COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE GAS AND ELECTRIC	)	
RATES, TERMS, AND CONDITIONS OF	)	CASE NO.
LOUISVILLE GAS AND ELECTRIC COMPANY	)	2003-00433

COMMISSION STAFF'S FIRST DATA REQUEST
TO THE UNITED STATES DEPARTMENT OF DEFENSE

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that the United States Department of Defense file the original and 8 copies of the following information with the Commission with a copy to all parties of record. The information requested herein is due April 19, 2004. 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. When applicable, the requested information should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the Direct Testimony of Thomas J. Prisco ("Prisco Testimony"), pages 8 and 9, concerning Louisville Gas and Electric Company's ("LG&E") proposed

depreciation expense adjustment. If depreciation issues are excluded from a general rate case and addressed in a separate proceeding, explain how the results from the separate depreciation proceeding can be reflected in the base rates paid by customers.

2. Refer to the Prisco Testimony, pages 10 and 11.

a. Explain the reason(s) why a regulatory asset and/or credit should be established for LG&E's pensions and post-retirement expenses.

b. Explain the purpose for the recommendation that "a band be established that would require a refund or recovery if or when the account reaches a specific threshold."

c. Three companies are identified on page 11 as having adopted some type of deferred accounting mechanism for pensions and post-retirement benefits.

(1) Describe the circumstances that led to the establishment of the deferred accounting mechanism for each company.

(2) Provide copies of the commission orders establishing the deferred accounting mechanism for each company.

(3) Identify and explain any differences between the deferred accounting mechanisms authorized for three listed companies and the recommendation for LG&E.

3. Refer to the Prisco Testimony, page 12, concerning LG&E's proposed storm damage normalization. Was Mr. Prisco aware that in previous LG&E rate cases the Commission has included the use of an inflation factor in the calculation of the adjustment? Explain the response.

4. Refer to the Prisco Testimony, page 12, concerning the Earnings Sharing Mechanism ("ESM") audit expenses. Was Mr. Prisco aware that, under the provisions of KRS 278.255(3), the costs of the ESM audit must be included in the cost of service of LG&E for rate-making purposes? Explain the response.

5. Refer to the Prisco Testimony, Exhibit TJP-2.

a. Concerning the Accounts Receivable Securitization component of LG&E's capitalization and capital structure:

(1) Was Mr. Prisco aware that the Accounts Receivable Securitization program was terminated on January 16, 2004?

(2) Was Mr. Prisco aware that LG&E replaced the funds from the Accounts Receivable Securitization program with a mix of short-term and long-term debt borrowed from Fidelia, Inc. ("Fidelia") in January 2004?

(3) Explain why Mr. Prisco believes the Accounts Receivable Securitization program should be included as part of LG&E's capital structure in this case.

(4) Should the Fidelia debt financing be recognized in the capital structure of LG&E, but the dollars of capitalization remain unchanged from the total as of test-year end? Explain the response.

b. Concerning the Common Equity component of LG&E's capitalization and capital structure, does Mr. Prisco agree with LG&E's proposed adjustment to Common Equity related to its minimum unfunded pension liability currently reported in the Other Comprehensive Income balance? Explain the response.

6. Refer to the Direct Testimony of Kenneth L. Kincel ("Kincel Testimony"), page 11 and Exhibit KLK-6. Are the dividends listed in the exhibit adjusted for changes in the dividends paid during the 12-month period? If the dividends are not adjusted, explain why.

7. The Kincel Testimony, page 13, states that Ibbotson Associates were relied upon for the methodology used to apply the Capital Asset Pricing Model ("CAPM"). Provide a copy of the Ibbotson Associates methodology.

8. The Kincel Testimony, pages 13 and 14, uses a 20-year government bond for his risk free rate in the risk premium analysis and the CAPM analysis. Explain why the 20-year bond is appropriate instead of a 30-year bond.

9. The Kincel Testimony, page 16, states that 90 days of average closing prices was used in his Discounted Cash Flow analysis. Explain why 90 days is an appropriate time period for use in this analysis.

10. The Kincel Testimony, page 15 and 20, recommends a Return on Equity ("ROE") of 10 percent for LG&E's electric operations and 10.5 percent for LG&E's gas operations, stating that these percentages are recommended in the interest of gradualism, since LG&E currently has a higher ROE.

a. Explain how these recommendations demonstrate the concept of gradualism.

b. If LG&E's current authorized ROE for electric operations was less than 11.5 percent, would Mr. Kincel's recommendation be less than 10 percent?

c. If LG&E's current authorized ROE for gas operations was less than 11.25 percent, would Mr. Kincel's recommendation be less than 10.5 percent?

11. Would Mr. Kincel's recommendation be the same if LG&E no longer had the ESM?

a. If yes, explain why.

b. If no, provide an estimate of the revised recommendation and explain why the absence of an ESM affects the recommendation.

Thomas M. Dorman
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, Kentucky 40602

Dated April 6, 2004

cc: All Parties