COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY D/B/A DUKE ENERGY KENTUCKY FOR AN ADJUSTMENT OF ELECTRIC RATES	))))	CASE NO. 2006-00172

<u>SECOND DATA REQUEST OF COMMISSION STAFF</u>
<u>TO DUKE ENERGY KENTUCKY</u>

The Union Light, Heat and Power Company, d/b/a Duke Energy Kentucky ("Duke Kentucky"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 6 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before July 26, 2006. 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 witness 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 herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the Application, Tab 27.

a. Does the capital expenditures budget reflect both the electric and gas operations of Duke Kentucky, or only the electric operations? If the budget reflects electric and gas operations, resubmit the capital expenditures budget separating the electric and gas operations.

b. Does the capital expenditures budget reflect the total project costs or only Duke Kentucky's portion? If the budget reflects the total project costs, resubmit the capital expenditures budget showing only the Duke Kentucky portion of the costs.

c. For each of the capital expenditure projects listed below, provide a description of the project:

(1) Line 185 – AMS3 – Small World Upgrade to 3-3.

(2) Line 186 – AVAYAUPG – Email Chat Upgrade.

(3) Line 189 – BATMNT – BATGENMAINT.

(4) Line 195 – DBR6 – SMLWORLD Design Build Rel. 6.

(5) Line 196 – DBR7 – SMLWORLD Design Bld. Rel. 7.

(6) Line 197 – DBR8 – SMLWORLD Des. Bld. Rel. 8.

(7) Line 200 – DOCGEN – Document Generation.

2. Refer to the Application, Tab 28, pages 1 through 5 of 5.

a. When developing the forecasted portion of the base period and the forecasted test period, did Duke Kentucky modify or change any of the general or specific assumptions listed in this portion of the application? If yes, describe each change or modification and explain in detail why each change or modification was needed.

b. Do the budgeting and forecasting guidelines used to prepare the base and forecasted test periods reflect the pre-merger approach used by Cinergy Corp. ("Cinergy") or the post-merger approach used by Duke Energy Corporation? Explain the response.

c. Refer to page 1 of 5, Revenues 1(a). Explain in detail the meaning of the following statement, "The projected revenues for non-residential electric customers were calculated by using average realizations."

d. Refer to page 2 of 5, Expenses 2(b). Explain in detail how the non-union labor expense escalation factor, the union labor expense escalation factor, and the non-labor expenses escalation factor were determined.

e. Refer to page 3 of 5, Expenses 2(e). Explain in detail why the transmission expenses for the remaining Midwest Independent System Operator, Inc. ("MISO") Transmission and Energy Markets Tariff's revenues and charges were based on Duke Energy Ohio's ("Duke Ohio") historical information for the months of April 2005 through November 2005.

f. Refer to page 3 of 5, Expenses 2(h). Describe the "leased Erlanger facility and the additional build-out construction project."

g. Refer to page 4 of 5, Financing Assumptions 4(a). Explain how the 5.5 percent to 5.8 percent annualized interest rates were determined.

h. Refer to page 4 of 5, Financing Assumptions 4(c). Explain in detail why a 35.0 percent payout ratio was assumed for the forecasted test period.

3. Refer to the Application, Tab 28, the 2006 Budget Departmental Guidelines ("2006 Budget Guide").

a. Page 8 of the 2006 Budget Guide indicates that the budget was to be approved by the board on December 15. Provide documentation showing the board's approval of the 2006 budget.

b. Page 18 of the 2006 Budget Guide references helicopter expense in the budget. Provide the total helicopter expense included in the base period and forecasted test period for Duke Kentucky's electric operations.

c. Page 19 of the 2006 Budget Guide discusses a "redeployment pool." Describe this item and explain how it impacts the base period and forecasted test period. Identify the dollars included in both the base period and forecasted test period related to the redeployment pool.

d. Page 19 of the 2006 Budget Guide discusses the business unit incentive plans. Describe the practical implication of basing the incentive plans on a corporate level 2 achievement and explain why that achievement level is reasonable.

e. Page 29 of the 2006 Budget Guide discusses the "CIN-10 Initiative."

(1) Provide a listing of all of the "CIN-10 Initiative" projects or programs that were incorporated into the base period and forecasted test period. Include the expected costs or savings from each project for both the base period and forecasted test period.

(2) Explain why only the incremental savings of $30 million were to be removed from the 2006 budgets.

f. Page 49 of the 2006 Budget Guide shows the loading rates. Explain in detail why the loading rates for fringe benefits and non-union indirect labor do not agree with the loading rates shown on page 3 of 5 of the Specific Assumptions, Expenses 2(c).

4. Refer to the Application, Tab 31. Provide a detailed description of each of the major construction projects listed. In addition, explain why the last listed project is not expected to be completed until December 2050.

5. Refer to the Application, Tab 36, the Federal Energy Regulatory Commission's ("FERC") Form No. 1.

a. On page 123.11 of FERC Form No. 1 is the statement that Duke Kentucky entered into a 5-year revolving credit facility in September 2005. Did Duke Kentucky secure Commission approval to enter into this credit facility? Explain the response and provide the appropriate case number if applicable.

b. On page 326 of FERC Form No. 1 it is indicated that Duke Kentucky purchased power from LaFarge Gypsum. Describe the nature of this transaction and indicate if similar purchases were incorporated into the base period and forecasted test period.

6. Refer to the Application, Tab 44.

a. Provide copies of the Sargent and Lundy decommissioning cost study that is referenced on page II-27.

b. Refer to page II-34. The amortization period for Account No. 1980, Miscellaneous Equipment, is shown as 15 years. However, the amortization period for

Account No. 1980 in the gas depreciation study presented in Case No. 2005-00042[1] was 20 years. Explain the change in the amortization period for this account.

c. Provide a schedule comparing by account the survivor curves, net salvage percent, annual accrual rate, and the composite remaining life for the current depreciation rates with the same information for the proposed depreciation rates shown on pages III-4 through III-6.

d. For each of the "Original and Smooth Survivor Curves" listed below, explain why the selected Iowa Curve is the best fit given the information plotted. Also indicate whether there were other Iowa Curves that reflected a fit similar to the plotted information.

(1) Page III-14 – Account 3120, Boiler Plant.

