COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN ADJUSTMENT OF THE ELECTRIC RATES, TERMS, AND CONDITIONS OF KENTUCKY UTILITIES COMPANY | ) ) ) | CASE NO. 2003-00434 |

<u>COMMISSION STAFF'S SECOND DATA REQUEST TO KENTUCKY UTILITIES COMPANY</u>

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Kentucky Utilities Company ("KU") 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 February 17, 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 response to the Commission Staff's First Data Request dated December 19, 2003 ("Staff First Request"), Items 54(c), 55(c), 56(c), and 57(a)(1-5). In

each of these responses, KU has redacted information from the data response but did not file a motion for confidential protection for the redacted information. KU cites as the basis for redacting the information that it is either proprietary information not responsive to the request, protected from disclosure by the attorney-client privilege, or protected by work product doctrine. KU's responses are not in conformity with the provisions of 807 KAR 5:001, Section 5(a), which states:

> No party to any proceeding before the commission shall fail to respond to discovery by the commission or its staff or any other party to the proceeding on grounds of confidentiality. If any party responding to discovery requests seeks to have a portion or all of the response held confidential by the commission, it shall follow the procedures for petitioning for confidentiality contained in the administrative regulation. Any party's response to discovery requests shall be served upon all parties, with only those portions for which confidential treatment is sought obscured.

In Items 54(c) and 55(c), the redacted items KU claims are proprietary but not responsive to the data requests relate to the allocation of expenses to KU and LG&E Energy Corp. ("LG&E Energy") affiliate companies. In Item 56(c), the redacted item is Appendix G, a Legal Review related to Statement of Financial Accounting Standard ("SFAS") No. 143. In Item 57(a)(1-5), the redacted items are the detailed expense billings from the outside attorneys retained by KU to work on this rate case. All the requested information is related to expenses KU seeks to recover through its base rates.

KU shall provide the information without redaction or redacted with the appropriate request for confidentiality.

2. Refer to the response to Staff First Request, Item 30(c). KU was requested to provide a complete breakdown of the expenses recorded in Account No.

426. In the response, KU stated that since this account was not included for rate-making purposes, the detail information was not being provided. A review of the detail in this account may identify expenses that have been allocated to other accounts that are included for rate-making purposes. Without the detailed information, a complete analysis cannot be completed. KU shall provide the originally requested detailed breakdown.

3. Refer to the Financial Exhibit of the Application, pages 5 through 8 of 8. Prepare a schedule comparing the Kentucky jurisdictional and Other jurisdictional amounts shown in the Financial Exhibit with the corresponding amounts provided in the September 2003 quarterly financial statement KU filed with the Commission. Explain the reason(s) for all differences between the two sets of financial information.

4. Refer to Tab 28 of the Application, Volume 1 of 6.

a. In Case No. 2000-00080,[1] the Commission was critical of information submitted by Louisville Gas and Electric Company ("LG&E") in that case as a reconciliation of capitalization and rate base. The Commission noted that LG&E's reconciliation did not identify and explain the reasons for the differences between capitalization and rate base. The approach utilized by LG&E was the same as KU has used for Tab 28. Was KU aware of the Commission's previous criticism of LG&E's reconciliation of capitalization and rate base? Explain the response.

[1] Case No. 2000-00080, The Application of Louisville Gas and Electric Company to Adjust Its Gas Rates and to Increase Its Charges for Disconnecting Service, Reconnecting Service and Returned Checks, final Order dated September 27, 2000 at 10.

b. The information submitted as Tab 28 does not constitute a reconciliation of KU's capitalization and rate base. KU states its test-year total company capitalization is $1,469,770,433 and the corresponding rate base is $1,549,420,616. Provide a reconciliation of the difference of $79,650,183 that identifies and explains the reasons for the difference.

5. Refer to Tab 32 of the Application, Volume 2 of 6, the 2002 Federal Energy Regulatory Commission ("FERC") Form 1. On pages 123.9 and 123.10 of KU's FERC Form 1 is a discussion of KU's Energy Trading and Risk Management Activities. Provide the same information as disclosed in FERC Form 1 for the 12 months ending September 30, 2003.

6. Refer to Tab 39 of the Application, Volume 3 of 6.

a. Provide a description of the $77,124,771 in inter-company charges billed from LG&E to KU.

b. Prepare a schedule by account number showing the account where the $77,124,771 was recorded on KU's books. The schedule should separate Kentucky jurisdictional charges from Other jurisdictional charges. If the charges for a particular account were allocated between the jurisdictions, include an explanation of how the allocation was performed.

7. Refer to Tab 39 of the Application, Volume 3 of 6, the LG&E Energy Services Inc. ("LG&E Services") Cost Allocation Manual ("CAM").

a. Pages 15 through 19 of the CAM discuss the corporate organization of LG&E Energy. The CAM has a reference date of December 18, 2003 on each page; however, the narrative appears to be outdated. Provide an updated version of the corporate organization section of the CAM.

b. On page 21 of the CAM is a chart of transactions provided by LG&E Services to affiliates. Explain why the categories of "Support Services to Homes Services" and "Support Services to Enertech" are shown with a primary affiliate of "Regulated."

8. Refer to Volume 4 of 6 of the Application, the Testimony of Paul W. Thompson ("Thompson Testimony"), pages 5 and 6.

a. Mr. Thompson discusses the installation of Distributed Control Systems ("DCS") across much of the generation fleet. Describe the expected benefits and savings DCS should provide to KU.

b. Mr. Thompson states that KU has transitioned from a time-based preventive maintenance approach to a predictive, reliability-centered maintenance process. When did KU make this transition?

c. Since the completion of this transition, what changes have occurred to the time schedules between successive overall maintenance established under the time-based preventive maintenance approach?

d. What are the estimated cost savings from the adoption of the predictive, reliability-centered maintenance process?

e. Is it not more probable that a total shutdown might occur during peak energy usage if certified periodic overall maintenance is delayed or deleted?

f. Does KU still schedule overall maintenance for its boilers and generators after implementing these changes in the maintenance procedures?

