COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

Louisville Gas and Electric Company (LG&E), 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 November 14, 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 1 and 2 of the testimony of Dr. Paula H. Pottinger (Pottinger Testimony). Explain in detail why Dr. Pottinger believes there has to be evidence of wrongdoing, harm, inappropriate conduct, or detrimental treatment of LG&E or its customers to justify the Barrington-Wellesley Group (BWG) recommendation to

directly link the executive short-term incentive program to the Earnings Sharing Mechanism (ESM).

2. After it accepted the Commission s offer of the ESM in 2000, did LG&E perform any research to determine how other regulated utilities operating under an alternative regulation plan handled their executive employee incentive plans?

a. If yes, provide the results of LG&E s research.

b. If no, explain why LG&E did not undertake such an analysis.

3. Refer to page 3 of the Pottinger Testimony. Provide the following information concerning the Executive Short-Term Incentive Compensation Plan (ESTICP):

a. The date the ESTICP was adopted by LG&E.

b. A description of the plan. The description should reflect the plan as in effect during calendar years 2000 through 2003. Any changes in the plan, exclusive of annual goals and targets, are to be identified and explained. Include any plan descriptions created contemporaneously with the plan and any written documents provided to eligible employees.

c. A listing, by job title, of the employees of LG&E, LG&E Energy Services, Inc. (LG&E Services), and LG&E Energy Corp. (LG&E Energy) who are eligible to participate in the ESTICP.

d. The corporate, business unit, and individual goals and targets established under the ESTICP for calendar years 2000 through 2003. Include any revisions to the annual goals or targets implemented after the annual goals or targets were established and explain the reason(s) for the revision.

e. An example demonstrating how the amount of compensation under the ESTICP is calculated.

4. Refer to page 4 of the Pottinger Testimony. Provide the following information concerning the long-term incentive compensation plan (LTICP):

a. The date the LTICP was adopted by LG&E.

b. A description of the plan. The description should reflect the plan as in effect during calendar years 2000 through 2003. Any changes in the plan, exclusive of annual long-term measures and targets, and the dates of each change, are to be identified and explained. Include any materials provided to eligible employees.

c. A listing, by job title, of the employees of LG&E, LG&E Services, and LG&E Energy who are eligible to participate in the LTICP.

d. The long-term measures and targets established under the LTICP for calendar years 2000 through 2003. Include any revisions to the annual long-term measures or targets implemented after the annual long-term measures or targets were established, the dates of each revision, and the reason(s) for the revision.

e. An example demonstrating how the amount of compensation under the LTICP is calculated.

5. Using job titles, identify and describe any other compensation plans available to the senior executives and key employees of LG&E, LG&E Services, and LG&E Energy, exclusive of base salary, the ESTICP, and the LTICP.

6. Refer to pages 5 and 6 of the Pottinger Testimony. Concerning the impact that the E.ON AG (E.ON) acquisition had on incentive payments in 2002, prepare a comparison showing the level of incentives actually awarded versus what the levels

would have been absent the impact of the E.ON merger agreement. Include an explanation of the impacts of the merger agreement on the incentive payments.

7. Refer to page 7 of the Pottinger Testimony. Dr. Pottinger states that the primary purpose of KU s and LG&E s ESM is to mitigate the effects associated with over- and under-earnings by serving as a measure of whether the utilities are recovering too much or too little from their customers for the services they receive. When the Commission offered LG&E the ESM in Case No. 1998-00426, it stated, The Commission encourages LG&E to take advantage of this optional ESM, since it provides LG&E with sufficient incentives to improve its performance while reducing the business risks inherent in over- and under-earnings. [1]

a. Explain in detail why Dr. Pottinger believes the primary purpose of the ESM is to mitigate the effects associated with over- and under-earnings.

b. Would Dr. Pottinger agree that the Commission s January 7, 2000 Order in Case No. 1998-00426 places the focus of the ESM on providing LG&E with incentives to improve performance? Explain the response.

c. Does Dr. Pottinger contend that mitigat[ing] the effects associated with over- and under-earnings is the same as reducing the business risks inherent in over- and under-earnings ? Explain the response.

d. Has Dr. Pottinger formed an opinion as to whether the ESM has provided LG&E with sufficient incentives to improve its performance? If yes, state that

[1] Case No. 1998-00426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of Its Rates and Service, final Order dated January 7, 2000 at 48.

opinion, explain the basis for the opinion, and identify every document relied upon to form such opinion.

