COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION INTO THE MEMBERSHIP OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY IN THE MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR, INC.	)))))))	CASE NO. 2003-00266

FIRST DATA REQUEST OF COMMISSION STAFF
TO LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY

Pursuant to 807 KAR 5:001, Commission Staff requests that Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) file the original and 5 copies of the following information with the Commission on or before October 20, 2003, with a copy to all parties of record. Each copy of the information 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 its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to page 7 of the Testimony of Paul W. Thompson (Thompson Testimony).

a. Provide the relevant portions of the presiding judge s November 26, 1999 decision finding that all users of the grid benefit equally from the operation of the Midwest Independent System Operator, Inc. (MISO).

b. Provide the relevant portions of the Federal Energy Regulatory Commission s (FERC) Opinion 453, which affirmed the judge s conclusion that MISO s Schedule 10 charges must be paid on behalf of existing bundled retail load.

2. Refer to pages 8-9 of the Thompson Testimony. Provide the procedural status of LG&E s and KU s appeal of FERC s Opinion 453 pending before the United States Court of Appeals for the District of Columbia.

3. Refer to the first full paragraph on page 15 of the Thompson Testimony, which states that there is currently no practical means to minimize MISO s expenditures consistent with good business practice.

a. By good business practice, does Mr. Thompson mean, either in a bilateral or unilateral manner, something outside the regulatory oversight of FERC? Explain the response.

b. To date, what actions has FERC taken in terms of reviewing or monitoring MISO s expenditures to determine whether they are reasonable and necessary? Has FERC initiated any formal or informal proceedings relating to MISO expenditures? Explain the response.

4. Refer to Exhibit PWT-2, page 7 of 9, which refers to MISO implementing Schedules 16 and 17, subject to refund and paper hearing procedures.

a. Explain whether LG&E and KU have incurred any expenses to date under Schedules 16 and 17.

b. Provide a schedule showing separately the monthly expenses incurred by LG&E and KU under Schedules 16 and 17 to date.

c. Assuming they remain in MISO, provide the annualized level of expense projected to be incurred separately by LG&E and KU under Schedules 16 and 17 going forward.

5. Refer to the August 31, 2003 Final Report of the Barrington-Wellesley Group, Inc., filed in Case Nos. 2003-00334[1] and 2003-00335,[2] pages I-13 and I-14, which discusses the $18.9 million in MISO-related costs incurred by LG&E and KU during 2002.

a. Provide the date that LG&E and KU began incurring expenses under MISO s Schedule 10, the monthly amount of Schedule 10 expenses that each has been billed to date, and the total amount of such expenses deferred for later billing by MISO.

b. Identify any other MISO charges assessed to LG&E and KU and provide a schedule of the monthly amount of such charges billed or deferred to each to date.

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[1] Case No. 2003-00334, An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Kentucky Utilities Company.

[2] Case No. 2003-00335, An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism Tariff of Louisville Gas and Electric Company.

c. Provide the date that LG&E and KU began receiving MISO-related revenues and a schedule of the monthly amount received by each in 2002. Identify each service provided by LG&E and KU which generated MISO-related revenues.

d. Provide a schedule of the monthly amount of transmission revenues received separately by LG&E and KU to date as MISO transmission owners.

e. Explain whether the responses to 4(a), 4(b), and 5(a) through (d) identify the total financial impact that MISO has had on LG&E and KU.

f. Describe any other costs, charges, revenues, etc. that should be factored into an analysis of the financial impact on LG&E and KU of MISO membership.

g. Based on the overall level of MISO-related costs presently incurred by LG&E and KU, provide the current estimates of the annual ongoing level of MISO-related costs for LG&E and KU. Provide a narrative explanation of the response and include all supporting calculations, workpapers, etc.

h. Based on information currently available to LG&E and KU, what is the current estimate of the annual ongoing level of MISO-related revenues for LG&E and KU. Provide a narrative explanation of the response and include all supporting calculations, workpapers, etc.

6. Have LG&E and KU performed an analysis to determine how much more or less revenues they have received as members of MISO versus not being members? If yes, provide the results. If no, prepare such an analysis using currently available information.

7. Explain in detail the anticipated impact on the revenues and expenses of LG&E and KU resulting from MISO s adoption of LMP pricing.