9. Refer to Volume 4 of 6 of the Application, the Thompson Testimony, page 6, concerning performance variation.

a. Is performance testing on operating equipment a new procedure for KU's operation process?

b. Explain the changes in operation efficiency due to the changes mentioned in the operation and maintenance processes.

10. Refer to Volume 4 of 6 of the Application, the Thompson Testimony, pages 6 and 7.

a. What was KU's total installed cost of MAXIMO®?

b. Did MAXIMO® replace a similar system already in place at KU? Explain the response.

c. Describe the results that have been achieved by MAXIMO®.

11. Refer to Volume 4 of 6 of the Application, the Thompson Testimony, page 8.

a. How does KU choose maintenance contractors?

b. Who supervises the performance, safety, and reliability of contractors' maintenance work? Explain the response.

c. Does KU provide its safety procedures to its contractors? Explain the response.

12. Refer to Volume 4 of 6 of the Application, the Thompson Testimony, pages 9 and 10.

a. Compare the Equivalent Forced Outage Rate ("EFOR") for KU to the national average EFOR.

b. Explain the reasons why the EFOR increased in 2002.

13. Refer to Volume 4 of 6 of the Application, the Thompson Testimony, page 12.

a. Concerning the average duration of service interruption tracking measure, provide the value of this measure for the test year and the 4 previous calendar years. Explain any change in the measure between any two time periods that is more than plus or minus 5 percent.

b. Concerning KU's vegetation management program:

(1) Provide a discussion of the program and explain any changes in the program that have occurred since 1998.

(2) Provide a schedule showing the expense for the vegetation management program for the test year and the 4 previous calendar years. Include a breakdown of the expense into categories like tree trimming and spraying.

14. Refer to Volume 4 of 6 of the Application, the Testimony of Chris Hermann ("Hermann Testimony").

a. On pages 9 and 10, Mr. Hermann discusses the Geospatial Enterprise Management Integration Network Initiative ("GEMINI").

(1) Describe any other benefits to GEMINI other than those mentioned by Mr. Hermann.

(2) Are there any risks associated with GEMINI? Explain the response.

(3) Does KU anticipate that GEMINI will result in reductions in its workforce? Explain the response.

b. On page 12, Mr. Hermann discusses the new information system called "SMILE."

(1) Was SMILE developed internally or were outside contractors employed?

(2) What was KU's total cost to implement SMILE?

(3) Did the implementation of SMILE focus exclusively on KU's information technology and customer information systems operations, or were other operations impacted? Explain the response.

15. Refer to Volume 4 of 6, the Testimony of S. Bradford Rives ("Rives Testimony").

a. Refer to Rives Exhibit 1, Schedule 1.01, concerning the adjustment to adjust the mismatch in fuel cost recovery for the test year. For September 2003, the expense amount shown is $4,269,288, which was taken from page 5, line 8, of KU's Form A for November 2003, filed with the Commission on December 16, 2003. That Form A was in error and KU filed a revised Form A for November 2003 on December 31, 2003, which included a revised September 2003 expense of $1,099,278. Explain whether the revised expense should be included on schedule 1.01 rather than the original amount of $4,269,288. If yes, provide a revised schedule 1.01 and related changes to any other affected schedules.

b. On page 15 of the Rives Testimony it is indicated that Green River Units 1 and 2 will be retired in early 2004.

(1) Provide a detailed description of the problems experienced at the Green River station that led to the decision to retire Units 1 and 2, the actions taken to remedy those problems, and the reasoning for the decision to retire the units.

(2) How does KU intend to replace the generating capacity now provided by Green River Units 1 and 2?

(3) Explain what will happen to the workforce currently assigned to Green River Units 1 and 2. Also describe how KU has reflected any changes in its workforce due to the retirement of these units in this rate case.

(4) Refer to Tab 42 of the Application, Volume 3 of 6, KU's pro forma balance sheet. Has the adjustment for the retirement of Green River Units 1 and 2 been reflected in the pro forma balance sheet? Explain the response. If the retirement has not been reflected, explain why KU adjusted its capitalization but not its rate base to reflect the retirement.

c. On pages 19 through 22, Mr. Rives discusses the accounting requirements under SFAS No. 130, *Reporting Comprehensive Income*.

(1) SFAS No. 130 became effective for fiscal years beginning after December 15, 1997. When did KU adopt SFAS No. 130?

(2) Has FERC modified the Uniform System of Accounts ("USoA") to conform to the provisions and requirements of SFAS No. 130? Explain the response. Include copies of any applicable documents issued by FERC.

(3) Explain in detail how KU's proposal to create a regulatory asset for its minimum unfunded pension liability conforms to the USoA definition of regulatory assets.

(4) In preparing its proposal to create this regulatory asset, did KU research other state regulatory commission decisions for guidance? If yes, provide copies of the results of that research.

(5) Explain in detail why the creation of a regulatory asset for KU's minimum unfunded pension liability is reasonable, given Mr. Rives' acknowledgement that the corresponding Other Comprehensive Income adjustment fluctuates over time.

(6) How does KU anticipate amortizing this proposed regulatory asset? Did KU propose a corresponding amortization expense adjustment in this case? Explain the responses.

(7) Provide the workpapers supporting the calculation of the minimum pension liability adjustment.

d. On page 23, Mr. Rives states that KU anticipates that accounts receivable financing will be terminated in the first quarter of 2004. In Case No. 2000-00490,[2] a 3-year accounts receivable financing pilot program was approved for KU. KU was required to file an application no later than July 1, 2003 if it wished to extend the pilot program.

(1) Did KU file an application to continue the pilot program by the required date?

(2) Given the provisions of the Commission's December 13, 2000 Order in Case No. 2000-00490, why does Mr. Rives "anticipate" the accounts

[2] Case No. 2000-00490, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving the Transfer of Certain Financial Assets.

receivable financing program will terminate in the first quarter of 2004? Would Mr. Rives agree that the termination of the program is required in the first quarter of 2004?

