COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS ORDERED that Kentucky Utilities Company (KU) shall file with the Commission the original and 12 copies of the following information no later than July 26, 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. a. Provide a Kentucky jurisdictional income statement for KU for the year ending December 31, 1998 showing the test period actual amounts, KU s proposed adjustments, and an adjusted test period. KU shall use the same format used for its quarterly financial statements filed with the Commission,[1] except that Operation Expenses and Maintenance Expenses shall be broken into the following categories:

1) Production Expenses Operations.

2) Production Expenses Maintenance.

[1] See Case No. 97-300, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger (September 12, 1997) at 27.

3) Purchased Power Expenses.

4) Transmission Expenses Operations.

5) Transmission Expenses Maintenance.

6) Distribution Expenses Operations.

7) Distribution Expenses Maintenance.

8) Customer Accounts Expenses.

9) Customer Service and Information Expenses.

10) Sales Expenses.

11) Administrative and General Expenses.

All adjustments shall be shown separately. The income tax effects of each adjustment shall be summarized as a single adjustment to income taxes.

b. Provide a schedule in support of the information provided in response to Item 1(a) that shows the determination of the Kentucky jurisdictional information. This schedule shall include the total company amount, the amount relating to other jurisdictions, and the Kentucky jurisdictional amount. It shall also include all allocation factors for these calculations.

c. Provide detailed workpapers that support each proposed adjustment. These workpapers shall include all calculations, assumptions, and other documentation used in determining the proposed adjustments.

d. For the test period ending December 31, 1998, provide a schedule indicating the amount of each cost or expense allocated to KU by KU Energy Corp., LG&E Energy Corp., or their subsidiaries. This schedule shall identify the source of the allocated cost or expense, the total amount allocated, and the methodology used to make the allocation.

e. Provide the Kentucky jurisdictional balance sheet for KU as of December 31, 1998. The format shall follow that used in the quarterly filings made with the Commission. Include supporting schedules showing how the Kentucky jurisdictional amount was determined. Provide the allocation factors used in calculating the Kentucky jurisdictional amount.

f. Provide a Kentucky jurisdictional net original cost investment rate base for KU, showing the test period actual amounts, the effect of all KU proposed adjustments, and an adjusted test period. The approach shall be consistent with that used in Case No. 8624.[2] If KU proposes to use a different approach, provide a detailed explanation as to why the different approach is required and reasonable.

g. Using the Kentucky jurisdictional net operating income provided in response to Item 1(a) and the Kentucky jurisdictional rate base provided in response to Item 1(f), calculate KU s Kentucky jurisdictional rate of return on rate base for the test period actual and the adjusted test period, respectively.

h. Provide the Kentucky jurisdictional capitalization for KU, showing the test period actual amounts, the effects of all KU proposed adjustments, and the adjusted test period. Provide the Kentucky jurisdictional capital structure for the test period actual and the adjusted test period. The approach shall be consistent with that used in Case No. 8624. If KU proposes to use a different approach, provide a detailed explanation as to why the different approach is required and reasonable.

[2] Case No. 8624, General Adjustment of Electric Rates of Kentucky Utilities.

i. Using the Kentucky jurisdictional net operating income provided in response to Item 1(a) and the Kentucky jurisdictional capitalization provided in response to Item 1(h), calculate KU s Kentucky jurisdictional weighted average cost of capital for the test period actual and the adjusted test period, respectively. Include supporting schedules that show how the cost of debt and preferred stock were determined.

j. Using the adjusted test period returns determined in Item 1(i), and the rate of return on equity that Robert G. Rosenberg recommends in his testimony, calculate KU s revenue requirement sufficiency or deficiency. Show all calculations and state assumptions used to make this determination.

2. For KU s **Kentucky jurisdictional operations**, for the test period and the four previous calendar years, provide:

a. A comparative income statement, using the format previously described herein. For each revenue or expense category in which the change from year to year was 10 percent or greater, state the reason(s) for the change.

b. A comparative schedule showing the number of customers and KWH sales. Use the customer classifications as shown on the income statement provided in response to Item 2(a).

c. A comparative schedule for labor costs and expenses that shows:

1) The number of employees.

2) The total of all labor dollars expended.

3) The total labor costs capitalized.

4) The total labor costs expensed.

5) The total overtime hours.

6) The total of all overtime dollars expended.

7) The total overtime costs capitalized.

8) The total overtime costs expensed.

For each listed component in which the change from year to year was 10 percent or greater, state the reason(s) for the change.

3. Provide for the test period and the two previous calendar years a schedule listing all of KU s regulatory assets and regulatory liabilities. For each asset or liability listed, explain how the item is amortized for accounting purposes.

4. Provide a schedule that lists all costs written off by KU during the test period. For each cost listed, state why it was written off.

5. Refer to Testimony of Michael D. Robinson at 6. Concerning the adjustment for the shareholders costs to achieve the merger savings, provide a detailed explanation as to how the account Other Income Net, which is commonly referred to as a below the line item, can reduce KU s Net Operating Income.

6. Refer to Testimony of Michael D. Robinson at 6-7.

a. Identify the account numbers used by KU to record the shareholder portion of merger savings.

b. Explain in detail how the proposed adjustments to net income and common equity comply with the Commission s Order of September 12, 1997 in Case No. 97-300. Include citations to the appropriate pages of that Order.

7. Refer to Testimony of Michael D. Robinson at 7-8.

a. Given the operation of the environmental surcharge, should the assets, revenues, and expenses associated with the environmental surcharge be excluded from the determination of KU s Kentucky jurisdictional earnings? Explain.

b. Would the exclusion of the assets, revenues, and expenses associated with the environmental surcharge from the determination of KU s earnings be similar to the approach generally used for the fuel adjustment clause revenues and expenses? Explain.

c. Kentucky Industrial Utility Customers (KIUC) has proposed that the environmental surcharge be incorporated into the base revenue requirements determination in this case, and the surcharge reset to zero. What is KU s position on this proposal?