8. Refer to page 7 of the Pottinger Testimony, lines 16 through 23. Dr. Pottinger contends that linking the ESM results to the ESTICP would result in executive short-term compensation levels being tied to events that may be entirely outside of the executive s control.

a. Is budgeted internal operating profit impacted by events that may be entirely outside the executive s control? Explain the response.

b. Explain how linking the ESM results to the ESTICP would be different from using budgeted internal operating profit as a performance measure.

9. Refer to page 8 of the Pottinger Testimony. Dr. Pottinger states, Incentives should only be applied in those situations where management has the ability to strongly influence or control the results.

a. Do all the corporate, business unit, and individual goals and targets in the ESTICP and the long-term measures and targets in the LTICP reflect situations where management has the ability to strongly influence or control the results?

b. If no, identify the goals, measures, and targets that are beyond the influence or control of management.

c. If incentives should be applied only to those situations where management can strongly influence or control the results, does that imply that management has the ability to manipulate the results? Explain the response.

10. Refer to page 10 of the Pottinger Testimony, lines 8 through 11. Based on Dr. Pottinger s statement, does she contend that LG&E did not need to adopt the

optional ESM in order to have sufficient incentives to improve its performance? Explain the response.

11. Refer to page 11 of the Pottinger Testimony, lines 17 through 20. Identify the stated objectives of the ESM program Dr. Pottinger is referencing in this portion of her testimony.

12. Refer to page 12 of the Pottinger Testimony.

a. Has Dr. Pottinger performed an analysis or study comparing the management structures of other regulated electric utilities that are part of a registered holding company system with the current structure operating at LG&E?

b. If yes, provide the results of this analysis or study.

13. Refer to pages 12 and 13 of the Pottinger Testimony. Concerning the proposed commitments to conduct annual internal audits of all service level agreements and to designate a single executive to be responsible for ensuring the audit and certification processes, explain how these proposals will address the issues raised in the BWG Report.

14. Refer to page 3 of the testimony of Valerie L. Scott (Scott Testimony). For each of the agencies listed below, indicate the date of the most recent audit performed by the agency, the period under audit, and the focus of the audit.

a. Internal Revenue Service.

b. Kentucky Revenue Cabinet.

c. Federal Energy Regulatory Commission.

d. Securities and Exchange Commission.

15. Refer to page 5 of the Scott Testimony, lines 8 through 11. Explain why LG&E has not fully utilized the Service Level Agreements as originally intended. Identify the provisions of the Service Level Agreements that have not been utilized as originally intended.

16. Refer to page 6 of the Scott Testimony, lines 12 through 16.

a. Does Ms. Scott believe there had to be a finding of harm or detriment to justify the BWG recommendation for the establishment of the single regulatory executive? Explain the response.

b. Does LG&E agree that the proper separation of regulated and non-regulated activities at LG&E Energy is as important as the ESM stated objectives? Explain the response.

17. Refer to page 7 of the Scott Testimony, lines 8 through 13. Provide the following information concerning the internal audit function and available resources for calendar years 2000 through 2002 and the first 9 months of 2003.

a. The number of audits performed by internal audit for LG&E Energy.

b. The number of audits performed by internal audit for LG&E.

c. The total internal audit resource dollars available to LG&E Energy.

d. The total internal audit resource dollars available to LG&E.

e. The allocation of audit resources to LG&E as a percentage of the total dollars. Include all calculations and assumptions used to determine this percentage for each period requested.

18. Refer to the testimony of Richard F. Meischeid (Meischeid Testimony). Throughout Mr. Meischeid s testimony he references comparisons with other utility industry incentive practices and plans.

a. Did Mr. Meischeid compare LG&E s and LG&E Energy s incentive plans with any other utilities that were operating under some form of alternative regulation that focused on providing sufficient incentives to improve utility performance?

b. If yes, what were the results of that comparison?

c. If no, explain why such a comparison was not made.

19. Refer to pages 4 and 5 of the Meischeid Testimony. Concerning the linkage of a meaningful portion of the ESTICP to the ESM,

a. Explain why Mr. Meischeid assumed the incentive awards would have to wait until the Commission s review was completed and a final ruling on the annual ESM filing issued.

b. Could the ESM results for a given year be reflected in the ESTICP payments, and any revision to the ESM results recognized in the next year s ESTICP? Explain the response.

20. Refer to page 6 of the Meischeid Testimony.

a. Did Towers Perrin develop the current LG&E Energy annual incentive plan?

b. Explain in detail the extent to which Mr. Meischeid has been involved with the development of LG&E Energy s current annual incentive plans.

21. Refer to page 7 of the Meischeid Testimony. Mr. Meischeid states, While the impact is hard to quantify, it is reasonable to expect that the Companies would

experience a decrease in the effectives [*sic*] of the short-term incentive plan and difficulty in attracting and retaining employees. Explain in detail the basis for this conclusion. Include any documentation, analyses, or studies supporting this conclusion.