(2) Page III-17 – Account 3122, Boiler Plant Retrofit Precipitators.

(3) Page III-24 – Account 3150, Accessory Electric Equipment.

(4) Page III-36 – Account 3501, Rights of Way.

(5) Page III-39 – Accounts 3520 and 3610, Structures and Improvements.

(6) Page III-46 – Account 3532, Station Equipment – Major.

(7) Page III-49 – Account 3535, Station Equipment.

(8) Page III-55 – Account 3560, Overhead Conductors and Devices.

[1] Case No. 2005-00042, An Adjustment of the Gas Rates of The Union Light, Heat and Power Company, Direct Testimony of John J. Spanos, at II-35.

(9) Page III-58 – Account 3601, Rights of Way.

(10) Page III-64 – Account 3622, Station Equipment – Major.

(11) Page III-68 – Account 3640, Poles, Towers and Fixtures.

(12) Page III-75 – Account 3650, Overhead Conductors and Devices.

(13) Page III-81 – Account 3660, Underground Conduit.

(14) Page III-99 – Account 3682, Line Transformers – Customers.

(15) Page III-102 – Account 3691, Services – Underground.

(16) Page III-119 – Account 3701, Leased Meters.

(17) Page III-121 – Account 3720, Leased Property on Customer Premises.

(18) Page III-126 – Account 3732, Street Lighting – Boulevard.

(19) Page III-130 – Account 3733, Street Lighting – Security.

(20) Page III-136 – Account 3960, Power Operated Equipment.

e. Refer to pages III-140 through III-162. Prepare a schedule showing for each account listed in these pages the net salvage percent over the entire review period, the net salvage percentage using a 3-year moving average, the net salvage percentage using a 5-year average, and the net salvage percentage used for the account as shown on pages III-4 through III-6. For each account, explain why the particular net salvage percentage shown on pages III-4 through III-6 was selected.

f. For any net salvage percentages shown on pages III-4 through III-6 that are not supported by the analysis shown on pages III-140 through III-162, explain how the net salvage percentage was determined. Include copies of any other studies or analyses used in this determination.

7. Refer to the Application, Tab 46, page 1 of 4. At the end of this page is an acknowledgement of the merger of Cinergy and Duke Energy Corporation. The last sentence reads, "The base period and forecasted test period data reflected herein is based upon the budgeting process and cost allocation methods used by Duke Energy Kentucky prior to the merger."

a. Are there differences between the budgeting processes and cost allocation methods used by Cinergy and Duke Energy Corporation? If yes, identify and explain each difference.

b. The forecasted test period covers calendar year 2007. Explain why the budgeting process and cost allocations methods used by Duke Kentucky <u>after</u> the merger were not reflected in the forecasted test period.

8. Refer to the Application, Tab 71. For each of the inter-company promissory notes, provide the repayment schedules showing amounts due to be paid during calendar years 2006, 2007, and 2008.

9. Refer to the Application, Schedules A through K.

a. Does the forecasted portion of the base period reflect weather normalized data? Explain the response.

b. Does the actual portion of the base period include any adjustments to reflect the weather normalization of actual data? Explain the response.

10. Refer to the Application, Schedule B-2.1.

a. Provide the workpapers and calculations showing how the 75.87 percent Common Plant allocation factor was determined.

b. Provide a schedule listing each capital construction project classified on Schedule B-2.1 as "Completed Construction Not Classified." The schedule should show separately the information from pages 1 through 6 of 12 (base period) and pages 7 through 12 of 12 (forecasted test period).

11. Refer to the Application, Schedule B-2.3, pages 1 through 6 of 12. Describe each transfer or reclassification shown on these pages.

12. Refer to the Application, Schedule B-2.4, page 1 of 2. The Commission's December 5, 2003 Order in Case No. 2003-00252[2] states,

> 7. The facilities being acquired by ULH&P should be recorded by ULH&P at their original cost less accumulated depreciation. At this time, the Commission knows of no reason why such value should not be used in the future for rate-making purposes.
>
> * * * * *
>
> 2. Findings 2 through 15 shall be implemented as if the same were individually so ordered.

Schedule B-2.4 shows this transfer of utility plant at net book values only, without a separation into original cost and accumulated depreciation.

[2] Case No. 2003-00252, The Application of The Union Light, Heat and Power Company for a Certificate of Public Convenience to Acquire Certain Generation Resources and Related Property; for Approval of Certain Purchased Power Agreements; for Approval of Certain Accounting Treatment; and for Approval of Deviation from Requirements of KRS 278.2207 and 278.2213(6), final Order dated December 5, 2003, at 31 and 33.

a. Explain in detail why Schedule B-2.4 does not reflect the original cost and accumulated depreciation for each utility plant account, as directed by the Commission's December 5, 2003 Order.

b. Resubmit Schedule B-2.4 showing the original cost and accumulated depreciation for each listed utility plant account.

c. Do the other schedules contained in Section B for the base period include the original cost and accumulated depreciation balances for the transferred plant or do they reflect the net book value? If the net book value, explain in detail why this approach was followed.

d. If the base period schedules in Section B reflect the net book value of the transferred plant, resubmit the applicable schedules showing original cost and accumulated depreciation data for the transferred plant.

13. Refer to the Application, Schedule B-3. A comparison of the individual account accumulated depreciation balances reveals that except for the Completed Construction Not Classified category, the accumulated depreciation balances are identical for both the base period and forecasted test period. The base period shows balances as of August 31, 2006, while the forecasted test period shows balances as of December 31, 2007. Accumulated depreciation balances normally increase during the passage of time, to reflect the annual depreciation expense.

a. Explain in detail how the accumulated depreciation balances for these plant accounts can be the same for two different accounting periods.

b. Resubmit pages 7 through 12 of 12 for Schedule B-3 reflecting the appropriate accumulated depreciation balances for the utility plant in service.

14. Refer to the Application, Schedule B-3.2, pages 4 and 5 of 6. Provide the text of footnote number 2, which is referenced but not shown on this schedule.

15. Refer to the Application, Schedule B-4.1.

a. For each of the projects listed below, describe the project in detail and explain why it has been included in Construction Work in Progress ("CWIP"):

(1) Line 55 – M5801206 – Install Cathode Protection.