(3) With the termination of the accounts receivable financing, explain in detail why this financing should continue to be recognized in KU's capitalization and determination of its overall weighted average cost of capital.

e. Rives Exhibit 1, Schedule 1.37 shows the determination of the revenue gross up factor.

(1) Is KU eligible to file consolidated Kentucky corporation income tax returns? Explain the response.

(2) If KU is eligible to file consolidated Kentucky corporation income tax returns, provide the effective Kentucky income tax rate for KU for the most recent 4 tax years.

(3) If KU has been filing consolidated Kentucky corporation income tax returns, would it agree that the most recent effective Kentucky income tax rate should be used to determine the gross up factor and the income tax effect of all adjustments rather than use the stated 8.25 percent rate? Explain the response.

f. Rives Exhibit 3 shows the net original cost rate base for KU. Provide the calculations and workpapers that support the following components of the rate base:

(1) Accumulated Deferred Income Taxes.

(2) FAS 109 Deferred Income Taxes.

(3) Materials and Supplies.

(4) Prepayments.

(5) Emission Allowances.

(6) Cash Working Capital.

g. Explain why emission allowances are included in KU's Kentucky jurisdictional rate base, given that KU earns a return on its emission allowances through the environmental surcharge.

16. Refer to Volume 4 of 6 of the Application, the Testimony of Valerie L. Scott ("Scott Testimony").

a. Refer to page 4 of the Scott Testimony and Rives Exhibit 1, Schedule 1.11, of the Rives Testimony. Separate the proposed increase in depreciation expense into the following components:

(1) The increase associated with the normalization of depreciation expense for plant placed in service during the test year.

(2) The increase associated with the proposed depreciation rates.

b. Refer to page 5 of the Scott Testimony. Provide a detailed description of the Team Incentive Award ("TIA") program. Include copies of the program description and the various goal targets in effect at test-year end and for the 2 previous program years.

c. Provide the workpapers showing the calculation of the TIA for 2002. Separately identify the impact of the E.ON AG guarantee on the non-union TIA calculations.

d. Refer to page 5 of the Scott Testimony and Rives Exhibit 1, Schedule 1.12, page 3 of 4, of the Rives Testimony.

(1) Does the proposed adjustment to payroll taxes recognize that the maximum taxable wages for a portion of the Federal Insurance Contributions Act ("FICA") changed effective January 1, 2004?

(2) Would KU agree that the impact of the change in the maximum taxable wage for FICA purposes should be recognized in the proposed adjustment?

(3) Prepare a revised adjustment reflecting the impact of the maximum taxable wage for a portion of the FICA taxes. Include all supporting workpapers, calculations, and assumptions.

e. Refer to page 6 of the Scott Testimony. Provide the Mercer study for 2003 referenced in this adjustment. Include any additional calculations necessary to connect the conclusions of the Mercer study with the amount included in the proposed adjustment to pension and post-retirement expenses.

f. Refer to page 6 of the Scott Testimony and Rives Exhibit 1, Schedule 1.14 of the Rives Testimony.

(1) Provide the calculations supporting the factors shown in the column labeled "CPI – All Urban Consumers."

(2) Explain in detail why KU does not have the storm damage expense data for more that the most recent 4-year period.

g. Refer to pages 7 and 8 of the Scott Testimony and Rives Exhibit 1, Schedule 1.19 of the Rives Testimony.

(1) Ms. Scott states that the proposed adjustment to injuries and damages is calculated consistent with the adjustment used in Case No. 2000-00080.

Provide references to the final Order in that case where an adjustment to injuries and damages like the one proposed is discussed.

(2) Explain why the proposed adjustment to injuries and damages is not based on 10 years' experience instead of 5 years.

(3) Explain why the test year was not included in the calculation of the average, as was done in the proposed storm damage expense adjustment.

(4) Recalculate the proposed adjustment to injuries and damages including the test year amount and using 10 periods in the average. Include all supporting calculations, workpapers, and assumptions.

h. Refer to page 9 of the Scott Testimony and Rives Exhibit 1, Schedule 1.21 of the Rives Testimony. Under the terms of the settlement agreement approved by the Commission in Case No. 2001-00169,[3] the Value Delivery Team ("VDT") workforce reduction deferred debit was to be adjusted to the actual costs incurred after adjustments were made to reflect any employees who rescinded their acceptances of the voluntary terminations or retirements. The amortization of the deferred debit was to be adjusted to reflect the revised deferred debit balance. The VDT surcredit tariff submitted in accordance with the settlement agreement provides for a balancing adjustment that reconciles any over- or under-distribution of the net savings.

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[3] Case No. 2001-00169, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving Proposed Deferred Debits and Declaring the Amortization of the Deferred Debits to be Included in Earnings Sharing Mechanism Calculations.

(1) Given the provisions of the settlement agreement in Case No. 2001-00169, explain in detail why the adjustment proposed on Schedule 1.21 is necessary.

(2) Has KU been recording in its revenues and expenses the actual amounts or the amounts as stated in the settlement agreement for the VDT surcredit? Explain the response.

i. Refer to page 9 of the Scott Testimony, concerning the Merger Surcredit.

(1) Are there any savings and/or benefits anticipated at the time of the merger of LG&E Energy with KU Energy Corp. ("KU Energy") that have not been realized? Explain the response.

(2) At the time KU was negotiating its settlement of Case No. 2002-00429,[4] had KU informed the parties that it was going to file an application for an increase in electric rates?

(3) Has KU included an adjustment in this case to remove the effects of the Merger Surcredit from the test-year level of Kentucky jurisdictional revenues? Explain the response.

(4) Would KU agree that, due to the continuation of the Merger Surcredit, the need to include the shareholder portion of the Merger Surcredit has increased KU's revenue requirement in this case by $18,968,825 plus the applicable tax effect? Explain the response.

[4] Case No. 2002-00429, Kentucky Utilities Company's Plan to Address the Future of the Merger Surcredit Approved by the Kentucky Public Service Commission in Case No. 1997-00300.