22. Refer to pages 6 and 7 of the testimony of Michael S. Beer (Beer Testimony). Mr. Beer states that while the ESM has not created a new corporate mindset for LG&E, it has served to re-enforce existing corporate initiatives to achieve efficiency and customer service. Based on this statement, does Mr. Beer agree with the statement by Dr. Pottinger on page 7 of her testimony where she states that the primary purpose of the ESM is to mitigate the effects associated with over- and under-earnings by serving as a measure of whether LG&E is recovering too much or too little from its customers for the services they receive? Explain the response.

23. Has the ESM provided an incentive that would not have otherwise existed for LG&E to improve its performance? If yes, describe in detail the specific improvements in performance that resulted from LG&E s adoption of an ESM.

24. Refer to page 16 of the Beer Testimony. Is Mr. Beer contending that the only justification for the linking of the ESM with the ESTICP is that there has to be a finding that there are problems with the current ESTICP or that LG&E manipulated the performance measures? Explain the response.

25. Refer to page 17 of the Beer Testimony. Mr. Beer states that the cost associated with the ESTICP is not recovered from LG&E s ratepayers but is borne solely by its shareholders.

a. Is this statement based on the fact that LG&E has not included this cost in a rate-making proceeding before the Commission or the fact that the Commission has excluded the cost for rate-making purposes? Explain the response

b. Has the cost associated with the ESTICP been included in the operating expenses of LG&E during calendar years 2000, 2001, and 2002?

(1) If yes, then would Mr. Beer agree that the annual ESM calculations have been impacted by the ESTICP and that, for 2002, ratepayers are indirectly paying for the ESTICP? Explain the response.

(2) If no, explain in detail how LG&E accounts for the ESTICP cost.

c. In future rate-making proceedings, does LG&E intend to include the cost of the ESTICP in its revenue requirement determination?

26. For each senior executive participating in the ESTICP and for each key employee participating in the LTICP, provide the following information for calendar years 2000, 2001, and 2002. Identify the participating employees by job title only.

a. The total compensation paid to the employee.

b. A breakdown of the total compensation between the following categories:

(1) Base salary.

(2) ESTICP.

(3) LTICP.

(4) Other incentive and/or compensation plans.

c. Indicate the amount of the total compensation directly charged to LG&E, LG&E Services, LG&E Energy, and other LG&E Energy affiliates and subsidiaries.

d. Indicate the amount of the total compensation allocated from LG&E Services to LG&E.

e. Indicate the amount of the total compensation allocated from other LG&E Energy affiliates and subsidiaries to LG&E.

27. Provide a list showing each job title or position held by each senior and junior executive of LG&E. This response should include any jobs or positions held with LG&E Energy, LG&E Services, or any other subsidiary or affiliate of LG&E Energy.

28. Refer to the responses to the First Set of Data Requests of Kentucky Industrial Utility Customers, Inc. to BWG, Item 3, page 23 of 24. The response to BWG Data Request No. 6-93 shows that LG&E had no Research and Development (R&D) expenditures during the period of 1998 through 2002. In Case No. 2000-00095, the acquisition of LG&E Energy by Powergen, LG&E indicated it would continue funding R&D programs as long as the programs produced benefits.[2] LG&E, LG&E Energy, and Powergen committed to notifying the Commission in writing 30 days prior to any material change in their participation in funding for R&D, with changes including a change in funding equal to or greater than 5 percent of the previous year s budget for

[2] Case No. 2000-00095, Joint Application of Powergen PLC, LG&E Energy Corp., Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of a Merger, final Order dated May 15, 2000 at 32-33.

R&D.[3] In Case No. 2001-00104, this commitment was reaffirmed as part of the E.ON acquisition of Powergen.[4]

a. During the processing of Case No. 2000-00095, was LG&E aware it would not be making any R&D expenditures in 2000, even while it was indicating to the Commission its general support of R&D? Explain the response.

b. Explain why LG&E has not had any R&D expenditures from 1998 to 2002.

Thomas M. Dorman
Executive Director
Public Service Commission
Post Office Box 615
Frankfort, KY 40602-0615

DATED: October 30, 2003

cc: All Parties

[3] Id., Appendix A, Service Quality and Reliability, Item No. 6.

[4] Case No. 2001-00104, Joint Application for Transfer of Louisville Gas and Electric Company and Kentucky Utilities Company in Accordance with E.ON AG s Planned Acquisition of Powergen PLC, final Order dated August 6, 2001, Appendix A, Item 32.