(2) Line 56 – M5801207 – Study for Cathodic Protection.

(3) Line 97 – MFC01216 – Study -316B Intake Rules.

(4) Line 117 – WGS01208 – Cyber Security.

(5) Line 137 – 310ZNB – ZULH&P New Business South Area.

(6) Line 161 – ISOD3ULH – ISO Day 3 ULHP.

(7) Line 178 – ULHSTORM – ULH&P Storm Budget.

(8) Line 192 – CINMAN – Cincinnati MAN.

(9) Line 204 – ERRSP05 – Res. Rate Stabilization.

b. Schedule B-4.1 reflects CWIP as December 31, 2007. However, numerous projects included on this schedule show a "Date Construction Work Began" date after December 31, 2007. For each project where the beginning date is after December 31, 2007, explain in detail why the project should be included in the CWIP schedule as of December 31, 2007.

c. Numerous projects shown on Schedule B-4.1 show an "Estimated Project Completion Date" of sometime during 2006. For each project where the completion date is during 2006, explain in detail why the project is still expected to be classified as CWIP as of December 31, 2007.

d. For each of the projects listed below, explain how there can be project expenditures as of December 31, 2007 when the project construction date is after December 31, 2007:

(1) Line 120 – 302C7679 – Empire – XFMR #3 Tran – 302C7679.

(2) Line 127 – 303C7679 – Empire – Inst. XFMR #3 – 10.5mva – 3.

(3) Line 141 – 314C7680 – Empire 43 – 314C7680.

(4) 314E7920 – Kenton 41 Extend-Orphanage Rd. – 314.

16. Refer to the Application, Schedule B-8.

a. For each account showing a change of plus or minus 10 percent, and the change is at least $500,000 between calendar year 2005 and the base period, explain the reason(s) for the change.

b. For each account showing a change of plus or minus 10 percent, and the change is at least $500,000 between the base period and the forecasted test period, explain the reason(s) for the change.

17. Refer to the Application, Schedule C-2.1. For each of the accounts listed below, explain in detail why the account does not appear in the forecasted test period:

a. Other Revenues – all accounts except Account Nos. 454010, 454160, and 456000.

b. Account No. 589 – Rents – Interco – CG&E.

c. Account No. 591 – Structures.

d. Account No. 596 – Street Lighting & Signal Systems.

e. Account No. 904 – Uncollectible Accounts.

f. Account No. 905 – Miscellaneous Customer Accounts.

g. Account No. 911 – Supervision.

h. Account No. 929 – Duplicate Charges – Credit.

i. Various Accounts – Highway Use – page 6 of 14.

j. Account No. 408150 – Property Tax.

k. Account No. 408740 – Sales and Use Tax.

18. Refer to the Application, Schedule D-2.19, page 1 of 3. Provide all calculations, workpapers, assumptions, and other documentation that support the revenues and expenses identified as being associated with off-system sales.

19. Refer to the Application, Schedule D-2.35.

a. Provide a detailed explanation of the advanced metering initiative ("AMI"). Include the date the board of directors approved the AMI. If the AMI was approved prior to the merger of Cinergy with Duke Energy Corporation, provide documentation showing that Duke Energy Corporation has also approved the AMI.

b. Provide copies of any cost/benefit analysis of the AMI prepared by or for Duke Kentucky or its affiliates.

c. If a cost/benefit analysis was not prepared, explain in detail why such an analysis was not prepared.

20. Refer to the Application, Schedule D-5.

a. Provide the jurisdictional allocation procedures referenced as being utilized in Duke Kentucky's prior proceeding, Case No. 1991-00370.[3]

b. Explain in detail why these procedures have not been revised since the early 1990s.

21. Refer to the Application, Schedule F-3. For each of the accounts listed below, prepare a schedule detailing the types of transactions and the associated amounts included for both the base period and the forecasted test period.

a. Account No. 910000 – Misc. Cust. Serv. and Info.

b. Account No. 916000 – Miscellaneous Sales Exps.

c. Account No. 930000 – General and Misc. Media.

d. Account No. 930200 – General Misc.

22. Refer to the Application, Schedule F-4, page 2 of 2. Provide a schedule showing that the "Undetermined" advertising expense shown on Schedule F-4 has been excluded as part of the adjustment shown on Schedule D-2.22.

23. Refer to the Application, Schedule F-6. Explain in detail why Duke Kentucky believes the current rate case will cost approximately 21 percent more than its estimated cost for its last gas case.

24. Refer to the Application, Schedule G-2.

a. Provide all workpapers, calculations, assumptions, and other documentation that support the values shown for the base period and forecasted test period for Schedule G-2.

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[3] Case No. 1991-00370, Application of The Union Light, Heat and Power Company to Adjust Electric Rates.

b. Refer to pages 1 and 2 of 8. For each percentage change shown between calendar year 2005 and the base period, explain in detail the reason(s) for the change.

c. Refer to pages 1 and 2 of 8. For each percentage change shown between the base period and the forecasted test period, explain in detail the reason(s) for the change.

d. Explain how the total number of Duke Kentucky employees can be reasonably expected to increase from 285 to 319 between August 2006 and January 2007.

25. Refer to the Application, Schedule G-3.

a. Identify the job or position title for each of the five executive positions included on this schedule.

b. Are the five executives shown in this schedule still executives with Duke Kentucky and do they still hold the same positions?

c. If no to part (b), indicate when each change occurred and provide the names of the current holders of these five executive positions.

26. Refer to the Application, Schedule H.

a. Explain why the gross revenue conversion factor proposed by Duke Kentucky does not provide for some recognition of the Internal Revenue Code Section 199 deduction ("Section 199 deduction").

b. Was Duke Kentucky aware that the gross revenue conversion factors utilized in previous general rate and environmental surcharge cases have reflected the Section 199 deduction in the gross revenue conversion factor? Explain the response.

27. Refer to the Application, Schedule I-1.

a. For each account showing a change of plus or minus 10 percent, and the change is at least $250,000 between calendar year 2005 and the base period, explain the reason(s) for the change.

b. For each account showing a change of plus or minus 10 percent, and the change is at least $250,000 between the base period and the forecasted test period, explain the reason(s) for the change.

