COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE LOUISVILLE GAS AND ELECTRIC COMPANY TO ADJUST ITS GAS RATES AND TO INCREASE ITS CHARGES FOR DISCONNECTING SERVICE, RECONNECTING SERVICE AND RETRURNED CHECKS	)))))	CASE NO. 2000-080

O R D E R

IT IS ORDERED that the Louisville Gas and Electric Company ("LG&E") shall file with the Commission the original and 12 copies of the following information, 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. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein is due on or before June 8, 2000. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the response to Item 11 of the Commission's April 28, 2000 Order regarding proposed changes to Rate TS.

a. Has LG&E attempted to measure the number of customers that would become eligible for Rate TS due to the changes in the new volumetric requirement? If no, explain why not.

b. If yes, provide the number of customers that would be eligible for Rate TS under the proposed changes in the volumetric requirement and the annual throughput volume for that group of customers.

2. Refer to pages 4 and 5 of Exhibit 11 of the Direct Testimony of William S. Seelye regarding the calculation of gas revenues, which includes service categories not included in Exhibit 13 of the Direct Testimony of William S. Seelye.

a. Were the rate categories included on pages 4 and 5 of 5 omitted from Exhibit 13 because the present rates are not changed under LG&E's proposal? If yes, explain whether the revenues from these service categories should be included in the company's proposed overall revenues in Exhibit 13.

b. Explain how the total revenues from LG&E's proposed rates can be determined from Exhibit 13 if the revenues from Uncommitted Gas Service-Rate G-7, Firm Transportation Service (non-standard)-Rate FT, Pooling Service-Rate PS Rider to Rate FT and Special Contracts are not included in the exhibit.

3. Refer to the response to Item 35 of the Commission's April 28, 2000 Order.

a. Using the format shown in LG&E's response to Item 35(c), provide the reconciliation to the total company capitalization of $1,525,601,322 with the total company rate base of $1,651,990,150.

b. The response to Item 35(c) reconciled the gas operations capitalization of $265,607,189 with a gas operations rate base of $287,909,012. LG&E was requested to perform this reconciliation using a gas operations rate base of $287,685,312. Provide the reconciliation originally requested and identify the source of the $287,909,012 gas operations rate base shown in the response.

c. Refer to Item 35(c). Explain what the line item "Electric/Gas Adjustment" represents and specify the accounts from the balance sheet the item reflects.

d. Refer to Item 35(c). Explain the purpose of the line item "Cash" included in the section entitled "Commission Adjustments to Rate Base." Identify any adjustments to cash that LG&E is aware that the Commission has made in past general rate proceedings.

4. Refer to the response to Item 36 of the Commission's April 28, 2000 Order. For each of the accounts listed below, explain why the account is relevant to LG&E's regulated gas operations.

a. Page 2 of 17 – Account 146004 – LEM Gas Mkt.

b. Page 2 of 17 – Account 146013 – Argentina Distr.

c. Page 2 of 17 – Account 146018 – LEM Gas Facilities.

d. Page 2 of 17 – Account 146022 – CRC-Evans.

e. Page 10 of 17 – Account 411801 – Gain-Disp. Of Allow.

f. Page 13 of 17 – Account 495008 – CNG Revenues.

g. Page 13 of 17 – Account 495009 – Enertech Inc Fees.

h. Page 13 of 17 – Account 495010 – Home Svce Inc Fees.

i. Page 13 of 17 – Account 495014 – LG&E Credit Corp. Fees.

j. Page 13 of 17 – Account 495015 – LG&E NRB Gas Revenues.

5. Refer to the responses to Item 33 of Commission's March 15, 2000 Order and to Item 39 of the Commission's April 28, 2000 Order.

a. If LG&E monitors its rates of return for its electric and gas operations separately, explain in detail why the rates of return provided in response to Item 39(c) were not provided when first requested in Item 33.

b. In the response to Item 33, LG&E stated that it had not been calculating separately the rates of return for its electric and gas operations until required to do so in Case No. 98-426.[1] Reconcile this statement with the response to Item 39(b).

6. Refer to page 7 of 17 of the response to Item 39(c) of the Commission's April 28, 2000 Order. Explain in detail why the LG&E Building ceased being an adjustment to capitalization in 1996.

