COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

In the Matter of:

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

O R D E R

IT IS ORDERED that Louisville Gas and Electric Company ("LG&E"), Kentucky Utilities Company ("KU"), and Kentucky Industrial Utility Customers ("KIUC") shall file the original and 12 copies of the following information as directed to each with the Commission with a copy to all parties of record no later than March 16, 2000. 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.

LG&E Questions

1. The Commission's January 7, 2000 Order includes the rate base for LG&E's electric operations as of test-period end and as adjusted by the Commission.

a. Prepare a schedule showing a line-by-line comparison of the "Electric Rate Base at 12/31/98" in Appendix B with the electric rate base determination shown on page 63, both from the January 7, 2000 Order. For any line item where the balances do not match, show the amount of the difference.

b. With the exception of the difference for Cash Working Capital Allowance, does LG&E agree that the differences identified in part (a) reflect the environmental surcharge rate base items identified in Appendix A of the January 7, 2000 Order?

c. Does LG&E agree that the comparison performed in part (a) shows that pollution control deferred income taxes were deducted in the determination of LG&E's environmental surcharge rate base?

d. Explain in detail the basis for LG&E's claim at the bottom of page 3 of Ronald L. Willhite's Rehearing Testimony that the calculations of the environmental surcharge <u>rate base</u> for LG&E did not reflect the adjustment for deferred income taxes.

2. In Appendix B of the January 7, 2000 Order, the adjustment to LG&E's electric capitalization for its environmental surcharge reflects the pollution control utility plant net of the corresponding accumulated depreciation. On page 4 of the Willhite Rehearing Testimony, LG&E contends that this adjustment incorrectly omits the pollution control deferred income taxes.

a. Explain in detail why LG&E believes that the adjustment to remove its environmental surcharge investment from the electric operations capitalization should include a recognition of associated deferred income taxes.

b. Did LG&E's electric operations rate base equal its electric operations capitalization in any of the information responses provided by LG&E in this proceeding? If yes, provide a citation to the response.

c. Provide the basis for LG&E's assumption that its environmental surcharge rate base is equal to its environmental surcharge capitalization.

3. Refer to pages 6 through 9 of the Willhite Rehearing Testimony.

a. Explain in detail the basis of LG&E's contention that the Commission's exclusion of 100 percent of the environmental surcharge expenses is inconsistent with its decision in Case No. 94-332.[1] Specifically address the manner in which the decisions are allegedly inconsistent, given that the scope of the environmental surcharge is limited to a review of eligible environmental compliance costs and the Commission's determination that the allocation of the monthly environmental surcharge revenue requirement maintained the balance achieved in general rate cases.

b. If 84.78 percent of LG&E's environmental surcharge expenses are removed from the determination of its base revenue requirement, would not the remaining 15.22 percent of environmental costs remain in the determination of the base revenue requirements? Explain the response.

c. On pages 5 and 8 of Lonnie E. Bellar's Rehearing Testimony it is demonstrated that the environmental surcharge is recognized in the determination of

[1] Case No. 94-332, The Application of Louisville Gas and Electric Company for approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products, final Order issued April 6, 1995; rehearing Order issued May 12, 1995.

the margins from off-system sales. Since the off-system sales revenues and expenses were included in the determination of LG&E's base revenues, explain how removing only 84.78 percent of the environmental surcharge expenses accomplishes the Commission's stated intention on page 62 of the January 7, 2000 Order that it was excluding LG&E's environmental surcharge-related assets, expenses, and revenues from the determination of the base revenue requirements.

4. Refer to the Willhite Rehearing Testimony, Exhibit LGE-6.

a. Compute the blended interest rate at December 31, 1998 for the pollution control bonds, using the annual interest costs divided by the pollution control bond principal.

b. Explain why the pollution control bond rate of 5.60 percent, which is currently used in the environmental surcharge calculations, should be used in the adjustment to the overall blended interest rate for long-term debt, instead of the blended interest rate for pollution control bond debt determined in part (a).