28. Refer to the Application, Schedules I-2.1 and I-4. For calendar year 2005, the base period, and the forecasted test period, provide a schedule showing the same information as contained on these two schedules, but separating customers into electric only customers, gas only customers, and combined electric and gas customers.

29. Refer to the Application, Workpaper WPB-5.1c.

a. Explain why Account No. 154620, Plant M&S – Common CBU, is allocated 100 percent to electric operations.

b. Explain the purpose of Account No. 154990, Reserve for Loss on Parts.

30. Refer to the Application, Workpaper WPB-5.1e. Explain the items identified as “Margin Deposits” and “Tyrone Synfuel” and why these items are included in prepayments.

31. Refer to the Application, Workpaper WPB-5.1j. Provide all workpapers, calculations, assumptions, and other documentation supporting the amounts shown for

emission allowances. Include information showing the emission allowance inventory, in dollars and number of allowances, for sulfur dioxide ("SO_2") and nitrogen oxide ("NOx"), both in total and by vintage year.

32. Refer to the Application, Workpaper WPC-2.1a, page 2 of 8. Explain the difference between native and non-native SO_2 and NOx emission expenses.

33. Refer to the Application, Workpaper WPF-5b.

a. Explain how the professional services expenses for the forecasted test period were determined.

b. For each of the projects or descriptions listed below, explain in detail why this expense should be included in Duke Kentucky's forecasted test period:

(1) ARDESIGN – Annual Report Design.

(2) ARPRINT – Annual Report Print.

(3) SARBOXLY – Sarbanes Oxley.

(4) SHMTGPRC – Shareholder Meeting Process.

(5) STKSURVL – Stock Surveillance.

(6) STPAUL – St. Paul Air Ins.

(7) TRADEMAR – Trademarks.

(8) TRANSAGT – Transfer Agent.

c. Provide an analysis of "Other – Non-Specific" professional services expenses. Identify the types of services grouped into this category and explain the nature of the services. The analysis should cover calendar years 2004, 2005, and the base period.

34. Refer to the Application, Workpaper WPH-a.

a. Provide a detailed description of the Charge Off's, Collection Costs, and Late Charges. Include copies of citations to Duke Kentucky's sale of accounts receivables program that identify and describe these costs.

b. Are any of these three components recognized in the interest rate used for the accounts receivable financing that is included in Duke Kentucky's capitalization? Explain the response.

c. Provide the amounts Duke Kentucky has recorded as electric operations uncollectible accounts expense annually since 2002.

d. In Case No. 2005-00042, the Commission rejected Duke Kentucky's proposal to use the discount rate associated with the sale of its accounts receivable as a substitute for the provision for uncollectible accounts approach or to use this rate in the determination of the gross revenue conversion factor. Explain in detail how Duke Kentucky's proposal in this case is different than its proposal in Case No. 2005-00042 and why the current proposal should be adopted.

35. Refer to the Application, Schedule L, pages 5 through 7 of 11; Schedule L-2.2, Sheet Nos. 60, 65, 66, 67, 68, and 69, filed on June 16, 2006; and the Direct Testimony of Jeffrey R. Bailey ("Bailey Testimony"), pages 17 and 18. Duke Kentucky is proposing to eliminate six of its lighting tariffs, and has made the following statements about each of the tariffs:

- In Schedule L, Duke Kentucky states, "The rate will be frozen after December 31, 2006."
- In Schedule L-2.2, Duke Kentucky states that the rate schedule is no longer available after December 31, 2006, the rate schedule terminates December 31, 2006, and that customers currently provided service under the rate schedule can continue being provided service under this rate

schedule until their contract expires or the rate schedule terminates whichever comes first.

- On pages 17 and 18 of the Bailey Testimony, he states that Duke Kentucky anticipates canceling Rates SL, SE, SC, and NSU in 20 years and Rates OL and NSP in 10 years.

a. Reconcile the apparently different positions taken by Duke Kentucky on the six lighting tariffs and indicate which position accurately reflects Duke Kentucky's proposal.

b. Given the fact that the Commission has suspended Duke Kentucky's proposed rates until January 5, 2007 and the six proposed lighting tariffs state the tariff will terminate December 31, 2006, is the section of the Cost-of-Service Study dealing with lighting customers impacted in any way? Explain the response.

c. Duke Kentucky proposes to cancel four of its lighting tariffs in 20 years and two lighting tariffs in 10 years. Explain why the distinction is made between the lighting rate classes in the time periods for canceling the tariffs.

36. Refer to the Application, Schedules M through M-2.3.

a. Explain the methodology used to arrive at the billing determinates shown in columns C and D of Schedule M-2.2. Include in the explanation whether the billing determinates are normalized for weather.

b. Provide Schedules M, M-2.1, M-2.2, and M-2.3 electronically on a CD-ROM.

(1) If Schedules M, M-2.1, M-2.2, and M-2.3 are normalized for weather, provide revised schedules electronically on a CD-ROM for which billing determinates have not been normalized for weather.

(2) If Schedules M, M-2.1, M-2.2, and M-2.3 have been normalized for weather using 10-year weather normals, provided revised schedules using 10-year normals reflecting the period 1996 through 2005.

(3) If Schedules M, M-2.1, M-2.2, and M-2.3 have been normalized for weather using 10-year weather normals, provide revised schedules using 25-year normals reflecting the period 1981 through 2005.

37. Pursuant to 807 KAR 5:001, Section 10(8)(e), Duke Kentucky is requested to provide the following alternative forecasts to determine its revenue requirements utilizing a forecasted test period. To the extent these alternative forecasts impact the Cost-of-Service Studies, Duke Kentucky is requested to revise the applicable studies.

a. Alternative One – The forecast does not reflect any weather normalization of Duke Kentucky's electric load.

b. Alternative Two – The forecast reflects weather normalized electric load for Duke Kentucky, but is based upon 10-year weather normals reflecting the period 1996 through 2005.

c. Alternative Three – The forecast reflects weather normalized electric load for Duke Kentucky, but is based upon 25-year weather normals reflecting the period 1981 through 2005.

38. Refer to the Application, the Duke Kentucky Cost Allocation Manual, Attachment E-4. Provide legible copies of the two page attachment.