(5) Since base rates are being changed in this proceeding, and given the fact the merger of LG&E Energy and KU Energy was completed in 1998, would It be reasonable to discontinue the Merger Surcredit and assume all savings from that merger are reflected in the ongoing operations of KU? Explain the response.

j. Refer to page 10 of the Scott Testimony, concerning the adjustment for the Midwest Independent Transmission System Operator, Inc. ("MISO") Schedule 10 costs.

(1) Prepare a schedule showing all revenues received from and charges billed to KU by MISO during the test year. The schedule should break down the charges by MISO tariff schedule.

(2) Identify all changes in MISO revenues and charges that have become effective since the end of the test year up through January 31, 2004.

(3) Are any costs associated with liability insurance coverage for MISO passed on to KU? If so, explain how the costs are passed on to KU.

(4) Does KU's membership in MISO expose it to litigation costs or other costs associated with events such as the August 2003 blackout? Explain the response.

(5) Can any awards or damages assessed to MISO due to such litigation be passed directly to KU? Explain the response.

(6) Can or has KU taken steps to protect it from the costs of awards or damages resulting from litigation against MISO? Explain the response.

k. Refer to pages 12 and 13 of the Scott Testimony and Rives Exhibit 1, Schedule 1.26 of the Rives Testimony.

(1) Provide all workpapers, calculations, and assumptions used to determine the adjustment shown on Schedule 1.26.

(2) Describe the benefits KU anticipates will result from the reduction of employees in the Information Technology department of LG&E Services.

(3) If not included in subpart (1) above, provide a detailed schedule of all the costs incurred to achieve the savings from this reduction in the workforce. Include the number of years these costs will be paid or incurred by LG&E Services.

(4) Explain why the proposed adjustment does not include an adjustment for TIA.

(5) Explain why KU believes a 3-year amortization of the costs to achieve the savings is reasonable.

l. Refer to page 13 of the Scott Testimony and Rives Exhibit 1, Schedule 1.30 of the Rives Testimony.

(1) Provide all supporting workpapers, calculations, and assumptions used to determine the adjustment on Schedule 1.30.

(2) Explain in detail why the Commission should recognize this change in the Owensboro Municipal Utilities contract that is not scheduled to take effect until 9 months after the test year in this case.

m. Refer to Appendix A of the Scott Testimony. If Ms. Scott has other work experience prior to joining KU, provide that information.

17. Refer to Volume 4 of 6 of the Application, the Direct Testimony of Earl M. Robinson ("Robinson Testimony").

a. In Case No. 2001-00140,[5] KU filed an application seeking approval of new depreciation rates. That study was based on plant in service as of December 31, 1999. The case was resolved as part of a multiple-case settlement agreement. That settlement agreement provided that KU was to complete a new depreciation study no later than calendar year 2004 based on its plant in service as of December 31, 2003.

(1) Was Mr. Robinson aware of the depreciation study in Case No. 2001-00140 and the settlement agreement that resolved that case?

(2) Was Mr. Robinson aware that KU's current depreciation rates were the result of a settlement agreement, and not based solely on the last depreciation study?

b. Why is KU submitting a new depreciation study in this case, rather than performing and submitting the next depreciation study as agreed to in the settlement agreement?

c. Is KU seeking to be relieved of that provision of the settlement agreement in Case No. 2001-00140 that requires the filing of a new depreciation study in 2004 based on plant in service as of December 31, 2003? Explain the response.

d. Prepare a schedule that compares the depreciation rates originally proposed by KU in Case No. 2001-00140 with the rates proposed by the present study. Explain the reason(s) for each proposed depreciation rate that increases or decreases by more than 5 percent of the original rate.

[5] Case No. 2001-00140, Application of Kentucky Utilities Company for an Order Approving Revised Depreciation Rates.

e. Was Mr. Robinson aware of the impact SFAS No. 143 could have on KU's depreciation rates? If yes, explain why there is no mention of SFAS No. 143 in Mr. Robinson's testimony.

18. Refer to Volume 4 of 6 of the Application, the Robinson Testimony, page 7, lines 11-17. The paragraph describes Broad Group Procedures. However, the description reads like a description of Average Life Group Procedures.[6]

a. Was the term "Broad Group Procedures" used in error? If not, provide authoritative support for the definition used in the testimony.

b. Confirm that this section does not mean that Broad Group accounting was used and that Vintage Group accounting was actually used.

19. Refer to Volume 4 of 6 of the Application, the Robinson Testimony, page 11, lines 16-18, which states, "This analysis routinely identifies that historical retirements have occurred at average ages significantly prior to the property group's average service life." Is this because the average service life was estimated incorrectly, simply the result of the fact that when an average life is used, some equipment is retired earlier than average, while others are retired later, or because the survivor curve is heavily weighted toward early retirements? Explain the response in detail.

20. Refer to Volume 4 of 6 of the Application, the Robinson Testimony, page 11, lines 18-21, which states, "This occurrence of historical retirements, at an age which is significantly younger than the average service life of the property category, clearly

[6] See for example, page 74 of *Depreciation Systems* by Frank K. Wolfe and W. Chester Fitch, copyright 1994 Iowa State University Press.

demonstrates that the historical data does not appropriately recognize the true level of retirement cost at the end of the property's useful life."

a. The above statement appears to suggest that the cost to retire a 20-year old pole would be different than the cost to retire a 30-year old pole. Explain in more detail why an early retirement has any impact on the cost to retire or clarify the intent of this sentence.

b. Explain whether the above statement relates to the fact that the depreciation accruals for net salvage would be less than the actual net salvage costs if the equipment is removed prematurely.

c. Explain whether the above statement relates to the fact that net salvage, particularly the cost of removal, expressed as a proportion of the original cost will differ depending upon when the equipment is retired.

21. Refer to Volume 4 of 6 of the Application, the Robinson Testimony, page 12, lines 2-5 and lines 12-13, which relate to inflation and higher labor costs over time. Explain why the use of current dollars for net salvage and comparing it to the original cost of the investment does not implicitly recognize some historical inflationary effects.

