

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 KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc. (KIUC), 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 the Direct Testimony of Lane Kollen (Kollen Testimony), pages 10 and 11. Does Mr. Kollen believe the Earnings Sharing Mechanism (ESM) is an alternative form of regulation or a supplemental form of regulation? Explain the response.

2. Refer to the Kollen Testimony, pages 14 through 17. Mr. Kollen recommends that the ESMs for Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) should be discontinued.

a. Mr. Kollen describes what he believes should happen if the ESMs are discontinued in 2004. Is Mr. Kollen recommending that the ESMs be discontinued in 2004?

b. If yes to part (a), explain why 2004 is the appropriate year for discontinuing the ESMs.

c. If no to part (a), what year does Mr. Kollen recommend for the discontinuation of the ESMs? Explain the reason(s) why that year is appropriate.

d. If the ESMs were discontinued in 2004, explain why it would not be reasonable to make the ESM calculations based on calendar year 2003 the last ESM.

e. Assume for purposes of this question that the ESMs are discontinued in 2004. In performing the ESM calculations for calendar year 2004, would the rate of return on common equity (ROE) be the 11.5 percent currently included in the mechanism, or would the ROE authorized in the pending general rate cases be utilized? Explain the response.

3. Refer to the Kollen Testimony, pages 20 and 21. Mr. Kollen recommends against tying the short-term incentive compensation program to the earnings

performance under the ESMs, as recommended by the Barrington-Wellesley Group, Inc. (BWG) audit report.

a. Does Mr. Kollen have any suggestions that would address the concern identified by BWG that led to its recommendation to tie the short-term incentive compensation program to the earnings performance under the ESM? Explain the response.

b. Currently under the ESM, if the ROE calculated as part of the ESM is 100 basis points or more below the threshold, LG&E and KU can collect 40 percent of the shortfall from ratepayers. Would an alternative to address the concern raised by BWG over incentive compensation be to adjust the percentage of any earnings shortfall recovered from ratepayers depending on how far below the ROE calculated under the ESM is below the threshold (for example, if the ROE is 250 basis points or more below the threshold, the collection percentage could be 20 percent)?

4. Refer to the Direct Testimony of Carl G. K. Weaver, the Attorney General's witness. Provide any comments or recommendations Mr. Kollen has concerning Dr. Weaver's Target Equity Component and Capital Structure Activation Limit recommendations.

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 Mr. Kollen has concerning KU s request to defer the net ice storm costs.



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Public Service Commission
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DATED: December 16, 2003

cc: All Parties

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