

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR APPROVAL OF ITS 2002)	CASE NO.
COMPLIANCE PLAN FOR RECOVERY BY)	2002-00146
ENVIRONMENTAL SURCHARGE)	

and

THE APPLICATION OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY FOR APPROVAL OF ITS)	CASE NO.
2002 COMPLIANCE PLAN FOR RECOVERY BY)	2002-00147
ENVIRONMENTAL SURCHARGE)	

FIRST DATA REQUEST OF COMMISSION STAFF
TO KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc. (KIUC), pursuant to Administrative Regulation 807 KAR 5:001, shall file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before December 6, 2002. 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. 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 the Direct Testimony of Lane Kollen (Kollen Testimony), page 4, line 10. Provide a schedule identifying the specific expenses and the corresponding

amount of savings included in the annual operating and maintenance expense (O&M expense) savings estimate of \$1.3 million as determined by Mr. Kollen. Separate this schedule between O&M expense savings for Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU).

2. Refer to the Kollen Testimony, page 4, lines 14 through 16. Mr. Kollen states that the Commission s Order in Case No. 1994-00332¹ requires LG&E to net savings in operating expenses against incremental costs of new pollution control projects in the environmental surcharge filings. Provide the specific citations to the Commission s Order in Case No. 1994-00332 that support Mr. Kollen s statement.

3. Refer to the Kollen Testimony, pages 6 through 9.

a. On page 6, lines 18 and 19, Mr. Kollen states that the greater the volume of ash removed, the greater the extension of the remaining useful life of the ash pond, all else equal. Provide the basis for this statement.

b. On page 9, lines 1 through 4, Mr. Kollen recommends that the Commission should initially establish a 4-year amortization period for the ash pond removal and then adjust the period once LG&E determines the actual volume of ash it will remove and the related extended remaining useful life of the ash pond. Explain in detail why this approach would be preferable to simply establishing a 4-year amortization period regardless of the amount of ash removed.

¹ Case No. 1994-00332, 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.

c. Given the physical limits of the landfill and ash pond at Mill Creek, describe the likelihood that LG&E could remove enough ash to significantly lengthen the life of the ash pond beyond 4 years. For purposes of this question, assume significantly lengthen to mean greater than 2 additional years of service life.

d. On page 9, lines 9 and 10, Mr. Kollen recommends that LG&E be allowed to include the unamortized balance of the Mill Creek ash pond dredging costs in rate base and earn a return on the unamortized balance. Based on Mr. Kollen's understanding of previous decisions of this Commission, is this recommendation consistent with other cases involving the rate-making treatment of the unamortized balance of a deferred cost? Explain the response and provide citations to previous electric utility decisions of this Commission supporting this recommendation.

4. Refer to the Kollen Testimony, page 10, lines 6 and 7. Mr. Kollen states that LG&E and KU have not proposed any recognition of O&M expenses or savings in conjunction with the proposed 2002 compliance plans. Was Mr. Kollen aware that KU has identified incremental maintenance expenses of \$75,000 annually in association with the Ghent Ash Pond Dike Elevation that it proposes to reflect in its surcharge calculations? Explain the response.

5. Refer to the Kollen Testimony, page 11. Concerning the recognition of O&M expense savings:

a. Define the term gross costs as used by Mr. Kollen in his testimony.

b. Provide the basis for Mr. Kollen's contention that reasonable costs are defined as net costs.

c. Provide the basis for Mr. Kollen's contention that the investment in environmental compliance assets must be netted against any expected O&M expense savings.

6. Refer to the Kollen Testimony, pages 26 and 27.

a. Based on Mr. Kollen's experience, do the internal economic analyses performed by LG&E and KU appear to be similar to what is normally used in the electric utility industry?

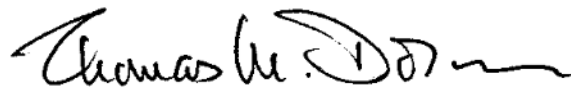
b. Would Mr. Kollen agree that how the investment costs and removal costs are handled in an internal economic analysis does not necessarily reflect the accounting and rate-making treatments for those costs? Explain the response.

c. Explain why Mr. Kollen assumes that LG&E and KU will not follow the accounting requirements of the Federal Energy Regulatory Commission's Uniform System of Accounts when recording the capital costs on the proposed compliance plan projects.

7. Concerning LG&E's and KU's 2002 compliance plans:

a. Except for the issues referenced in his direct testimony, what is Mr. Kollen's position on whether LG&E's and KU's proposed 2002 compliance plans should be approved?

b. What is Mr. Kollen's position on LG&E's and KU's proposals to modify their respective environmental surcharge mechanisms to reflect the 2002 compliance plan?



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DATED: NOVEMBER 22, 2002

cc: All parties