

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR A CERTIFICATE OF PUBLIC)	CASE NO.
CONVENIENCE AND NECESSITY TO)	2004-00426
CONSTRUCT FLUE GAS DESULFURIZATION)	
SYSTEMS AND APPROVAL OF ITS 2004)	
COMPLIANCE PLAN FOR RECOVERY BY)	
ENVIRONMENTAL SURCHARGE)	

FIRST DATA REQUEST OF COMMISSION STAFF
TO THE ATTORNEY GENERAL

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“AG”), is requested, pursuant to 807 KAR 5:001, 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 is due on April 20, 2005. 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 requested has been provided previously in the format requested, reference may be made to the specific location of that information in responding to this information request.

1. Refer to the Direct Testimony of Dr. Carl G. K. Weaver (“Weaver Direct Testimony”), page 32. Dr. Weaver uses an historical growth rate for earnings per share (“EPS”) and cash flow per share (“CFS”) for the period of 1994 to 2005. Would the

growth rate be higher or lower if he used the full Ibbotson period of 1929-2005? Explain the response.

2. Refer to the Weaver Direct Testimony, page 35. Dr. Weaver uses a 4-month period to develop the dividend yield in his discounted cash flow (“DCF”) analysis. Would the dividend yield be higher or lower if he used a 6-month period? Explain the response.

3. Refer to the Weaver Direct Testimony, page 36. Explain why Dr. Weaver did not make a flotation cost adjustment to the DCF results.

4. Refer to the Weaver Direct Testimony, page 37. Explain why Dr. Weaver uses 4 years to develop the forecasted growth rate in the multi-stage DCF model.

5. Refer to the Weaver Direct Testimony, page 38. Explain why Dr. Weaver uses a holding period of 1993-2004 to develop his bond-yield-equity-risk-premium (“BYRP”).

6. Refer to the Weaver Direct Testimony, page 39. Explain why Dr. Weaver uses a 10-year bond interest rate to develop the cost of equity in his BYRP method.

7. Refer to the Weaver Direct Testimony, page 47. Dr. Weaver makes reference to capital structure adjustments made in Case No. 2003-00434.¹ Explain why Dr. Weaver cites the adjustments to undistributed subsidiary earnings and minimum pension liability but does not mention the adjustments to the investment in Electric Energy, Inc. and the other investments addressed in the Commission’s Order.

¹ Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company, Appendix E.

8. Refer to the Weaver Direct Testimony, pages 47 and 48. Dr. Weaver states that the cost of pollution control bonds should be used as the cost of long-term debt for the environmental compliance assets.

a. Has Dr. Weaver performed an analysis to determine if any of the proposed environmental compliance projects qualify for pollution control bond debt?

b. If yes, provide the analysis with all supporting calculations, workpapers, and assumptions.

c. If no, explain why such an analysis has not been performed.

d. If the capital expenditures included in the approved compliance plan for the Kentucky Utilities Company have been funded in part with various types of long-term debt, explain in detail why it is reasonable to use the cost of pollution control bond debt as the cost of all long-term debt for environmental surcharge purposes.



Beth O'Donnell
Executive Director
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DATED April 6, 2005

cc: All Parties