7. Refer to the response to Item 41(b) of the Commission's April 28, 2000 Order. With the exception of the non-recurring charge issue merged into this proceeding, this proceeding deals only with gas operations, while Case No. 98-426 dealt only with electric operations. Explain in detail why the determination of the annual cost rate for the first mortgage bonds used in this proceeding should reflect an adjustment to the annual cost rate applicable only to LG&E's electric operations.

8. Refer to the response to Item 42 of the Commission's April 28, 2000 Order.

[1] Case No. 98-426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

a. Describe all similarities in operations, organization, and structure between LG&E's gas operations and Delta Natural Gas Company, Inc. ("Delta").

b. Explain in detail how the Commission's determination of the revenue increase for Delta represents "the most recent applicable precedent."

c. The Union Light, Heat and Power Company ("ULH&P") is an investor-owned combination electric and gas utility, which has often filed separate applications to adjust its electric or gas rates. Explain in detail why it was not relevant for LG&E to have examined prior Commission decisions in ULH&P cases when considering how to calculate LG&E's proposed gas revenue increase.

9. Refer to the response to Item 43(c) of the Commission's April 28, 2000 Order.

a. Describe the purposes and uses financed by LG&E's Commercial Paper debt, originally issued in November 1999.

b. As of May 31, 2000, does LG&E still have an outstanding balance of Commercial Paper debt? If so, provide the amount. If not, when was this debt liquidated?

10. Refer to the response to Item 44(c) of the Commission's April 28, 2000 Order.

a. Provide a schedule showing by month the balances for the PSC Assessment comprising the 13-month average balance of $28,732.

b. Is LG&E aware that the Commission normally does not include the PSC Assessment in the determination of rate base?

c. Explain in detail why LG&E should be allowed to include its PSC Assessment in the determination of its gas operations rate base. Specifically address why LG&E should be allowed to recover and also earn a return on the PSC Assessment.

11. Refer to the response to Item 49 of the Commission's April 28, 2000 Order.

a. The response to Item 49(a) describes legal work provided to LG&E from 13 individuals or firms. However, 26 individuals or firms are listed on lines 1 through 29 of the response to the Commission's March 15, 2000 Order, Item 26. Provide the originally requested information for all 26 individuals or firms.

b. Concerning the work performed by Brown Todd & Heyburn, describe the circumstances surrounding the trademark application for "Elgee."

c. Identify the legal expenses represented by the 26 individuals or firms that do not represent an on-going level of legal expense for LG&E's gas operations.

d. The response to Item 49(b) lists 11 proceedings before the Federal Energy Regulatory Commission ("FERC"). Identify or briefly describe the nature of each proceeding.

12. Refer to the response to Item 50 of the Commission's April 28, 2000 Order.

a. As of the end of the test year, was the payment to Bailey Controls still reflected on the gas operations books of LG&E? If no, when was the entry error corrected?

b. Explain in detail why payment to Pacific Economics Groups for consulting services performed in conjunction with the performance-based rate-making ("PBR") was allocated to LG&E's gas operations.

13. Refer to the response to Item 52(b) of the Commission's April 28, 2000 Order. Provide copies of the intercompany service agreement referenced in the response. Also, explain how this service agreement is in accordance with the Corporate Policies and Guidelines for Intercompany Transactions of LG&E and LG&E Energy Corp.

14. Refer to the response to Item 73(b) of the Commission's April 28, 2000 Order. If LG&E believes it would be appropriate to exclude the gas supply clause from any earnings sharing mechanism ("ESM") calculations, explain why it would not be appropriate to consider a gas ESM in this proceeding instead of waiting until the review of the current gas PBR.

15. Refer to the response to Item 66 of the Attorney General's ("AG") First Request for Information, dated April 28, 2000. The response mentions that the amortization of the regulatory asset for the merger costs with KU Energy Corp. is recorded in Account No. 930. Does the test year balance for gas operations' Account No. 930 include any of the amortization expense for this regulatory asset? Explain the response.

16. Provide a detailed description of the accounting and internal controls in place at LG&E to ensure that electric operations expenses are not allocated to gas operations expenses and vice versa. Include copies of any internal auditing reviews or

reports within the past 5 calendar years that examined these accounting and internal controls.

17. Refer to Schedule 3 of the Direct Testimony of Robert G. Rosenberg and the response to Item 53(d) of the Commission's April 28, 2000 Order. Explain why dividends per share and book value per share were not also considered relevant factors, along with earnings per share, to estimate DCF returns.