39. Refer to the Direct Testimony of Jim L. Stanley ("Stanley Testimony"), page 21. Concerning approvals for the AMI, Mr. Stanley states, "The Company

requests that the Commission grant a certificate of public convenience and necessity ("CPCN") for the program or, in the alternative, a finding that no CPCN is required."

a. Explain in detail why Duke Kentucky did not include this request in its Application, but instead presented it as part of testimony.

b. Indicate where in this application Duke Kentucky has provided any information in support of the proposition that a certificate of public convenience and necessity would not be needed for the AMI.

40. Refer to the Stanley Testimony, Attachment JLS-2. Have the amounts shown on this schedule been incorporated into the base period and forecasted test period plant account schedules and the determination of the jurisdictional rate base ratio? Explain the response and, if included, provide the applicable schedule reference, the account number, and the amount.

41. Refer to the Direct Testimony of Paul K. Jett ("Jett Testimony"). Provide a schedule of all MISO revenues and expenses applicable for Duke Kentucky, by MISO schedule reference, for calendar year 2005, the base period, and the forecasted test period.

42. Refer to the Jett Testimony, page 19, and Attachment PKJ-2. Concerning Duke Kentucky's proposed Transmission Cost Recovery Mechanism ("TCRM"):

a. Provide a comparison of Duke Kentucky's proposed TCRM with the transmission cost rider that Duke Ohio proposed before the Ohio Public Utilities Commission ("Ohio PUC").

b. Provide a comparison of Duke Kentucky's proposed TCRM with the transmission cost rider the Ohio PUC approved for Duke Ohio.

43. Refer to the Jett Testimony, Attachment PKJ-1. Provide legible copies of the attachment.

44. Refer to the Direct Testimony of Douglas F. Esamann ("Esamann Testimony"). Did Duke Kentucky ever attempt to seek FERC approval of the Back-up Power Supply Agreement ("PSA") as originally presented in Case No. 2003-00252? Explain the response in detail.

45. Refer to the Esamann Testimony, pages 6 through 8.

a. On page 7 of his testimony, Mr. Esamann states, "The change in market conditions that has occurred over the course of these regulatory delays should not be borne by the shareholders of Duke Energy." Does Mr. Esamann contend that these changes must be borne solely by the ratepayers of Duke Kentucky? Explain the response.

b. On pages 7 and 8 of his testimony, Mr. Esamann makes several "my understanding" statements concerning securing approvals from FERC of the original PSA. Are these "understandings" based upon his analysis of the FERC approval process or based upon advice from others within Duke Kentucky? Explain the response.

c. On pages 6 through 8, Duke Kentucky proposes to refresh the capacity charges in the proposed PSA to reflect current market pricing.

(1) Explain how Duke Kentucky would deal with outages absent the proposed PSA.

(2) Provide Duke Kentucky's best estimate of the cost of energy for scheduled and non-scheduled outages absent the proposed PSA.

46. Compare the terms and conditions of the original PSA with the proposal currently supported by Duke Kentucky in this application.

47. Refer to the Esamann Testimony, page 17. Mr. Esamann discusses a request for proposals concerning short-term supply options. Provide a copy of the request for proposals as sent out by Duke Kentucky. In addition, provide a list of all parties to whom the request for proposals was sent.

48. Refer to the Esamann Testimony, DFE Exhibit-1. Provide all workpapers, calculations, assumptions, and other documents which support the values shown in this exhibit.

49. Refer to the Direct Testimony of Dwight L. Jacobs ("Jacobs Testimony"), page 5. Mr. Jacobs states that Cinergy followed the "separate company return" method for calculating the amount of taxable income on the financial statements of its subsidiaries.

a. Explain in detail why Cinergy followed this approach rather than using a consolidated tax return approach.

b. Explain how Cinergy's approach would not be considered by the Internal Revenue Service to be a violation of tax normalization practices.

c. Explain in detail why changes in Ohio tax law should result in "above the line" deferred tax liabilities on the books of Duke Kentucky. Include in this response a discussion of how this treatment is consistent with the Commission's determination in its December 5, 2003 Order in Case No. 2003-00252.

50. Refer to the Direct Testimony of Dr. Richard G. Stevie ("Stevie Testimony"), page 5. Dr. Stevie states that the forecast methodology is essentially the same as has been used in past integrated resource plans.

a. Is the forecast methodology used in this application essentially the same as the forecast methodology utilized in Case No. 1991-00370? Explain the response.

b. In its May 5, 1992 Order in Case No. 1991-00370, the Commission noted several concerns about the approach used to determine a weather normalization adjustment. Explain in detail how the approach used in this application addresses each concern.

c. Provide a thorough description of the forecast methodology utilized in conjunction with this application, with an emphasis on how the forecast methodology deals with the impact of weather. A citation to a previously filed integrated resource plan will not constitute an acceptable response.

51. Refer to the Stevie Testimony, page 8, lines 16 through 20. Explain how the particular weather conditions (temperature and humidity) used to forecast the summer peak were selected.

52. Refer to the Stevie Testimony, page 10. Dr. Stevie states that the econometric forecasting methodology used to create the 2005 Load Forecast was basically the same as that used by Duke Kentucky prior to the merger of Cinergy and Duke Energy Corporation.

a. Was this rate application based upon the 2005 or 2006 Load Forecast? Explain the response.

b. Was the 2006 Load Forecast available for use in preparing this rate application? Explain the response.

c. Identify the specific differences between the econometric forecasting methodologies used before and after the merger of Cinergy and Duke Energy Corporation.

53. Refer to the Stevie Testimony, pages 13 through 21.

a. Dr. Stevie utilized the 10-year period of 1995 through 2004 for the weather normals in his electric forecast. Given that the base period in this case is the 12-months ending August 31, 2006 and the forecasted test period is calendar year 2007, explain why Dr. Stevie considered the 1995-2004 period to be the most appropriate to use.

b. Was weather data for the 10-year period 1996 through 2005 available at the time Dr. Stevie was preparing his forecast? If it was, explain in detail why that 10-year period was not utilized.

c. In its December 22, 2005 Order in Case No. 2005-00042, the Commission used a 25-year period in conjunction with the gas weather normalization adjustment. That was also the second consecutive gas rate case where the Commission rejected the use of a 10-year period. In light of these previous Commission decisions, explain why Duke Kentucky proposed a 10-year period in this application. The explanation should include a discussion of what conditions or events have changed since the Commission's December 22, 2005 Order that would support a change to a 10-year period.