22. Explain whether aged salvage data was available and used in the depreciation analysis.

23. Refer to Volume 6 of 6 of the Application, Robinson Appendix C, Section 1, page 1-3, which discusses the allocation of depreciation reserves to plant accounts. However, page 1-4 implies that depreciation reserves are kept on an account level basis. Explain why it is necessary to allocate depreciation reserves to plant accounts if the reserves are maintained at the account level.

24. Refer to Volume 6 of 6 of the Application, Robinson Appendix C, Section 2, Table 1.

a. Provide a similar table with the Present and Proposed depreciation rates (columns d and f) split into their base, net salvage and remaining life components.

b. Provide a similar table to that provided in response to part (a) of this request, but with net salvage based only on historical, booked data, with no adjustments based upon future estimates of inflation or other judgmental factors.

25. Refer to Volume 4 of 6 of the Application, the Testimony of Robert G. Rosenberg ("Rosenberg Testimony"), pages 5 through 7. Mr. Rosenberg discusses the credit and financing problems currently faced by electric regulated utilities and quotes several sources that cite insufficient commission awarded returns as contributing to the problem.

a. Has KU had problems refinancing debt or obtaining new debt? If yes, provide specific examples.

b. Is Mr. Rosenberg aware of any studies that support an optimum bond rating for utilities? If yes, provide the citation and the rating.

26. Refer to Volume 4 of 6 of the Application, the Rosenberg Testimony, pages 33 and 34.

a. Mr. Rosenberg uses a 60 basis point size premium for the comparison group in his Capital Asset Pricing Model ("CAPM") analysis. Explain the derivation of the 60 basis points.

b. Mr. Rosenberg concludes from his analysis that the CAPM estimate is in the 10.75 – 11.5 percent range. Only two of the eight results from the analyses fall within the range of 10.75 – 11.50 percent, with three of the results falling below the range, and three falling above the range. Describe in detail how Mr. Rosenberg arrived at the range of 10.75 – 11.5 for the CAPM with these results.

27. Refer to Volume 4 of 6 of the Application, the Rosenberg Testimony, page 37. Mr. Rosenberg discusses his analysis of state commission authorized returns on common equity for electric utilities. Mr. Rosenberg states that commissions frequently refer to movements in interest rates in their decisions on allowed return on equity ("ROE"). Does Mr. Rosenberg believe it is reasonable to take movements in interest rates into consideration when evaluating ROE? Explain the answer.

28. KU currently has an Earning Sharing Mechanism ("ESM").

a. Explain the effect of the ESM on KU's level of risk.

b. Provide a list of companies from the proxy group that also have an ESM or similar mechanism.

29. Refer to Volume 4 of 6 of the Application, the Direct Testimony of William Steven Seelye ("Seelye Testimony"), pages 26 and 27 and Seelye Exhibit 11 regarding the proposed adjustment to annualize the number of electric customers served at the end of the test year.

a. Explain whether the average number of customers for KU's rate classes shown in Column 1 of Seelye Exhibit 11, page 1 of 2, are 12-month averages or a 13-month average.

b. Provide, for each rate class, the number of customers at month-end for each month of the test year. For the first month of the test year, October 2002, provide the number of customers as of the beginning of the month.

30. Refer to Volume 4 of 6 of the Application, the Seelye Testimony, pages 39 through 43 and Seelye Exhibit 20 regarding the determination of the residential customer charge. Although KU is proposing sizeable increases to the customer charges for several other rate classes, including general service, large power, large commercial/industrial and mine power, it provided no testimony or other support for the proposed charges. Provide any analyses, calculations, supporting workpapers, etc. that show the derivation of these customer charges, along with a narrative description of how the increases were derived.

31. Refer to Volume 4 of 6 of the Application, the Seelye Testimony, page 40, regarding KU's proposal to eliminate its Full Electric Residential Service ("FERS") rate.

a. Describe KU's marketing effort to promote all-electric service during the test year as compared to its marketing effort at the time of Case No. 8624.[7]

b. Explain whether a corporate decision has been made to no longer market all-electric residential service.

32. Refer to Volume 4 of 6 of the Application, the Seelye Testimony, page 61, which shows the rate of return for rate FERS lagging behind that of the residential service ("RS") rate. Provide a general explanation for why the FERS rate of return is lower than the RS rate of return.

33. Refer to Volume 5 of 6 of the Application, Seelye Exhibit 15 and Tab 34 of the Application, Volume 2 of 6, Electric Rate Increase by Class of Customers. Provide, on a diskette, the electronic Microsoft® Excel spreadsheet(s) contained in Exhibit 15.

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[7] Case No. 8624, General Adjustment of Electric Rates of Kentucky Utilities Company.

34. Refer to Volume 4 of 6 of the Application, the Seelye Testimony, pages 24 and 25 and Rives Exhibit 1, Schedule 1.03 of the Rives Testimony.

a. Provide all workpapers, calculations, and assumptions used to determine the amounts shown on Schedule 1.03. Include references to the appropriate monthly surcharge filings.

b. In order to eliminate the appropriate amounts for the environmental surcharge expenses and rate base, would it be reasonable to compare the rate base and expenses included in the "roll in" calculation of the surcharge in Case No. 2003-00068[8] with the corresponding rate base and expenses for the test year, and remove the difference between the applicable account balances? Explain the response.

35. Refer to Volume 5 of 6 of the Application, Seelye Exhibit 1, the Jurisdictional Separation Study. For each of the references listed below, explain why what appears to be an Other jurisdictional cost has been partially allocated to Kentucky jurisdictional. If any of these costs should have been allocated 100 percent to Other jurisdictional, provide a revision to the application jurisdictional allocation factor.

a. Line Item 15, Virginia Property, page 6 of 31.

b. Line Item 6, Virginia Property, page 8 of 31.

c. Line Item 17, Transmission VA, page 8 of 31.

d. Line Item 17, Virginia Property, page 15 of 31.

e. Line Item 11, Virginia Property, page 17 of 31.

[8] Case No. 2002-00068, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Periods Ending January 31, 2001, July 31, 2001, January 31, 2002, and January 31, 2003 and for the Two-Year Billing Periods Ending July 31, 2000 and July 31, 2002.

f. Line Item 13, Distribution – VA, page 17 of 31.

g. Line Item 28, Transmission Plant VA, page 24 of 31.