18. Refer to page 15 and Schedule 3 of the Direct Testimony of Robert G. Rosenberg and page 4 of the response to Item 57 of the Commission's April 28, 2000 Order.

a. Explain whether or not the FERC actually used GDP forecasts as a proxy for investors' expected long-term growth in DCF. If FERC did not use GDP forecasts, provide the calculations it used. Provide a copy of an order where the rationale for such an action was explained.

b. Explain why investors assume that any particular utility company would experience growth in earnings equal to the growth in GDP.

c. Show the calculations for the estimated nominal GDP growth for the years 2004 through 2020.

19. Refer to page 15 and Schedule 3 of the Direct Testimony of Robert G. Rosenberg and the response to Item 58 of the Commission's April 28, 2000 Order.

a. Explain why investors assume that retention growth is a good estimate or proxy for long-term growth in earnings.

b. Value Line clearly shows that the specific values of retention growth used by Rosenberg are short-term estimates, i.e. 2002-2004. Explain why it is appropriate to use this short-term estimate as a long-term forecast in the second stage of the DCF calculation.

20. Refer to Schedule 3 of the Direct Testimony of Robert G. Rosenberg and page 5 of the response to Item 57 of the Commission's April 28, 2000 Order. Provide copies of documents that show using an internal rate of return calculation is equivalent to standard DCF calculations.

21. Refer to the response to Item 69 of the Commission's April 28, 2000 Order

a. Explain why the results from the Comparable Earnings method vary substantially from the other three methods used.

b. Explain whether or not the companies chosen for the Comparable Earnings method had betas similar to those of the proxy companies or to LG&E.

22. Refer to the Direct Testimony of Robert G. Rosenberg, beginning on page 18, which discusses the CAPM method. It appears from the discussion that estimates of beta, the appropriate risk free rate, and the appropriate market rate all require some sort of estimation or proxy value. Explain why it is not more appropriate to calculate CAPM estimates using a range of the various estimates and proxy values.

23. Refer to the response to Item 72 of the Commission's April 28, 2000 Order and Filing Requirement 7-a, the detailed income statement reflecting the impact of LG&E's proposed adjustments.

a. Appended hereto as Appendix A is the income tax expense calculation using the revenues and expenses reported in the column "Test Year Gas." This calculation shows that the gas division should have a test-period income tax expense of $719,157, which is $171,411 less than the $890,568 reported by LG&E.

Provide a reconciliation and explanation for the $171,411 difference between these two amounts.

b. Appended hereto as Appendix B is the pro forma income tax expense calculation using the revenues and expenses reported in the column "Adjusted Gas." This calculation shows that the gas division should have a pro forma income tax expense of $975,655; however, in its response to Item 72(c), LG&E calculated a pro forma level of income tax expense of $1,145,361. Provide a reconciliation and explanation for the difference between these two amounts.

c. Provide the amount of amortization of investment tax credits and/or the amortization of deferred income taxes that are included in the test-period income tax expense of $890,568.

24. Refer to the response to Item 74 of the Commission's April 28, 2000 Order. Since the results of the 1999 Common Utility Study are now known and measurable, does LG&E agree that its pro forma financial statements should be adjusted to reflect the results of the study? If no, provide a detailed explanation for LG&E's response.

25. Refer to the response to Item 75 of the Commission's April 28, 2000 Order.

a. Explain how LG&E was able to book in March 2000 its estimated separation benefits resulting from the April 2000 employee reduction, but it is unable to determine the impact the staff reduction will have upon the proposed labor and labor-related adjustments.

b. Provide, when available, the impact the elimination of the 250 positions will have upon LG&E's proposed labor and labor-related adjustments. Include all workpapers, calculations, and assumptions used by LG&E in its determination.

c. Does LG&E anticipate further staffing reductions? If yes, provide the estimated year the reduction will occur, the number of positions that will be eliminated and the estimated impact on future gas operations.

26. Refer to the response to Item 79(c) of the Commission's April 28, 2000 Order.

a. Provide a calculation of the Team Incentive Awards ("TIA") using the 1999 year-end employee level. Include all workpapers, calculations, and assumptions used by LG&E in its calculation.

b. Provide the estimated impact the April 2000 employee reduction will have upon the TIA calculation in (a) above. Include all workpapers, calculations, and assumptions used by LG&E in its estimate.

