

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION PURSUANT TO KRS 278.260 )  
OF THE EARNINGS SHARING MECHANISM ) CASE NO.  
TARIFF OF KENTUCKY UTILITIES COMPANY ) 2003-00334

AND

AN INVESTIGATION PURSUANT TO KRS 278.260 )  
OF THE EARNINGS SHARING MECHANISM ) CASE NO.  
TARIFF OF LOUISVILLE GAS AND ELECTRIC ) 2003-00335  
COMPANY )

FIRST DATA REQUEST OF COMMISSION STAFF  
TO THE ATTORNEY GENERAL

The Attorney General of the Commonwealth of Kentucky ( AG ), pursuant to 807 KAR 5:001, is requested to 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 30, 2003. 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 pages 8 and 9 of the Direct Testimony of Carl G. K. Weaver ( Weaver Testimony ). Dr. Weaver recommends on page 8 that the Commission establish a target percent of equity for the Earnings Sharing Mechanism ( ESM ) of 52.5 percent, but on page 9 states that the target percentage of equity should be set at 50 percent.

a. Describe in detail why Dr. Weaver believes the Commission should modify the ESM to utilize a target equity component. This discussion should indicate whether Dr. Weaver's recommendation is related to the Barrington-Wellesley Group, Inc. audit report.

b. Is Dr. Weaver aware of any other regulated utilities currently or previously under an ESM that utilized a target equity component and a capital structure activation limit?

c. If yes to part (b), identify the utility and provide copies of the regulatory commission decision authorizing the use of a target equity component and a capital structure activation limit.

d. Clarify Dr. Weaver's recommendation on the percentage that the Commission should set for determining the equity percentage to be used in the ESM calculation.

e. Provide a numerical example of the adjustment that Dr. Weaver recommends for each of the leverage components when resetting the equity percentage.

f. Dr. Weaver recommends periodic reviews of the equity target in the capital structure. How often does Dr. Weaver recommend reviewing the target?

2. Refer to page 13 of the Weaver Testimony. Dr. Weaver recommends setting an upper limit of 2.5 percent above the 50 percent equity target. Explain the derivation of the recommended 2.5 percent.

3. Refer to page 24 of the Weaver Testimony. Dr. Weaver uses five comparison companies to develop his recommended return on equity for LG&E and KU. Explain why five companies is a large enough sample to develop a dependable result.

4. Refer to page 44 of the Weaver Testimony. Dr. Weaver states that he chose a time period for the historical growth rate that does not contain a period of economic contraction. Explain the effect of using a larger time period that does contain periods of economic contraction.

5. Refer to KU's responses to the Commission Staff's First Data Request dated October 30, 2003, Items 29(f) and (g). KU is seeking approval of the deferral of net ice storm costs for recovery in future rate proceedings before the Commission. Provide any comments or recommendations Dr. Weaver has concerning KU's request to defer the net ice storm costs.



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Thomas M. Dorman  
Executive Director  
Public Service Commission  
Post Office Box 615  
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DATED: December 16, 2003

cc: All Parties