54. Refer to the Stevie Testimony, Attachment RGS-1.

a. Provide a comparison showing the actual growth rates and the forecasted growth rates for each year for the period 1990 through 2005. Use the actual historic data for year 2005 rather than normalized data.

b. Provide the forecasted sales based upon 25-year normals, reflecting the period 1981 through 2005.

55. Refer to the Stevie Testimony, Attachments RGS-3 and RGS-4. Would Dr. Stevie agree that when comparing the 10-year and 25-year average heating degree days and cooling degree days, the 25-year results tend to "smooth out" the fluctuations that are reflected in the 10-year data? Explain the response.

56. Refer to the Stevie Testimony, Attachments RGS-7 and RGS-8. Update these attachments to reflect the weather data for 2005 in the 10-year and 25-year averages.

57. Refer to the Direct Testimony of C. James O'Conner ("O'Conner Testimony"), page 11. Mr. O'Conner states that to calculate the customer satisfaction component of the Annual Incentive Plans for regulated business unit employees, the Duke Kentucky-specific customer satisfaction survey scores are used.

a. Is it correct that these customer satisfaction surveys are based on customers who have had recent service contact with Duke Kentucky?

b. Is it correct that since 1999, there have only been approximately 4,300 of these surveys?

c. Provide a breakdown on the annual number of these surveys from the period 1999 through 2005.

d. Given Duke Kentucky's total number of customers, explain why it believes this number of surveys is representative of how customers view Duke Kentucky.

58. Refer to the O'Conner Testimony, page 19. Mr. O'Conner references three studies conducted in 2005 regarding the competitiveness of Duke Kentucky's compensation programs. Were these studies performed specifically for Duke Kentucky or are these industry-wide studies that allowed Duke Kentucky to see where its compensation programs ranked with other companies? Explain the response.

59. Refer to the Direct Testimony of Keith G. Butler ("Butler Testimony"), page 5. Provide all calculations, workpapers, assumptions, and other documentation supporting Duke Kentucky's determination of a Kentucky statutory income tax rate of 5.8 percent for the forecasted test period.

60. Refer to the Butler Testimony, page 7.

a. Explain in detail how Duke Kentucky's proposal to use a 5.8 percent Kentucky income tax rate is consistent with the Commission's decisions in Case No. 2005-00042.

b. Explain in detail how Duke Kentucky's proposal to use a 5.8 percent Kentucky income tax rate is consistent with the Commission's March 31, 2006 Order in Case No. 2003-00433.[4]

[4] Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company.

61. Refer to the Butler Testimony, page 10. Provide a schedule showing the initial Kentucky property tax assessment and the final Kentucky property tax assessment for Duke Kentucky's electric property for the last 5 years available.

62. Refer to the Direct Testimony of Carol E. Shrum, page 4. Has the North Carolina Utilities Commission approved the Utility Service Agreement, the Operating Company/Non-Utility Service Agreement, and the Operating Companies Service Agreement? Explain the response and provide the date each agreement was approved or the current status of the approval process.

63. Refer to the Direct Testimony of Brian P. Davey ("Davey Testimony"), page 6. Explain the basis for using a 1.5 percent escalation factor for post-2006 other revenues.

64. Refer to the Davey Testimony, page 9. Explain in detail why it was necessary to revise electric operation and maintenance expenses for the amortization of expenses relating to regulatory assets for Duke Kentucky's gas business.

65. Refer to the Direct Testimony of Dr. Roger A. Morin ("Morin Testimony"), page 26 and Exhibits RAM-2, RAM-6, RAM-7, and RAM-8. Duke Kentucky has no nuclear generation. Explain why it is appropriate for utilities with nuclear generation capacity to be used in proxy groups of companies for Duke Kentucky.

66. Refer to the Morin Testimony, page 26 line 9 and to Exhibit RAM-2. For each of the companies listed in the Exhibit, provide, if possible, a breakout of the revenues derived from regulated natural gas operations, regulated electric operations, (or regulated utility operations if the later is not available) and non-regulated operations.

67. Refer to the Morin Testimony, page 27. Provide an electronic Excel spreadsheet file that contains the 1926 through 2005 data from Ibbotson Associates that was used to calculate the historical risk premiums of 6.5 percent and 7.1 percent.

68. Refer to the Morin Testimony, page 64. Dr. Morin states that if substantial changes in capital market conditions occur between the filing date of his direct testimony and the presentation of his oral testimony, he would update his testimony accordingly. Will Dr. Morin file any updated testimony by October 23, 2006, which is the due date for filing rebuttal testimony?

69. Refer to the Morin Testimony, Exhibit RAM-2. For each of the utilities listed on the exhibit, identify those utilities that have no nuclear generation.

70. Refer to the Morin Testimony, Exhibit RAM-3. Provide the data in the Exhibit as an electronic Excel spreadsheet file.

71. Refer to the Morin Testimony, Exhibit RAM-8, page 2 of 3. For a variety of reasons, the companies listed on lines 2 through 6, line 9, and lines 12 through 14 were not included in the analyses in Exhibits RAM-6 and RAM-7. Explain why it is appropriate to include the identified companies in Exhibit RAM-8, but exclude them from Exhibits RAM-6 and RAM-7.

72. Refer to the Direct Testimony of Paul F. Ochsner ("Ochsner Testimony"), page 19. Duke Kentucky proposes to eliminate 25 percent of the revenue subsidy/excess that appears to exist between customer classes based on the filed cost-of-service studies. Explain how Duke Kentucky selected the 25 percent subsidy/excess reduction rather than a different percentage of reduction. Include with the explanation

any calculations or workpapers used in reaching the proposed 25 percent subsidy/excess reduction level.

73. Refer to the Ochsner Testimony, Attachment PFO-4. Provide a similar schedule excluding fuel revenues.

74. Refer to the Bailey Testimony, page 2, lines 21 - 23. Mr. Bailey states his intention to discuss implementation procedures for filing Duke Kentucky's tariffs after the Commission's Order in this proceeding. Provide references to the page number(s) upon which the discussion can be found. If the discussion was omitted, provide it in your response.