36. Refer to Volume 4 of 6 of the Application, the Testimony of Sidney L. “Butch” Cockerill, pages 3 and 4, and SLC Exhibits 1, 2, and 3, regarding the cost justifications for disconnects/reconnects, meter tests and return payments. Provide supporting workpapers and/or calculations showing the derivation of the labor costs, vehicle costs and meter costs shown in the exhibits. For example, for the meter test cost justification, provide a time breakdown of travel, set-up and testing that comprises the amount of time for labor. Also, provide the calculation for the hourly rate for all employees performing the work, identifying the hourly rate for each job classification involved. For the vehicle cost, provide the calculation of the hourly rate of the vehicle(s) used when performing the work. Include narrative descriptions of each of the workpapers and/or calculations.

37. Refer to the response to Staff First Request, Item 1. Is KU in compliance with its current bylaws concerning the number of directors on its Board of Directors? Explain the response.

38. Refer to the response to Staff First Request, Item 4(a), page 2 of 2, lines 1 and 3. Explain why the annualized costs shown in column (j) are higher that the actual test year interest costs shown in column (k).

39. Refer to the response to Staff First Request, Item 19. For each of the accounts listed below, provide the reason(s) for the change in the “12$^{th}$ Month” balances between the “Test Year” and “Prior Year”:

a. Account No. 303, Miscellaneous Intangible Plant, page 1 of 8.

b. Account No. 343, Prime Movers, page 3 of 8.

c. Account No. 353, Station Equipment, page 4 of 8.

d. Account No. 355, Poles and Fixtures, page 4 of 8.

e. Account No. 364, Poles, Towers, and Fixtures, page 5 of 8.

f. Account No. 367, Underground Conductors and Devices, page 5 of 8.

g. Account No. 368, Line Transformers, page 6 of 8.

h. Account No. 373, Street Lighting and Signal Systems, page 6 of 8.

i. Account No. 391, Office Furniture and Equipment, page 7 of 8.

j. Account No. 394, Tools, Shop, and Garage Equipment, page 7 of 8.

k. Account No. 107, Construction Work in Progress, page 8 of 8.

40. Refer to the response to Staff First Request, Item 21. For each of the accounts listed below, provide the reason(s) for the change in the "Total" balances between the "Test Year" and "Prior Year":

a. Account No. 447005, Intercompany Sales for Resale, page 14 of 22.

b. Account No. 447050, Sales for Resale – Energy, page 15 of 22.

c. Account No. 447055, Sales for Resale – Demand, page 16 of 22.

d. Account No. 447060, Sales for Resale – Transmission, page 16 of 22.

e. Account No. 447100, Brokered Sales – Energy, page 16 of 22.

f. Account No. 447200, Brokered Purchases, page 17 of 22.

g. Account No. 456002, Transmission of Electric Energy, page 20 of 22.

h. Account No. 456040, Transmission Service Operator Revenue, page 22 of 22.

41. Refer to the response to Staff First Request, Item 23(a). For each of the accounts listed below, provide the reason(s) for the change in the "Total" balances between the "Test Year" and "Prior Year":

a. Account No. 501, Fuel, page 11 of 20.

b. Account No. 512, Maintenance of Boiler Plant, page 11 of 20.

c. Account No. 547, Fuel, page 13 of 20.

d. Account No. 583, Overhead Line Expenses, page 16 of 20.

e. Account No. 586, Meter Expense, page 16 of 20.

f. Account No. 588, Miscellaneous Distribution Expenses, page 16 of 20.

g. Account No. 593, Maintenance of Overhead Lines, page 17 of 20.

h. Account No. 903, Customer Records and Collection Expense, page 18 of 20.

i. Account No. 905, Miscellaneous Customer Accounts Expenses, page 18 of 20.

j. Account No. 908, Customer Assistance Expenses, page 18 of 20.

k. Account No. 924, Property Insurance, page 19 of 20.

l. Account No. 926, Employee Pensions and Benefits, page 20 of 20.

m. Account No. 930.2, Miscellaneous General Expenses, page 20 of 20.

n. Account No. 935, Maintenance of General Plant and Equipment, page 20 of 20.

42. Refer to the response to Staff First Request, Item 23(c), page 3 of 4. The calculation of the percentage change shown on line 9 appears to be incorrect. Provide a corrected version of this page.

43. Refer to the response to Staff First Request, Item 24. For each salary plan group shown in the response, provide the actual regular hours worked and the actual overtime hours worked for calendar years 2000 through 2002.

44. Refer to the response to Staff First Request, Item 30(b), page 2 of 2. For each of the entities listed below, explain in detail why the expense should be included for rate-making purposes:

(1) Bluegrass State Games.

(2) Lexington Professional Baseball.

(3) One Time Vendor – Friends of McConnell Springs.

(4) Wise County, Virginia Chamber of Commerce.

45. Refer to the response to Staff First Request, Item 31, concerning outside legal services.

a. Describe how KU determines the allocation of outside legal services between Kentucky jurisdictional and Other jurisdictional.

b. For each of the outside legal service providers listed below, describe the legal services provided and indicate whether the level of expense constitutes a recurring expense for KU. Also indicate whether the expense was for Kentucky jurisdictional only, Other jurisdictional only, or both.

(1) Boehl Stopher and Graves LLP.

(2) Frost Brown Todd LLC.

(3) Hunton & Williams.

(4) Jones Day Reavis & Pogue.

(5) Ogden Newell and Welch.

(6) Stoll Keenon and Park LLP.

(7) Sutherland Asbill and Brennan LLP.

(8) Troutman Sanders LLP.

(9) Wright & Talisman PC.

(10) Wyatt Tarrant & Combs LLP.

46. Refer to the response to Staff First Request, Item 31, concerning professional services other than legal. Describe how KU determines the allocation of professional services, other than legal services, between its Kentucky jurisdictional and Other jurisdictional.

