

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES )  
COMPANY FOR APPROVAL OF AN ) CASE NO. 98-474  
ALTERNATIVE METHOD OF REGULATION )  
OF ITS RATES AND SERVICES )

O R D E R

IT IS ORDERED that the Kentucky Industrial Utility Customers ( KIUC") shall file with the Commission the original and 12 copies of the following information relating to its respective witnesses no later than June 18, 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.

1. Refer to page 3 of the Additional Direct Testimony of Lane Kollen.
  - a. Explain the basis for Mr. Kollen's assumption that the environmental surcharge cost of service would be incorporated into the base revenue requirement and reset to zero concurrent with the effective date of the Commission's base revenue reduction in this proceeding.

b. Describe any adjustments that Mr. Kollen believes would be necessary in order to incorporate the environmental surcharge cost of service into the base revenue requirement.

2. Refer to page 3 of the Kollen Additional Direct Testimony.

a. Explain the basis for Mr. Kollen's assumption that the fuel adjustment clause revenues were equal to recoverable fuel and purchased power expenses during 1998.

b. Has Mr. Kollen performed any analysis to verify if this assumption is reasonable? If yes, provide copies of that analysis.

3. Refer to page 7 of the Kollen Additional Direct Testimony. Explain why Mr. Kollen's proposed adjustment to annualize customer and sales growth only adjusts the revenues of KU, instead of also adjusting expenses.

4. Refer to page 7 of the Kollen Additional Direct Testimony. Provide citations to Orders of this Commission supporting Mr. Kollen's contention that his proposed adjustment for off-system sales is consistent with prior rate-making treatment.

5. Refer to page 8 of the Kollen Additional Direct Testimony. Provide citations to Orders of this Commission supporting Mr. Kollen's contention that his proposed adjustment for transmission service revenues is consistent with prior rate-making treatment.

6. Explain why Mr. Kollen has not proposed a storm damage expense adjustment, as was done for Louisville Gas and Electric Company ( LG&E ).

7. Refer to page 13 of the Kollen Additional Direct Testimony.
  - a. Is Mr. Kollen's proposal to set cash working capital equal to zero consistent with the past practice of this Commission in previous KU general rate cases?
  - b. Can Mr. Kollen provide citations to any previous KU general rate cases where the Commission utilized a lead/lag study instead of the one-eighth formula approach for cash working capital allowance?
  - c. Has the Federal Energy Regulatory Commission (FERC) adopted for electric utilities the same assumption Mr. Kollen cites for gas pipeline utilities? If yes, provide a copy of the FERC decision adopting that approach.
  - d. Provide citations to other state regulatory commission decisions where the commission set the cash working capital allowance equal to zero in lieu of a lead/lag study.
8. Refer to page 14 of the Kollen Additional Direct Testimony.
  - a. Is Mr. Kollen's proposal to set prepayments equal to zero consistent with the past practice of this Commission in previous KU general rate cases?
  - b. Has Mr. Kollen performed an analysis to verify his assumption that the actual cash working capital is or should be sufficiently negative to exceed the prepayments? If yes, provide copies of the analysis. If no, explain why such an analysis has not been performed.
9. Refer to page 14 of the Kollen Additional Direct Testimony. Mr. Kollen states that customer deposits are typically considered customer supplied capital.
  - a. Identify the entities that typically consider customer deposits to be customer supplied capital.

b. What is Mr. Kollen's understanding of the purpose of customer deposits?

c. Has this Commission in previous KU general rate cases considered customer deposits to be customer supplied capital? If yes, provide citations to the appropriate cases.

10. Refer to page 16 of the Kollen Additional Direct Testimony. Assume for purposes of this question that the environmental surcharge revenue requirement was not combined with the base for the test year and the surcharge rate was not reset to zero. Explain how the on-going revenue requirement reduction in the environmental surcharge would be reflected within the structure of Mr. Kollen's calculation of the total electric revenue reduction for KU.

11. Refer to pages 16 and 17 of the Kollen Additional Direct Testimony. The Commission addressed an electric weather normalization proposal for LG&E in Case No. 10064.<sup>1</sup> Has Mr. Kollen compared KU's current proposal with the Commission's concerns expressed in Case No. 10064? If yes, what was the result of this comparison?

12. Refer to Exhibit LK-1, pages 1 and 2 of 4, to the Kollen Additional Direct Testimony.

a. Provide the factor used to convert the Operating Income Surplus to the Revenue Surplus, as shown on Exhibit LK-1, page 1 of 4. Include all supporting calculations, assumptions, and other documentation used to determine the factor.

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<sup>1</sup> Case No. 10064, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company, final Order dated July 1, 1988.

b. Provide the workpapers that support each of the adjustments contained on Exhibit LK-1, page 2 of 4. Include all supporting calculations, assumptions, and other documentation used to calculate the proposed adjustments.

c. Explain why Mr. Kollen did not propose adjustments to reflect the income tax effects of his revenue and expense adjustments or an adjustment for interest synchronization for KU.

13. Refer to Exhibit LK-1, page 3 of 4, to the Kollen Additional Direct Testimony.

a. Explain in detail why Mr. Kollen has included KU's investment tax credit as a component of capitalization.

b. Was Mr. Kollen aware that KU elected a different tax treatment for its investment tax credits than that selected by LG&E?

c. Explain how Mr. Kollen's treatment of KU's investment tax credit is consistent with prior Commission decisions in KU general rate cases. Include citations to appropriate rate cases.

14. Refer to Exhibit LK-1, page 4 of 4, to the Kollen Additional Direct Testimony.

a. Explain in detail why net regulatory assets and liabilities have been included in the rate base calculations.

b. Explain why Mr. Kollen included the same amount of investment tax credit in his rate base calculations as was included in his capitalization for KU.

c. Indicate how the inclusion of these items in rate base is consistent with previous Commission decisions in KU general rate cases. Include citations to appropriate rate cases.

15. Refer to page 14 of the Response Testimony of Lane Kollen. Assume for purposes of this question that the Commission adopts KIUC's proposed Earnings Sharing Mechanism ( ESM ) for KU in total. Provide a schedule listing all the items that would be filed by KU in conjunction with the earnings determination required by the ESM.

Done at Frankfort, Kentucky, this 7<sup>th</sup> day of June, 1999.

By the Commission

ATTEST:

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Executive Director