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

FIRST DATA REQUEST OF COMMISSION STAFF TO
THE ATTORNEY GENERAL'S OFFICE OF UTILITY INTERVENTION

The Attorney General's Office of Utility Intervention ("AG"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before July 19, 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 person 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 herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to page 4 of the Direct Testimony of Robert J. Henkes. Mr. Henkes states that Dr. Carl Weaver, the AG's rate of return witness, has recommended a composite debt cost rate of 5.55 percent.

a. Provide the reference to that portion of Dr. Weaver's testimony that addresses the recommended composite debt cost rate for LG&E gas operations.

b. Were Mr. Henkes and Dr. Weaver aware that LG&E's proposed composite debt cost rate for gas operations reflects an adjustment to the rate recognizing the removal of certain electric operations environmental surcharge investments? If yes, explain why an adjustment related to the electric operations only should impact the composite debt cost rate used for gas operations.

2. Refer to page 5 of the Direct Testimony of Robert J. Henkes. The revenue conversion factor utilized by Mr. Henkes recognizes the PSC Assessment rate in effect during the test year. If the PSC Assessment rate is changed in 2000, does Mr. Henkes believe that the new assessment rate should be reflected in the revenue conversion factor? Explain the response.

3. Refer to pages 6 and 12 of the Direct Testimony of Robert J. Henkes. Mr. Henkes uses the same gas capitalization and capital structure as proposed by LG&E.

a. With the exception of the Job Development Credit and the allocation of the African American Venture Capital Fund, was the ratio of the gas operations rate base to total company rate base applied to the total company capitalization to determine the gas operations capitalization?

b. Does Mr. Henkes agree that this rate base ratio of 17.41 percent reflects the effects of the 1998 Common Utility Plant study? If not, explain the response.

c. On page 12 of his direct testimony, Mr. Henkes recommends the use of the 1999 Common Utility Plant study for rate-making purposes. Would Mr.

Henkes agree that in order to be consistent with his recommendation concerning the use of the 1999 Common Utility Plant study, any allocation using the rate base ratio of 17.41 percent would need to be recalculated? If not, explain the response.

d. Given the recommendation concerning the use of the 1999 Common Utility Plant study, explain why Mr. Henkes did not recalculate the gas capitalization he used for determining revenue requirements.

e. Provide a revised LG&E gas capitalization and revenue requirement reflecting the full implementation of Mr. Henkes recommendation to use the 1999 Common Utility Plant study. Include all supporting workpapers, calculations, and assumptions.

4. Refer to page 15 of the Direct Testimony of Robert J. Henkes.

a. Does the rate recovery mechanism for LG&E's Gas Supply Clause ("GSC") include rate-making treatment for the associated deferred income taxes? Explain the response.

b. Explain why LG&E's removal of all revenue and expense aspects associated with its GSC and the exclusion of GSC related over- and under-recovery balances from its rate base constitutes a justification to remove GSC related deferred income taxes.

c. Explain how LG&E's treatment of these GSC related items in this case differs with LG&E's and the Commission's treatment of GSC related items in past gas cases.

d. Provide all rulings, opinions, or orders from federal or state utility regulatory commissions that support Mr. Henkes' recommendation concerning the GSC related deferred income taxes.

5. Refer to pages 16 and 17 of the Direct Testimony of Robert J. Henkes.

a. Provide supporting documentation for Mr. Henkes' assumption that a portion of LG&E's deferred income taxes are related to the Supplemental Executive Retirement Income Plan ("SERP").

b. Has Mr. Henkes verified that a portion of the deferred income taxes is related to SERP? Explain the response.

c. Provide all rulings, opinions, or orders from federal or state utility regulatory commissions that support Mr. Henkes' recommendation concerning the SERP related deferred income taxes.