8. Refer to Testimony of Michael D. Robinson at 13-14.

a. Provide copies of all materials distributed to employees about the Team Incentive Awards (TIA).

b. Provide the company and individual performance and goal attainment targets for 1998 and 1999. Explain how these targets were determined.

c. Are any of the performance or goal attainment targets dependent upon KU achieving a specific rate of return or earnings level? Explain.

d. Explain in detail why the expense for TIA increased from $343,290 to $4,869,340.

9. Refer to Testimony of Michael D. Robinson at 15-16.

a. Provide KU s Year 2000 compliance expenses for the following periods:

1) Calendar year 1997 and earlier.

2) Test period 1998.

3) Budgeted or estimated for calendar year 1999.

4) Budgeted or estimated for calendar year 2000.

5) Budgeted or estimated for after calendar year 2000.

b. KU has proposed to amortize the test period expense over a three-year period. Did KU consider determining an on-going level of Year 2000 compliance expense and basing its adjustment on that determination? Explain.

10. Refer to Testimony of Michael D. Robinson at 16-17. Describe KU s accounting for the Risk Management Trust, both before and after dissolution. Provide all accounting entries related to the Risk Management Trust made during the test period.

11. Refer to Testimony of Michael D. Robinson at 18. Provide a schedule showing KU s off-system sales revenues for each month from June 1997 through June 1999.

12. Refer to Testimony of Michael D. Robinson at 18.

a. Explain how the recognition of the implementation of the EPBR tariff is consistent with the matching principle.

b. Did KU remove the effects of its existing fuel adjustment clause from its financial statements as part of its calculations to implement the new fuel component of the EPBR tariff? Explain.

c. In its April 13, 1999 Order, the Commission allowed the EPBR tariff to become effective on July 2, 1999 subject to further change. Explain in detail why it is reasonable to recognize the effects of the EPBR tariff when that tariff is subject to further change.

13. Refer to Testimony of Michael D. Robinson at 19-20.

a. State when the test period increases in labor rates became effective.

b. Explain in detail how the increases for the exempt, office, and staff employees were determined.

14. Explain why KU has not proposed an adjustment for storm damages.

15. Provide a schedule showing for the test period and the four previous calendar years KU s storm damage expense and its expense for right-of-way maintenance.

16. Explain why KU has not proposed an interest synchronization adjustment in this case.

17. Refer to Testimony of Martyn Gallus at 4.

a. Explain in detail why it is more reasonable to use the 2000 prices rather than corresponding prices for 1999.

b. What do the 2000 prices reflect (e.g., market expectations of electricity prices in 2000, actual contract commitment prices, etc.)? Explain.

18. At page 6 of his testimony, Mr. Bellar states that [o]ff-system sales were normalized for 1998 based on reasonably certain expectations for the year 2000.

a. Does Mr. Bellar mean this adjustment was based on a forecasted level of sales? Explain.

b. Explain in detail how this adjustment constitutes a known and measurable adjustment to the 1998 test period if it is based on reasonably certain expectations.

19. Refer to Testimony of Ronald L. Willhite at 3. Concerning the weather normalization approach utilized in KU s 1996 Integrated Resource Plan (IRP), would Mr. Willhite agree that the Commission does not approve or reject utilities IRP filings, but rather the Commission Staff issues a Staff Report on the IRP?

20. In Case No. 10064,[3] the Commission rejected the proposed electric weather normalization adjustment proposed by the Louisville Gas and Electric Company (LG&E). At pages 35 through 45 of the July 1, 1988 Order, the Commission discussed LG&E s approach to electric weather normalization. Explain in detail how the methodology utilized in KU s IRP and proposed as the basis for an adjustment in this case meets the concerns discussed in the July 1, 1988 Order.

21. Refer to Testimony of Ronald L. Willhite, Exhibit RLW-KU-1.

a. Explain why KU is using a 20-year average of degree-days rather than a 30-year average.

b. Identify the 20-year period used by KU in its electric weather normalization calculations.

c. (1) Describe how KU developed its electric weather normalization methodology.

(2) Who developed KU s electric weather normalization methodology?

22. Refer to Testimony of Ronald L. Willhite at 10; KU s response to KIUC s Data Request 3-39 at 2 and 16.

a. Explain in detail how the operating ratio of 55.94 percent was derived for the year end customer adjustment to electric revenues.

b. What was the operating ratio used by KU in Case No. 8624 to adjust revenues from electric operations to reflect customer levels at test year end?

[3] Case No. 10064, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company (July 1, 1988).

c. On page 16, the amounts in Column 6 should be the product of columns 3 and 5. In some instances, they are not. Explain not.

23. a. Given the concerns that he articulated at page 20 of his testimony about the comparison group that Mr. Baudino selected, why did Mr. Rosenberg continue to use these same companies (except for SIGCORP) in his Discounted Cash Flow (DCF)?

b. What companies are included in the group that has a Value Line Safety Rank of 2?

c. At page 25 of his testimony, Mr. Rosenberg states: Given the downward bias that may be affecting electric utility DCF calculation at this time, I excluded electric utilities from this further DCF calculation. Given that the purpose of his analyses is to calculate an appropriate rate of return for an electric utility, why should electric utilities be excluded from the comparison group?

Done at Frankfort, Kentucky, this 16th day of July, 1999.

By the Commission

ATTEST:

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Executive Director