47. Refer to the response to Staff First Request, Item 31.

a. For each of the professional service providers listed on Attachment A to this request, describe the services provided to KU and indicate whether the level of expense constitutes a recurring expense for KU. Indicate whether the expense was for Kentucky jurisdictional only, Other jurisdictional only, or both.

b. Refer to page 8 of 64. Explain why the transactions listed below should be included for rate-making purposes:

(1) Central Baptist Hospital, Account No. 923100.

(2) Commonwealth Printing Company, Account No. 923100.

c. Are document references (invoice numbers, purchase order numbers, etc.) not maintained in KU's accounting records? Explain the response.

d. Explain in detail why a voucher number or other transaction document reference was not available for this information.

48. Refer to the response to Staff First Request, Item 32. Explain in detail why the identified charitable and political contributions were recorded in accounts other than Account No. 426.

49. Refer to the response to Staff First Request, Item 38. Provide a revised page 1 of 13 that includes the requested rates of return for the test year before pro forma adjustments. Include all supporting calculations for the additional rates of return.

50. Refer to the response to Staff First Request, Item 42.

a. Based on the response to Item 42(a), is it correct that none of the costs billed to LG&E Services were recorded in the operating expense accounts of KU? Explain the response.

b. Provide a schedule by operating expense account number showing the following information:

(1) The test-year actual Kentucky jurisdictional operating expenses.

(2) The expenses billed from LG&E Services charged to KU's Kentucky jurisdictional operations.

(3) The test-year actual Other jurisdictional operating expenses.

(4) The expenses billed from LG&E Services charged to KU's Other jurisdictional operations.

51. Refer to the response to Staff First Request, Item 43. Concerning the changes in KU's debt costs, explain the reason(s) for the changes occurring since the test-year end.

52. Refer to the response to Staff First Request, Item 46.

a. How much of the test-year executive officers' salary and other compensation was charged to KU?

b. Provide the amount charged to Kentucky jurisdictional and Other jurisdictional and explain how the allocation was determined.

c. Explain in detail how short-term bonuses were determined during the test year.

d. Refer to pages 5 through 7 of the response. For each executive officer whose "Annual Increase %" exceeded 4.0 percent, explain in detail the reason(s) for the executive officer's annual increase being greater than the increase granted to other KU employees during the test year.

53. Refer to the response to Staff First Request, Item 47. KU was requested to provide an analysis of its research and development activities for the test year and 3 preceding calendar years. KU provided information only about its participation with the Electric Power Research Institute ("EPRI").

a. Does KU contend that the amounts paid to EPRI are the only research and development activities it undertook during the time periods covered by the request?

b. If there were additional research and development activities during the identified periods, provide the originally requested information and explain in detail why KU omitted the information from its response.

c. Reconcile KU's research and development activities expenses reported in this response for calendar year 2002 with the amounts claimed as a federal income tax credit on Form 6765 – Credit for Increasing Research Activities for the 2002 federal income tax year.

54. Refer to the response to Staff First Request, Item 50.

a. For each benefit listed in the response, provide a description of the benefit. Include the level of coverage provided, which benefits require an employee contribution, and the amount of the employee contribution.

b. Provide the same benefit information as shown in the response including the costs charged to KU by LG&E Services.

55. Refer to the response to Staff First Request, Item 56(d). After KU made the revisions to its depreciation rates as required by SFAS No. 143, explain why the pre-SFAS No. 143 and the post-SFAS No. 143 depreciation rates remained unchanged for the assets not identified with the "AROC" designation.

56. Refer to the response to Staff First Request, Item 57(a).

a. Refer to page 1 of 83 of the response. Has KU recorded the rate case expenses in its operating expense accounts or charged all the costs to a subaccount of Account No. 186? Explain the response.

b. Concerning the invoices from Edgewood Consulting, Inc., explain how the costs were allocated between the rate case and the ESM case.

c. Concerning the invoices from Management Applications Consulting, Inc., explain how Loss Studies have been utilized in the preparation of this rate case.

d. Does KU anticipate performing another depreciation study within the next 3 years? If not, when does KU anticipate it will perform its next depreciation study?

e. Would KU agree that the costs associated with the depreciation study should be amortized separately from the other rate case expenses and over the period of time expected between the performance of depreciation studies? Explain the response.

f. Refer to page 9 of 83 of the response. Explain why the costs on this page with the date reference of July 21-22, 2003 should be included as rate case expenses.

57. LG&E Energy recently changed its corporate structure to a Limited Liability Corporation ("LLC").

a. Describe the impacts, if any, this change will have on any costs charged to KU from LG&E Energy.

b. Will there be any tax savings resulting from the LLC status that will flow to KU? If yes, describe the savings and provide the anticipated dollar amount of the savings annually.

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

DATED February 3, 2004

cc: All Parties

CASE NO. 2003-00434
ATTACHMENT A

PROFESSIONAL SERVICE PROVIDERS

Item 47(a). Refer to the response to Staff First Request, Item 31. For each of the professional service providers listed below, describe the services provided to KU and indicate whether the level of expense constitutes a recurring expense for KU. Indicate whether the expense was for electric operations only, gas operations only, or both.

1. Robert Half Management Resources, all listed transactions, Account No. 923100, page 2 of 64.

2. Abel Construction Company Inc., all listed transactions, page 2 of 64.

3. Adecco Employment Services, all listed transactions, page 2 of 64.

4. Aetna Building Maintenance Inc., Account No. 921003, $130,575.06, page 2 of 64.

5. American Payment Systems Inc., all listed transactions, page 3 of 64.

6. Asplundh Tree Expert Co., all listed transactions, page 4 of 64.

7. Avaya Inc., all listed transactions, page 5 of 64.

8. B and B Electric Company Inc., Account No. 571100, $101,874.50, page 5 of 64.

9. Belcan Staffing Solutions, all listed transactions, page 6 of 64.

10. Bray Electric Services Inc., Account No. 593002, $45,989.96, page 7 of 64.

11. Chucks Construction Company, Inc., Account No. 562100, $41,475.22, page 8 of 64.

12. Commercial Movers Inc., all listed transactions, page 8 of 64.

13. Corpedia Corp., Account No. 923100, page 9 of 64.

14. Credit Clearing House of America, Inc., all listed transactions, page 9 of 64.

15. Davis H. Elliot Co. Inc.:

  a. Account No. 571100, $204,954.32, page 10 of 64.

  b. Account No. 583001, $34,234.36, page 10 of 64.

  c. Account No. 588100, $90,998.69, page 10 of 64.

  d. Account No. 593001, $29,242.80, page 11 of 64.

  e. Account No. 593002, $1,148,056.14, page 11 of 64.