6. Refer to pages 20 through 22 of the Direct Testimony of Robert J. Henkes.

a. Do the deferred accruals associated with Statement of Financial Accounting Standard ("SFAS") Nos. 106 and 112 and deferred credit balances associated with pensions represent restricted funds that LG&E cannot use for other general purposes? Explain the response.

b. Explain in detail how Mr. Henkes has determined that SFAS Nos. 106 and 112 deferred accruals and pension deferred credit balances constitute funds that would be available to LG&E for general working capital purposes.

c. Assuming that these accruals do represent funds available to LG&E for general working capital purposes, explain in detail why Mr. Henkes concludes that these items should be treated as rate base deductions in this case.

d. Provide all rulings, opinions, or orders from federal or state utility regulatory commissions that support Mr. Henkes' recommendation concerning his proposed rate base treatment of the SFAS Nos. 106 and 112 deferred accruals and the pension deferred credit balances.

7. Refer to pages 17, 18, and 20 of the Direct Testimony of Robert J. Henkes. Mr. Henkes has recommended that if the Commission does not reduce LG&E's gas rate base for the SFAS Nos. 106 and 112 deferred accruals and the pension deferred credit balances, the deferred income taxes associated with these items should be removed from the deferred income tax balances used in the rate base calculations.

a. Explain in detail why Mr. Henkes believes that it is inconsistent and inappropriate to disallow rate base deduction treatment for deferred SFAS Nos. 106 and 112 and pension related accrued funds, but then allow rate base addition treatment for the associated deferred income taxes.

b. Provide all rulings, opinions, or orders from federal or state utility regulatory commissions that support Mr. Henkes' recommendation concerning the treatment of these deferred income taxes.

8. Refer to page 54 the of the Direct Testimony of Robert J. Henkes.

a. Does Mr. Henkes agree that the funds classified as Customer Advances for Construction after some point in time will either be refunded to customers or treated as contributions in aid of construction if not refunded?

b. If Customer Advances for Construction are refunded to the customer, does Mr. Henkes still consider those funds to be "cost free?" Explain the response.

c. Explain in detail why Mr. Henkes believes it is inappropriate and inconsistent for LG&E to request a return of plant funded by Customer Advances for Construction.

d. Has Mr. Henkes reviewed previous Commission Orders to determine if his recommendation is consistent with the Commission's decisions in previous gas rate cases? What was the result of that review?

e. Provide all rulings, opinions, or orders from federal or state utility regulatory commissions that support Mr. Henkes' recommendation concerning depreciation expense on plant funded by Customer Advances for Construction.

9. Refer to the Schedule RJH-6, of the Direct Testimony of Robert J. Henkes.

a. Explain why Mr. Henkes included $426,866 in purchased gas expenses in his calculation of the cash working capital.

b. When using the formula approach to determine cash working capital for a gas utility, does Mr. Henkes believe it is appropriate to include purchased gas expenses in this calculation? Explain the response.

10. Refer to pages 33 and 34 of the Direct Testimony of Robert J. Henkes. In Case No 98-426,[1] the Commission rejected a proposed 5-year amortization period,

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[1] Case No. 98-426, Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Service, Order dated January 7,2000.

finding that a 3-year period conforms with both generally accepted accounting principles and LG&E's procedures for recovery of information technology investments. Given its determination in Case No. 98-426, explain why the Commission should use a different amortization period for LG&E's gas division.

11. Refer to page 37 of the Direct Testimony of Robert J. Henkes.

a. Explain why the absence of a alternative regulation plan should be considered by the Commission in determining the amortization period for LG&E's rate case expense.

b. Explain why the Commission should deviate from its past practice of amortizing rate case expenses over a 3-year period.

c. Given that it has been 10 years since LG&E's last gas rate case, explain why the AG believes, "a 5-year amortization period for the rate case expenses in this case is more appropriate and reasonable than the 3-year amortization period proposed by LG&E."

d. Provide a detailed explanation as to why the AG's proposed 5-year amortization of rate case expense meets the rate-making criteria of known and measurable while LG&E's proposed 3-year amortization does not.

12. Refer to page 40 of the Direct Testimony of Robert J. Henkes. Given that LG&E chose to expense rather than to defer the cost to achieve the employee separation initiative, explain why it is appropriate to allow LG&E to amortize this cost for rate-making purposes.

13. Refer to page 45 and 46 of the Direct Testimony of Robert J. Henkes. Given the AG's position regarding LG&E's proposal to use a 5-year normalization for pension expense, explain why a 4-year normalization for Account 916 is appropriate.