75. Refer to the Bailey Testimony, page 8.

a. Load research data used to examine the usage characteristics of residential customers consists of a sample of 210 residential customers.

(1) Provide the total number of residential customers as of December 31, 2005.

(2) Explain how the load research data of 210 customers can be representative of Duke Kentucky's residential customer base.

b. Explain how the kWh usage limits were derived for the three strata in Table 1.

76. Refer to the Bailey Testimony, page 15. Mr. Bailey states that the analysis supports a customer charge of just under $11.00 per month for residential customers. Reflecting the concept of gradualism, Duke Kentucky proposes to increase its customer charge from $3.73 to $5.00, which is less than one-fifth of the increase

shown by the analysis. Explain how Duke Kentucky determined the customer charge should be limited to $5.00.

77. Refer to the Bailey Testimony, pages 16 - 18.

a. Duke Kentucky proposes to phase out several ornamental lighting tariffs and proposes that the lights be obtained through a lighting contractor. Explain whether any Duke Kentucky affiliates provide the proposed contactor services.

b. Explain whether Duke Energy Corporation has consolidated lighting tariffs for any of its other utility subsidiaries.

78. Refer to the Bailey Testimony, pages 19 through 26.

a. Provide an analysis of the current level of customer participation in the Green Power program offered by Duke Kentucky.

b. Explain how the minimum purchase level of 200 kWh was determined.

c. Refer to page 20. Duke Kentucky requests authority to adjust the price paid per 100 kWh of green power. Explain whether Duke Kentucky proposes to submit each price change in the form of a tariff to be approved or accepted by the Commission before the change goes into effect.

d. In requesting the authority to adjust the price per 100 kWh and the size of the blocks of green power, is Duke Kentucky in effect shifting all the risks of this program to the participating customers? Explain the response.

e. Explain why the acquisition of Renewable Energy Certificates ("RECs") and Carbon Credits has been incorporated into the Green Power program.

f. Explain how the acquisition of RECs and Carbon Credits promotes the development of Green Power.

g. Will Duke Kentucky be securing either blocks of green power or RECs and Carbon Credits from other Duke Energy Corporation affiliates and subsidiaries? Explain the response.

h. Refer to page 21. Mr. Bailey states that Duke Kentucky will provide annual updates on the performance of the revised Green Power tariff through December 31, 2009. Explain why annual updates through 2009 will be provided given that the proposed Green Power tariff states that the rider will be available until December 31, 2008.

i. Refer to page 25. Describe Duke Kentucky's current education efforts with respect to its present Green Power program and the anticipated changes in those efforts if the Commission approves the proposed Green Power tariff.

j. Provide a schedule of the expected costs to be incurred by Duke Kentucky in conjunction with its proposed Green Power program through December 31, 2008. Indicate the amounts associated with this program that have been included in the base period and the forecasted test period and provide the applicable account numbers.

79. Refer to the Bailey Testimony, pages 27 through 29. Rider BDP is proposed to establish a tariff for customers that require enhanced power supply reliability. Explain how the charges will be calculated under the tariff. If necessary, provide the charges for a hypothetical customer under Rider BDP. Provide all necessary calculations performed to arrive at the customer's monthly bill.

80. Refer to the Bailey Testimony, pages 29 through 31. Duke Kentucky proposes to change both of its tariffs relating to cogeneration and power sales and purchases. Duke Kentucky proposes to use a price based upon production cost simulation for cogeneration and small power production sales and purchases of 100 kW or less and the locational market price for greater than 100 kW. Explain whether Duke Energy Corporation has implemented similar pricing strategies for any of its other electric utility subsidiaries. If similar strategies have been implemented by other subsidiaries, provide their names and the dates of implementation.

81. Refer to the Bailey Testimony, page 33, lines 10 through 12. Duke Kentucky proposes to collect any additional Powershare CallOption expenses beyond what is built into base rates by collecting or crediting these dollars through the Fuel Adjustment Clause ("FAC").

a. 807 KAR 5:056 prescribes the principles under which electric utilities may immediately recover increases in costs under the FAC clause. Does Duke Kentucky believe that Powershare CallOption expenses qualify for recovery under the FAC as defined by 807 KAR 5:056? Explain the response.

b. Provide a narrative explanation of why Duke Kentucky believes the FAC is the most appropriate recovery method for these expenses.

82. Refer to the Bailey Testimony, page 34. Duke Kentucky identifies the miscellaneous charges for which increases are proposed.

a. Explain whether Duke Kentucky performed calculations supporting the proposed miscellaneous charges. If the cost support information is included in Duke

Kentucky's application, identify where the cost support can be found within the application.

b. If cost support justification for the proposed increases in miscellaneous charges is not included in the application, provide all necessary calculations and workpapers needed to justify each miscellaneous charge increase.

83. Refer to the Direct Testimony of William Don Wathen, Jr. ("Wathen Testimony"), pages 15 and 16.

a. Provide the total expected savings and costs associated with the 1992 employee severance program using the format attached to this data request. Provide these amounts for Duke Kentucky in total, the amount allocated to Duke Kentucky's electric operations, and the amount allocated to Duke Kentucky's gas operations.

b. Does Duke Kentucky agree that the savings from the 1992 employee severance program should be matched with the costs to achieve those savings? Explain the response.

c. Mr. Wathen states that since Duke Kentucky has not filed an electric rate case since Case No. 1991-00370, it has not had the opportunity to recover these costs from ratepayers. Is Mr. Wathen contending that Duke Kentucky could not have filed an electric rate case in conjunction with Case No. 1992-00346[5] or filed an electric rate case in 1993 or 1994 seeking to include the recovery of these costs in electric rates? Explain the response.

[5] Case No. 1992-00346, The Application of The Union Light, Heat, and Power Company for an Adjustments of Rates, final Order dated July 23, 1993.

d. By the beginning of the forecasted test period, approximately 14 years will have passed since the 1992 employee severance program. While none of the costs associated with that program have been included in the electric rates of Duke Kentucky, none of the savings achieved have been reflected in electric rates. Explain in detail how Duke Kentucky's proposal in this case achieves an appropriate matching of the savings and costs associated with the 1992 employee severance program.