27. Refer to the response to Item 80 of the Commission's April 28, 2000 Order.

a. Does LG&E agree that its pro forma payroll tax adjustment should be adjusted to reflect the January 1, 2000 FICA wage base limit of $76,200? If no, provide a detailed explanation for LG&E's response.

b. Provide a calculation showing the impact the January 1, 2000 FICA wage base limit has upon LG&E's pro forma payroll tax adjustment. Include all workpapers, calculations, and assumptions used by LG&E in its calculation.

28. Refer to the response to Item 81 of the Commission's April 28, 2000 Order.

a. Given the level of the cost of the storage losses at the Doe Run, Magnolia, and Muldraugh storage fields, has LG&E considered the possibility of outsourcing its gas storage operations?

b. Has LG&E performed a cost benefits analysis of continuing to use its Doe Run, Magnolia, and Muldraugh storage fields? If yes, provide a copy of the analysis. If no, explain why such an analysis has not been performed.

29. Refer to the response to Item 83(a) of the Commission's April 28, 2000 Order.

a. Provide a detailed description of the consulting services provided by the following companies:

(1) Maxim Group.

(2) Mastech Corporation

(3) TEK Systems.

(4) Koinonia Computing Inc.

(5) Soft Link, Inc.

b. Provide a detailed description of the costs paid to Electronic Data Systems Corporation for the Oracle implementation consultant.

30. Refer to the response to Item 84 of the Commission's April 28, 2000 Order.

a. Provide a detailed explanation of the credits listed for the LG&E Union Plan.

b. Identify the estimated pension expense that will be allocated to the gas division for the current plan and "5+5" Amendment.

c. Provide the copies of the workpapers, calculations, and assumptions that were to accompany this response.

d. Given the changes in the actuarial assumptions and the employee levels, explain why the normalization methodology, which uses an average of the 5 previous calendar years, is an accurate indicator of the ongoing or expected future pension expense levels.

31. Refer to the response to Item 85 of the Commission's April 28, 2000 Order. From 1995 to 1998 the pension expense per employee decreased from $1,513 to $944. The pro forma pension expense of $2,012,111 and the employee level of 1,987, the 1999 employee level of 2,237 adjusted for the April 2000 employee reduction of 250, would result in a pension expense per employee of $1,013. Given the decrease in the per employee pension expense that occurred between 1995 and 1998, explain why a pension expense per employee of $1,013 is a reasonable estimate of LG&E's on-going or expected future pension expense levels.

32. Refer to the response to Item 87 of the Commission's April 28, 2000 Order. For each of the expenses listed below, explain why the account is relevant to LG&E's regulated gas operations.

a. Provide a detailed description of the benefits derived from LG&E's membership in EPRI. Include an explanation of why this expense is relevant to LG&E's regulated gas operations. Provide the total company EPRI annual dues, the amount allocated to the gas operations, the basis for the allocation, and the expense account in which the remainder of the membership dues are recorded.

b. Provide a detailed description of the benefits derived from LG&E's membership in Greater Louisville, Inc. Include an explanation of why this expense is relevant to LG&E's regulated gas operations. Provide the annual dues paid for the total company and the basis for the allocation to the gas division.

c. Provide a detailed description of the benefits derived from LG&E's membership in the Kentucky Chamber of Commerce. Include an explanation of why this expense is relevant to LG&E's regulated gas operations. Provide the annual dues paid for the total company and the basis for the allocation to the gas division.

d. Provide a detailed description of the MCK-Adjustment for payroll 2/21 in the amount of $2,418.

e. Provide detailed description of the MCK-Biweekly payroll corrections.

f. Provide a detailed description of the intercompany charge from KU of $12,278. Include an explanation of why this expense is relevant to LG&E's regulated gas operations.

g. Provide a detailed description of the proxy distribution services provided by D F King and Company. Include an explanation of why these services are relevant to LG&E's regulated gas operations.

h. Provide a detailed description of the remarketing fees paid to the following companies. Include an explanation of why remarketing services are relevant to LG&E's regulated gas operations.

(1) Goldman Sachs Group.

(2) Morgan Stanley and Company.

(3) JP Morgan Securties.

(4) Merrill Corporation.

i. Provide a detailed description of the services provided by Bankers Trust Company described as "MCK/Qrtly Div. & Comm. Due on Auc." Include an explanation of why these services are relevant to LG&E's regulated gas operations.

j. Provide a detailed analysis of the fees paid to Pinnacle Group Associates Inc. for the employee relocation expenses. It has been past Commission practice not to allow the recovery of employee moving expenses for rate-making purposes. Provide a detailed explanation of why the Commission should deviate from its past practice. Include an explanation of the benefits the ratepayers derived from the employee relocation.

