. Kincel performed an analysis or study of LG&E s exposure to stranded assets relating to regulatory assets? If yes, what were the results of the analysis or study?

f. Assume that LG&E has a very low risk of potential stranded assets. Would Mr. Kincel still propose that one-third of earnings above the high end of the deadband be used for accelerated depreciation of utility plant and/or accelerated write-off of regulatory assets? Explain the response.

9. A witness for KIUC has stated in his direct testimony that there is no reason to establish a deadband above the fair rate of return. The witness contends that the establishment of a deadband provides LG&E with the opportunity to retain 100 percent of its excess earnings above the fair rate of return up to the upper limit of the deadband, which is inequitable to ratepayers. Since Mr. Kincel has proposed a deadband, what comments does he have concerning the position of the KIUC witness?

<u>KIUC Witness R. A. Baudino</u>

10. Refer to page 21 of the Direct Testimony of Richard A. Baudino. For each of the companies included in the comparison group, provide a profile summary similar to that presented for LG&E on page 10, lines 6 through 13, of Mr. Baudino s Direct Testimony.

11. Concerning the companies included in Mr. Baudino s comparison group:

a. Identify the holding companies included in the comparison group.

b. Identify which companies are not combination gas and electric companies.

c. Identify the companies included in the comparison group whose primary service territory covers more than one state.

12. Concerning Mr. Baudino s discounted cash flow (DCF) analysis:

a. Explain in detail why it would be appropriate to compare LG&E with holding companies in the DCF analysis.

b. Explain in detail why it would be appropriate to compare LG&E with companies that are not combination gas and electric companies.

c. Explain in detail why it would be appropriate to compare LG&E with companies whose primary operations cover more than one state.

13. Refer to Exhibit RAB-2 in Mr. Baudino s Direct Testimony. Does the Selected Financial Data reflect LG&E s combined operations or electric operations only? If the information reflects combined operations, explain why it is appropriate to use this information rather than information on electric operations only.

<u>KIUC Witness L. Kollen</u>

14. Refer to page 14 of the Direct Testimony of Lane Kollen, concerning the pro forma adjustment to annualize base revenues for growth in customers and sales.

a. Is this adjustment similar to a year-end customer adjustment that is often made in a general rate case proceeding? If no, explain how this adjustment would differ from a year-end customer adjustment.

b. Explain how Mr. Kollen determined his growth percentages and why these percentages are reasonable.

15. Refer to page 17 of Mr. Kollen s Direct Testimony. Concerning Mr. Kollen s earnings sharing mechanism:

a. Explain in detail why Mr. Kollen proposes to retain the fuel adjustment clause for LG&E.

b. In general, is it correct that most PBR plans do not retain or include mechanisms like the fuel adjustment clause?

c. Is Mr. Kollen proposing the elimination of the environmental surcharge for LG&E as part of his earnings sharing mechanism? If not, provide a clarification of how the environmental surcharge would operate in conjunction with the earnings sharing mechanism.

d. In conjunction with the proposed earnings sharing mechanism, what does Mr. Kollen propose concerning the demand side management mechanism currently in force for LG&E?

16. Assume for purposes of this question that the Commission adopts Mr. Kollen s earnings sharing mechanism and the current LG&E rate cap is eliminated. Explain how the earnings sharing mechanism would work if LG&E s actual rate of return on common equity fell below the level incorporated in the mechanism.

17. Refer to Exhibit LK-3 of Mr. Kollen s Direct Testimony. Concerning the Formula Rate Plan Rider Schedule FRP for Louisiana Power & Light Company (LP&L):

a. The Annual Filing and Review section of the LP&L tariff calls for an initial filing on April 15 of each year, with the review process possibly continuing until August 31 of the same year. Explain why such a review process is reasonable for LG&E.

b. For each of the years this tariff was in effect for LP&L, describe what happened concerning any rate adjustments.

c. This tariff rider was only in effect until June 30, 1998. Indicate whether the tariff rider was terminated or continued. In addition, describe any changes made to the tariff rider if it was continued.

18. The witness for the U. S. Department of Defense has also proposed an earnings sharing mechanism in this proceeding, and recommends that earnings be shared one-third to LG&E, one-third to ratepayers, and one-third be used to accelerate depreciation of utility plant and/or accelerate the write-off of regulatory assets. What is Mr. Kollen s opinion concerning this proposed sharing formula?

19. Reference your direct testimony, Exhibit LK-4.

a. Are these numbers a 12 month average for each year?

b. What is the source of this data? If you are using the PSC monthly FAC reports, cite the page and line number used.

c. Are these numbers fuel cost, the fuel charge appearing on customer bills, or something else?

d. For the year 1997, show the monthly components and how the annual figure is derived.

Done at Frankfort, Kentucky, this 14th day of April, 1999.

By the Commission

ATTEST:

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Executive Director