5. In LG&E's January 31, 2000 petition for rehearing, LG&E cites three specific adjustments it believes should be recognized in the earnings sharing mechanism ("ESM"). However, the Willhite Rehearing Testimony does not mention or address any of these adjustments.

a. Does LG&E continue to believe that the three specific adjustments cited in its petition for rehearing need to be addressed in the ESM calculations?

b. If LG&E believes these adjustments are still needed, explain in detail LG&E's reason(s) for each adjustment.

KU Questions

6. The Commission's January 7, 2000 Order includes the rate base for KU's Kentucky jurisdictional operations as of test-period end and as adjusted by the Commission.

a. Prepare a schedule showing a line-by-line comparison of the "KY Jurisdictional Rate Base at 12/31/98" in Appendix C with the jurisdictional rate base determination shown on page 59, both from the January 7, 2000 Order. For any line item where the balances do not match, show the amount of the difference.

b. With the exception of the difference for Cash Working Capital Allowance and the recognition of the increase in depreciation expense, does KU agree that the differences identified in part (a) reflect the environmental surcharge rate base items identified in Appendix B of the January 7, 2000 Order?

c. Does KU agree that the comparison performed in part (a) shows that pollution control deferred income taxes were deducted in the determination of KU's environmental surcharge rate base?

d. Explain in detail the basis for KU's claim at the bottom of page 3 of Ronald L. Willhite's Rehearing Testimony that the calculations of the environmental surcharge rate base for KU did not reflect the adjustment for deferred income taxes.

7. In Appendix C of the January 7, 2000 Order, the adjustment to KU's Kentucky jurisdictional capitalization for its environmental surcharge reflects the pollution control utility plant, net of the corresponding accumulated depreciation, pollution control construction work in progress, and associated inventories. On page 4

of the Willhite Rehearing Testimony, KU contends that this adjustment incorrectly omits the pollution control deferred income taxes.

a. Explain in detail why KU believes that the adjustment to remove its environmental surcharge investment from the Kentucky jurisdictional capitalization should include a recognition of associated deferred income taxes.

b. Did KU's Kentucky jurisdictional rate base equal its Kentucky jurisdictional capitalization in any of the information responses provided by KU in this proceeding? If yes, provide a citation to the response.

c. Provide the basis for KU's assumption that its environmental surcharge rate base is equal to its environmental surcharge capitalization.

8. Refer to pages 6 through 9 of the Willhite Rehearing Testimony. In the January 7, 2000 Order, the Commission determined KU's Kentucky jurisdictional environmental surcharge expenses using KU's apportionment study, which separated the Kentucky jurisdiction from KU's Virginia and Federal Energy Regulatory Commission jurisdictions.

a. Explain in detail the basis for KU's contention that the Commission's exclusion of jurisdictional environmental surcharge expenses is inconsistent with its decision in Case No. 95-060.[2] Specifically address the manner in which the decisions are alleged to be inconsistent, given that the scope of the environmental surcharge is limited to a review of eligible environmental compliance costs and the Commission's determination that the allocation of the monthly

[2] Case No. 95-060, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from August 1, 1994 to January 31, 1995, final Order dated August 22, 1995.

environmental surcharge revenue requirement maintained the balance achieved in general rate cases.

b. If 75.17 percent of KU's environmental surcharge expenses are removed from the determination of its base revenue requirement, wouldn't approximately 9.79[3] percent of environmental costs remain in the determination of the base revenue requirements? Explain the response.

c. On pages 6 and 8 of Lonnie E. Bellar's Rehearing Testimony it is demonstrated that the environmental surcharge is recognized in the determination of the margins from off-system sales. Since the off-system sales revenues and expenses were included in the determination of KU's base revenues, explain how removing only 75.17 percent of the environmental surcharge expenses accomplishes the Commission's stated intention on page 58 of the January 7, 2000 Order that it was excluding KU's environmental surcharge-related assets, expenses, and revenues from the determination of the base revenue requirements.