84. Refer to the Wathen Testimony, page 20. Explain in detail why the capacity payments associated with the proposed PSA were not included in the base period or forecasted test period as part of the budgeting process.

85. Refer to the Wathen Testimony, pages 20 and 21. Is it correct that the total amount of network service transmission charges assigned to Duke Kentucky will change based upon the return on equity allowed? Explain the response.

86. Refer to the Wathen Testimony, page 21. Identify the difference between Duke Kentucky's proposed adjustment for incentive compensation costs with the rate-making treatment followed in Case No. 2005-00042 and explain the reason(s) for the differences.

87. Refer to the Wathen Testimony, pages 30 through 32.

a. The currently proposed PSA is different from the PSA originally proposed and considered by the Commission in Case No. 2003-00252. Given this fact, explain in detail why Duke Kentucky believes it is reasonable to receive the same FAC treatment for the currently proposed PSA.

b. Refer to page 32, line 23 through page 33, line 2. Explain in detail why Duke Kentucky should not now follow the regulatory guidelines for the FAC.

88. Refer to the Wathen Testimony, page 33. Explain in detail why Duke Kentucky believes it would be reasonable to share the off-system sales margins through the FAC rather than by modifying Rider PSM.

89. Refer to the Wathen Testimony, pages 30 through 35. Describe Duke Kentucky's understanding of the monthly FAC reports and back-up reports that are required to be filed in support of its FAC tariff.

90. Refer to the Wathen Testimony, Attachment WDW-1.

a. Refer to page 1 of 2. Provide all calculations and workpapers necessary to show the derivation of all values shown for estimated fuel costs and estimated purchased power costs.

b. Refer to page 2 of 2. Explain why there are no amounts shown on this page for the month of April.

91. For comparative purposes only, prepare a schedule similar to Attachment WDW-1 reflecting the information contained in Duke Kentucky's base period for total fuel costs. Include all workpapers, calculations, and assumptions used to prepare the response.

92. Refer to the Wathen Testimony, Attachment WDW-2b, page 16 of 24. Describe the impact, if any, on the calculations shown if Duke Kentucky's acquisition of production assets had been recognized.

93. Refer to the Direct Testimony of Paul G. Smith, pages 6 and 7.

a. Explain in detail how Duke Kentucky concluded that the directives relating to labor costs included in the Commission's decisions in Case No. 1991-00370 did not apply in this proceeding simply because Duke Kentucky filed this case utilizing a forecasted test period.

b. Describe in detail the appropriate constructive actions taken by Duke Kentucky to address the labor issues listed in the Commission's May 5, 1992 Order in Case No. 1991-00370.

94. Refer to the response to the Commission Staff's First Data Request dated May 17, 2006 ("Staff's First Request"), Item 2. Explain why Cinergy Marketing and Trading, LP ("CM&T") is included in this response, given the fact that in the 2005 FERC Form No. 1, page 123.6, Duke Kentucky stated that it terminated its agreement with CM&T on December 29, 2005.

95. Refer to the responses to the Staff's First Request, Items 6 and 7. Duke Kentucky was requested to explain in detail any account variance greater than 5 percent. In its response Duke Kentucky placed an additional limitation on the variances to be explained of being at least $20,000.

a. Explain in detail why Duke Kentucky added the additional restriction upon the information requested.

b. For any variance greater than 5 percent that Duke Kentucky applied the further restriction of $20,000, provide the originally requested information.

96. Refer to the response to the Staff's First Request, Item 11. The column headings on the attached schedule are not legible. Provide the appropriate column headings. In future responses, Duke Kentucky is reminded that all copied materials must be legible.

97. Refer to the response to the Staff's First Request, Item 12.

a. Refer to Item 12(d). In light of the Commission's decision in Case No. 2005-00042 concerning the application of a slippage factor, explain in detail why Duke Kentucky did not recognize a slippage factor for its capital additions in this application.

b. Refer to Attachment 01-012(b). Given the explanation concerning the slippage information available relative to electric production capital expenditures, does Duke Kentucky believe it would be appropriate to have two slippage factors for its electric capital expenditures, one for production assets and one for all other assets? Explain the response.

98. Refer to the response to the Staff's First Request, Item 16. Explain in detail why the various studies Duke Kentucky has used to evaluate its compensation program are not in its possession and provide the names of the persons who do have possession of those various studies.

99. Refer to the response to the Staff's First Request, Item 18. Explain in detail why the savings and costs associated with early retirement plans or other staff reduction programs for Duke Kentucky were not included in the base period or forecasted test period.

100. Refer to the response to the Staff's First Request, Item 19(a). Explain the reason(s) for the approximately $2.8 million increase in employee fringe benefit costs between the base period and forecasted test period.

101. Refer to the response to the Staff's First Request, Item 29.

a. Explain in detail why Schedule E-1 reflects income tax expense on a stand-alone basis.

b. Does Duke Kentucky file consolidated federal income tax returns and consolidated Kentucky income tax returns? Explain the response.

c. If the response to part (b) is yes, explain why Schedule E-1 was prepared on a stand-alone basis.

Beth O'Donnell
Executive Director
Public Service Commission
Post Office Box 615
Frankfort, Kentucky 40602-0615

DATED July 12, 2006

cc: All Parties

Duke Energy Kentucky
Case No. 2006-00172
Total Expected Savings and Costs of the 1992 Employee Severance Program

	Total Company Amounts	Total Electric Amounts	Total Gas Amounts
Downsizing Savings			
1. Reduction in Complement, Direct			
2. Reduction in Complement, Indirect			
3. Reduction in Indirect Overtime			
4. Reduction in Travel			
5. Total Savings (Lines 1 thru 4)			
Downsizing Costs			
6. CG&E Accrued Costs			
7. ULH&P Allocation Percentage – to Electric and Gas Operations			
8. ULH&P Portion, Accrued Costs (Line 6 x Line 7)			
9. CG&E Cash Outlays			
10. ULH&P Allocation Percentage – to Electric and Gas Operations			
11. ULH&P Portion, Cash Outlays (Line 9 x Line 10)			
12. Plus: Consultant Costs			
13. Total ULH&P Cash Outlays (Line 11 plus Line 12)			

Based on Commission's July 23, 1993 Order in Case No. 1992-00346, Appendix D.