8. Refer to pages 14-16 of the Thompson Testimony and pages 10-11 of the Testimony of Michael S. Beer (Beer Testimony). Mr. Thompson discusses LG&E and KU wanting the Commission s full support of their pursuit of a voluntary exit from MISO, but not a Commission requirement to do so. Mr. Beer describes LG&E s and KU s request for authorization in this proceeding to establish a regulatory asset for the MISO exit fee. Mr. Beer also discusses LG&E s and KU s intentions for future rate recovery of their MISO-related costs. Provide clarification of precisely what LG&E and KU are requesting from the Commission in this proceeding.

9. Refer to Exhibit MJM-1, the Cost-Benefit Analysis.

a. Explain in detail how the discount rate of 7 percent was determined. Include all assumptions and supporting calculations.

b. Explain in detail what the line item Lost Revenues measures. Include all assumptions and supporting calculations.

10. Assume for purposes of this question that LG&E and KU decide on January 1, 2004 to withdraw from MISO and that there are no significant objections from FERC or MISO to the withdrawal. Provide a time line showing all the events and activities that LG&E and KU would have to undertake to finalize its withdrawal. Based on LG&E and KU s best estimates, include the timing of all required filings with MISO, FERC, and the Securities and Exchange Commission; indicate when final decisions could be expected; and when the withdrawal from MISO would be completed.

11. Assuming that LG&E and KU withdraw from MISO, are there differences in the length of notice that must be given prior to withdrawal or the amount of the exit

fee based on whether the withdrawal is voluntary or required by a regulatory authority? Explain your response.

12. Refer to the Thompson Testimony, page 6, lines 9-15. Is it LG&E s and KU s understanding that this Commission s alternative transmission pricing proposal referred to therein related to any issues other than cost-recovery and associated cost allocations of embedded transmission costs? If so, identify all other issues.

13. Refer to Exhibit MJM-1, the Cost-Benefit Analysis.

a. The original MISO filing[3] at FERC provided that during the transition period, rates for the recovery of embedded transmission costs would be based upon zonal costs as opposed to average, MISO system-wide costs, commonly referred to as postage stamp rate. After the transition period, there was a possibility of MISO transmission rates being based on average system costs instead of zonal costs.

(1) What is the current status of MISO s intent or obligation to adopt postage stamp pricing?

(2) The last paragraph on page 34 includes a discussion of zonal vs. postage stamp rates and indicates that no estimate has been developed for the increase in the cost of transmission access if MISO were to adopt postage stamp pricing. Explain why no estimate was developed.

(3) Provide an estimate of the annual effect on revenues and expenses of LG&E and KU of changing from zonal rates to a system-wide postage

[3] <u>See</u>, the original MISO filing in FERC Docket No. ER98-1438-000, cover letter dated January 15, 1998, at 9 and 10.

stamp rate based upon the current MISO configuration and the latest revenue requirements data available.

b. On July 24, 2003, FERC issued an Order in Docket No. RM02-1-000 that permitted participant funding for transmission upgrades necessary to accommodate new generation when transmission service is provided by independent transmission providers, but required a crediting approach for non-independent providers.[4] Does the Cost-Benefit Analysis provided as Exhibit MJM-1 reflect the impact of this recent Order?

c. The second to the last paragraph on page viii of the Cost-Benefit Analysis states, in part, Furthermore, if LGE/KU operated as a standalone system, it could still obtain for its native load customers many of the benefits that accrue to MISO members because it is a first-tier utility vis-à-vis MISO.

(1) What is meant by first-tier utility ?

(2) Are the benefits referred to here primarily the result of non-pancaked rates? If no, explain what the benefits are and how they can be obtained.

14. On November 6, 2002, LG&E filed responses to the Commission s request for information relating to an informal review of the costs and benefits of RTO membership and FERC s Standard Market Design. In the response to Item No. 13, LG&E and KU estimated their combined exit fee to be paid upon withdrawal from MISO as $9.4 million for capital costs and $2.7 million per year for operating costs applicable to periods prior to withdrawal. Explain the derivation of these amounts and explain why

[4] See, FERC Order No. 2003 at ¶ 693.

these amounts differ from the $23 million exit fee estimated in the Beer Testimony at page 10.

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Executive Director
Public Service Commission
P. O. Box 615
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DATED: _October 6, 2003__

cc: Parties of Record