16. Dewolff Boberg and Associates, all listed transactions, page 11 of 64.

17. Dillard Smith Construction Company, Account No. 593002, page 12 of 64.

18. Eden Electric Inc., all listed transactions, page 12 of 64.

19. Electric Service Co. LTD, all listed transactions, page 12 of 64.

20. Electric Technologies Inc., page 13 of 64:

  a. Account No. 562100, $42,775.20.

  b. Account No. 570100, $27,992.96.

  c. Account No. 582100, $21,656.96.

21. Elite Environmental Services Inc, page 13 of 64:

  a. Account No. 512100, $152,851.58.

  b. Account No. 513100, $25,193.38.

22. Enerfab Inc., all listed transactions, page 13 of 64.

23. Evans Aetna Services LLC, page 14 of 64:

  a. Account No. 905001, $31,758.76.

  b. Account No. 921003, $48,254.39.

24. Evans Construction Co Inc., page 18 of 64:

    a. Account No. 588100, $41,499.86.

    b. Account No. 903003, $111,795.77.

    c. Account No. 905001, $22,975.79.

    d. Account No. 921003, $33,338.40.

25. Evans Services Inc., all listed transactions, pages 18 and 19 of 64.

26. FlowServe/Dalco, Account No. 514100, $21,180.30, page 19 of 64.

27. G and G Utility Construction Inc., all listed transactions, page 20 of 64.

28. William W. Gamblin, all listed transactions, page 20 of 64.

29. Gary Lynn Construction Company, Inc., all listed transactions, page 20 of 64.

30. Gribbins Insulation Company Inc., page 21 of 64.

    a. Account No. 512100, $76,453.26.

    b. Account No. 513100, $37,730.82.

31. Harshaw Trane and Harshaw Trane Service, all listed transactions, page 22 of 64.

32. Heidrick and Struggles Inc., all listed transactions, page 22 of 64.

33. Hendrix Electric Inc., all listed transactions, page 22 of 64.

34. Hill and Associates Inc., all listed transactions, page 23 of 64.

35. ICR, all listed transactions, pages 23 and 24 of 64.

36. Industrial Maintenance and Engineering Corp., Account No. 512100, $44,931.45, page 25 of 64.

37. Jarboe, all listed transactions, page 26 of 64.

38. J. D. Power and Associates, Account No. 908002, page 27 of 64.

39. Job Shop and Job Shop Staffing Service, all listed transactions, page 27 of 64.

40. Kelly Services Incorporated, page 28 of 64:

a. Account No. 597110, $28,963.14.

b. Account No. 903003, $55,750.35.

41. Kentuckiana Food Service, all listed transactions, page 29 of 64.

42. Lakeshore Financial Staffing and Lakeshore Staffing Group, all listed transactions, pages 29 through 31 of 64.

43. Greggory Keith Long, all listed transactions, page 31 of 64.

44. Lovegreen Turbine Services, Inc., Account No. 513100, $339,085.80, page 32 of 64.

45. R. E. Lyons, all listed transactions, page 32 of 64.

46. Manpower, all listed transactions, page 33 of 64.

47. McCoy and McCoy Laboratories:

a. Account No. 501091, $21,392.75, page 33 of 64.

b. Account No. 501091, $24,947.09, page 34 of 64.

48. Mercer Human Resources Consulting, Account No. 923100, $27,642.32, page 37 of 64.

49. Moore Industries International Inc., Account No. 506100, page 38 of 64.

50. Neace Lukens Inc., all listed transactions, page 40 of 64.

51. Nelson Industrial Services Inc., Account No. 512100, $31,820.50, page 41 of 64.

52. New Energy Associates LLC, Account No. 500100, page 42 of 64.

53. Omni Personnel, all listed transactions, page 43 of 64.

54. Pole Maintenance Company LLC, all listed transactions, page 48 of 64.

55. Power Technology, all listed transactions, page 49 of 64.

56. Precision Piping and Mechanical Inc.:

    a. Account No. 511100, $40,071.49, page 49 of 64.

    b. Account No. 512100, $138,197.14, page 50 of 64.

    c. Account No. 513100, $66,221.29, page 50 of 64.

57. Remedy Staffing, all listed transactions, page 52 of 64.

58. Schmidt Consulting Services Inc., Account No. 908002, page 53 of 64.

59. Sensmeier Construction, all listed transactions, page 53 of 64.

60. Serco Management Services Inc., all listed transactions, page 53 of 64.

61. Sumter Utilities Inc., all listed transactions, page 56 of 64.

62. The State Group Industrial USA Limited, page 57 of 64:

    a. Account No. 512100, $47,359.29.

    b. Account No. 513100, $40,184.06.

63. Todays Staffing Inc., all listed transactions, pages 58 through 60 of 64.

64. Townsend Tree Service Company, Inc., all listed transactions, page 61 of 64.

65. Tru Check Inc., all listed transactions, page 61 of 64.

66. Urgent Treatment Center, Account No. 923100, $21,428.00, page 62 of 64.

67. US Ecology, Account No. 923100, page 62 of 64.

68. Wayne Corp., Account No. 925100, page 63 of 64.

69. Wilhod Inc., all listed transactions, page 63 of 64.

70. William E. Groves Construction Inc., Account No. 571100, $52,345.38, page 63 of 64.

71. Xerox Corp., page 63 of 64:

    a. Account No. 923100, $862,915.14.

    b. Account No. 923100, $73,562.00.

72. Yuba Heat Transfer Division, all listed transactions, pages 64 of 64