9. Refer to the Willhite Rehearing Testimony, Exhibit KU-5.

a. Compute the blended interest rate at December 31, 1998 for the pollution control bonds, using the annual interest expense divided by the pollution control bond principal.

b. Explain why the pollution control bond rate of 5.85 percent, which is currently used in the environmental surcharge calculations, should be used in the

[3] The difference between KU's proposed 75.17 percent and the Kentucky jurisdictional apportionment study ranges between 8.67 and 11.11 percent. The 9.79 percent figure represents the average of the differences.

adjustment to the overall blended interest rate for long-term debt, instead of the blended interest rate for pollution control bond debt determined in part (a).

10. In KU's January 31, 2000 petition for rehearing, KU cites three specific adjustments it believes should be recognized in the ESM. However, the Willhite Rehearing Testimony does not mention or address any of these adjustments.

a. Does KU continue to believe that the three specific adjustments cited in its petition for rehearing need to be addressed in the ESM calculations?

b. If KU believes these adjustments are still needed, explain in detail KU's reason(s) for each adjustment.

<u>KIUC Questions</u>

11. Refer to the Direct Rehearing Testimony of Lane Kollen, pages 4 through 6. Explain in detail how each of the following KIUC recommendations is not in conflict with the Commission's determination in the January 7, 2000 Order that the annual ESM reviews would only consider limited rate-making adjustments.

a. Page 5 – Removal of all recurring costs which the Commission has disallowed in prior Orders.

b. Page 5 – Removal, deferral, or amortization of all abnormal and nonrecurring costs over a certain dollar threshold.

c. Page 6 – Inclusion of certain annualization adjustments.

d. Page 6 – Removal from revenues of refund amounts for prior years accrued during the review year.

12. Refer to pages 7 and 8 of the Kollen Direct Rehearing Testimony.

a. Explain in detail why KIUC believes it is necessary to make its proposed annualization adjustments related to the fuel adjustment clause ("FAC"), when the January 7, 2000 Order specifically states at page 48 that all revenues and expenses associated with the FAC will be excluded in determining the return on equity.

b. Explain in detail how KIUC's proposal to annualize FAC revenues is consistent with its opposition to LG&E's and KU's proposal to use estimated sales revenue in the calculation of the ESM factor.

13. Refer to pages 15 and 16 of the Kollen Direct Rehearing Testimony.

a. Describe in detail KIUC's expectations for how the Commission's review of an ESM filing or an unbundling study will be conducted.

b. Given the response to part (a) of this request, identify any specific areas of concern KIUC has regarding potential changes to class revenue allocations within the context of either an ESM filing review or a review of an unbundling study.

c. Mr. Kollen warns against having ESM reviews or unbundling report filings, and any related proceedings, burdened by rate rebalancing issues. Provide the rationale for KIUC's concerns in this area when much of its testimony advocates that the revenue requirements analysis within an ESM review be broadened to cover a greater number of issues than was contemplated by the Commission's January 7, 2000 Order.

14. Refer to pages 17 through 19 of the Kollen Direct Rehearing Testimony, specifically, the references to Hearing Staff-15, the information provided subsequent to the hearing in this proceeding. That request was for "1999 actual purchases for native

load for the months of January through August” in the same format as was used in Response Exhibit LEB-1.

a. The amount of fuel cost to be recovered in base rates by electric utilities under the jurisdiction of the Commission is determined in two-year Fuel Adjustment Clause reviews conducted pursuant to 807 KAR 5:058. Provide further explanation and support for the contention that the adjustment for purchased power expense based on Hearing Staff-15 will result in a double recovery of fuel costs.

b. Given that the request asked for actual purchases for the period from January 1999 through August to be presented in the same format as Response Exhibit LEB-1, explain in greater detail how the response did not conform to the request.

c. The EPBR was only in effect for two of the twelve months that formed the basis for the Commission’s adjustment to purchased power expense. Explain in more detail how the information provided in Hearing Staff-15 shifts costs to ratepayers that would have not have been born by ratepayers under the EPBR.

Done at Frankfort, Kentucky, this 9th day of March, 2000.

By the Commission

ATTEST:

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Executive Director