33. Refer to the response to Item 88(a) of the Commission's April 28, 2000 Order. Provide a detailed explanation of the May 8, 1998 payment to the Waterfront Development Corporation – Resolution of Liability of $400,000.

34. Refer to the response to Item 88(b) of the Commission's April 28, 2000 Order. Given that the cleanup was completed in 8 years and it has been approximately 10 years since LG&E's last gas rate case, explain why a longer amortization period would not be appropriate.

35. Refer to the response to Item 88(c) of the Commission's April 28, 2000 Order. Explain why LG&E elected to defer the cost of the clean-up rather than record the cost as an expense in the year it was incurred.

36. Refer to the response to Item 91(b) of the Commission's April 28, 2000 Order and page 1 of Williams Exhibit 2 attached to the Direct Testimony of J. Scott Williams. Multiplying LG&E's total capitalization of $268,202,448 by the weighted-cost-of-debt of 2.71 percent results in an interest synchronization of $7,268,286. Provide a reconciliation and explanation for the difference between this amount and LG&E's proposed interest synchronization.

37. Refer to the response to Item 91(b) of the Commission's April 28, 2000 Order and page 1 of Williams Exhibit 3 attached to the Direct Testimony of J. Scott Williams. Multiplying LG&E's total net original cost rate base of $287,909,011 by the weighted-cost-of-debt of 2.71 percent results in an interest synchronization of $7,802,334. Provide a reconciliation and explanation for the difference between this amount and LG&E's proposed interest synchronization.

38. Refer to the response to Item 24(b) of the Commission's April 28, 2000 Order.

a. Provide the accounting treatment LG&E uses for the customer contributions for the main extensions.

b. Where applicable, provide an explanation for why LG&E funded 100 percent of the construction cost.

39. Provide a revised "Class Rates of Return-Table 1" for each of the three steps in the phased-in increase to monthly residential charge.

40. Refer to the responses to Items 27 and 34(c) of the Commission's April 28, 2000 Order. Provide a diskette for Item 34(c) comparable to that provided in response to Item 27.

41. Explain how the results of the regression analysis will be affected if only those inputs for currently installed pipe size are utilized. Provide a narrative as well as an electronic reply.

42. Provide the derivation of the Distribution Cost Component of $1.3801 per Mcf as depicted on page 33 of the Direct Testimony of William S. Seelye.

43. The cost-of-service study provided is based upon a fully embedded analysis. Provide a detailed explanation of the impact on the cost-of-service study if the installation cost is reflected at current prices rather than the embedded costs. Provide a narrative as well as an electronic reply.

Done at Frankfort, Kentucky, this 25th day of May, 2000.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-080 DATED MAY 25, 2000

Calculation of LG&E's Income Tax Expense - Test Year Gas

	Test Year Gas
Operating Revenue	$ 177,578,924
Less:	
Purchased Gas	$ 114,745,424
Operation and Maintenance	37,161,455
Depreciation and Amortization	13,601,848
Taxes Other Than Income Taxes	3,896,709
Total Operating Expenses	$ 169,405,436
Net Operating Income before Interest & Income Taxes	$ 8,173,488
Less:	
Interest Expense	6,403,581
Net Operating Income before Income Taxes	$ 1,769,907
Multiplied by:	
LG&E's Composite Income Tax Rate	40.6325%
Income Tax Expense - Test Year Gas	$ 719,157

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-080 DATED MAY 25, 2000

Calculation of LG&E's Income Tax Expense - Adjusted Gas

	Adjusted Gas
Operating Revenue	$ 65,959,232
Less:	
Purchased Gas	$ 426,866
Operation and Maintenance	39,168,295
Depreciation and Amortization	13,682,361
Taxes Other Than Income Taxes	3,922,019
Total Operating Expenses	$ 57,199,541
Net Operating Income before Interest & Income Taxes	$ 8,759,691
Less:	
Interest Expense	6,358,521
Net Operating Income before Income Taxes	$ 2,401,170
Multiplied by:	
LG&E's Composite Income Tax Rate	40.6325%
Income Tax Expense - Adjusted Gas	$ 975,655
Interest Expense:	
Interest Charges	$ 6,403,581
Interest Synchronization on Debt Component	70,520
Interest Synchronization on Other Interest Exp. Excluded	(115,580)
Interest Expense	$ 6,358,521