14. Refer to pages 57 and 58 of the Direct Testimony of Robert J. Henkes.

a. Mr. Henkes states that LG&E's actual 1999 gas income taxes includes a "Prior Year State Income Tax Adjustment" of $428,664 and a "Prior Year Federal Income Tax Adjustment" of $1,663,842. Provide a detailed explanation as to why the AG chose to recalculate income tax expense rather than removing prior period items from LG&E's actual income tax expense.

b. Provide a more detailed explanation as to why the 50 "temporary timing differences" actually booked by LG&E in 1999 or similar temporary differences would not impact the pro forma income taxes.

c. Provide detailed examples of how temporary timing differences are offset by the deferred income tax implications.

d. Determine the income tax expense by applying Mr. Henkes' proposed income tax methodology to LG&E's pro forma operations before the requested revenue increase. Include all workpapers, assumptions, and calculations used in the determination.

e. Provide a determination similar to (d) above but includes LG&E's requested revenue increase. Include all workpapers, assumptions, and calculations used in the determination.

15. Dr. Weaver recommends a lower return on equity if LG&E's proposed Weather Normalization Adjustment Mechanism ("WNA") is approved. Does the AG take

any position on the merits of the proposed WNA? If yes, provide a full explanation of that position.

16. LG&E has provided cost data in this proceeding to support its requested increase in its reconnection charge and bad check charge. State whether the AG, through the Direct Testimony of David Brown Kinloch, is proposing that these charges be set at a level below cost.

17. Refer to page 34 of the Direct Testimony of David Brown Kinloch. Mr. Kinloch states that LG&E's proposed increases in its reconnection and bad check charges violate the Commission's principles of gradualism and rate continuity. List previous Commission decisions where increases to non-recurring charges were limited based on the principles of gradualism and rate continuity.

18. Refer to page 37 of the Direct Testimony of Carl G. K. Weaver. Dr. Weaver explains why he did not rely on the two lowest DCF values. Explain why Dr. Weaver believes that investors would not consider the two highest rates valid.

19. Refer to pages 37 through 38 of the Direct Testimony of Carl G. K. Weaver. State whether Dr. Weaver believes that flotation costs are appropriate if PowerGen/LG&E were to issue new equity in the near-term future. Provide a detailed explanation.

20. Refer to page 38 of the Direct Testimony of Carl G. K. Weaver. Explain why Dr. Weaver chose the rate of return for large company stocks as the appropriate growth rate rather than the estimated growth in Gross Domestic Product.

21. Refer to page 40 and Schedule 25 of the Direct Testimony of Carl G. K. Weaver. State whether any state commission has accepted the use of current short-term or forecasted short-term interest rates as the risk free rate in the CAPM model.

22. Refer to page 5 of the Direct Testimony of David Brown Kinloch. On line 14, Mr. Kinloch states that he was unable to complete the Cost-of-Service analysis incorporating the findings and recommendations of other Attorney General witnesses. Has Mr. Brown Kinloch completed this analysis? If yes, provide the results.

23. In his Direct Testimony, Mr. Brown Kinloch states that the proposed Cost-of-Service Model is inappropriate to use in this case. Has Mr. Brown Kinloch preformed or considered performing a Cost-of-Service study using a methodology differing from the one proposed? If so, provide the results.

24. Throughout his Direct Testimony, Mr. Brown Kinloch modifies various components of the model proposed. Provide an electronic version of his results as filed and any other results that he has subsequently completed.

25. Refer to page 14 of the Direct Testimony of David Brown Kinloch. Beginning at line 14, Mr. Brown Kinloch discusses the rationale for purchasing gas for storage during the summer months at lower prices than during peak demand months. How do the current economic conditions within LG&E's service territory and the projected cost of gas for the upcoming heating season affect this rationale? How do these factors affect Mr. Brown Kinloch's Cost-of-Service analysis?

26. Refer to page 18 of the Direct Testimony of David Brown Kinloch. Beginning at line 19, Mr. Brown Kinloch proposes to redesign the Storage Demand

Allocator by applying 50 percent to storage demand and 50 percent to commodity. Provide an explanation for this proposal.

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cc: All Parties