COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

FIRST DATA REQUEST OF COMMISSION STAFF
TO THE ATTORNEY GENERAL

The Attorney General ("AG"), by and through his Office of Rate Intervention, 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 October 10, 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.

1. Refer to the Direct Testimony of Robert J. Henkes ("Henkes Testimony"), pages 7 and 26. Mr. Henkes recommends the annual increase in fuel revenue requirements of $20,040,364 proposed by Duke Energy Kentucky ("Duke Kentucky") on

page 7, but disagrees with the treatment proposed by Duke Kentucky of the Back-Up Power Sales Agreement ("PSA") for the forecasted test period on page 26.

a. Based upon his understanding of the determination of the fuel revenue requirements of $20,040,364, is this revenue requirement impacted by Duke Kentucky's proposed version of the Back-Up PSA included in its forecasted test period? Explain the response.

b. If Duke Kentucky's proposed version of the Back-Up PSA impacts the determination of the fuel revenue requirements of $20,040,364, explain how Mr. Henkes' recommendations on pages 7 and 26 of his testimony are consistent.

2. Refer to the Henkes Testimony, page 8 and Schedule RJH-2.

a. Explain why Mr. Henkes believes it is reasonable to use a State Income Tax rate of 5.8 percent, which reflects a weighted average of the Kentucky, Ohio, and Cincinnati income tax rates.

b. Explain why Mr. Henkes has not included in his proposed gross revenue conversion factor a component for the Internal Revenue Code Section 199 Deduction.

3. Refer to the Henkes Testimony, pages 11 through 13 and Schedule RJH-5. Explain in detail why Mr. Henkes did not incorporate a "slippage" factor adjustment in his determination of the electric and gas jurisdictional rate bases.

4. Refer to the Henkes Testimony, pages 14 and 15 and Schedule RJH-8. To determine his proposed adjustment, Mr. Henkes has taken the average of the emission allowance sale proceeds for calendar year 2005 and the 12 months ended July 31, 2006. Explain in detail why this approach is reasonable, given that there is an

overlap of 5 months between calendar year 2005 and the 12 months ended July 31, 2006.

5. Refer to the Henkes Testimony, pages 16 and 17, Schedule RJH-9, and Duke Kentucky's response to the Attorney General's Second Data Request dated August 9, 2006, Item 8(b).

a. Explain why Mr. Henkes used the actual revenues for the period January 1 through July 31, 2006 for Woodsdale Unit 6 rather than the actual revenues for the 12 months ended July 31, 2006.

b. Since Mr. Henkes had actual revenue data available back to April 2005, explain why he based his adjustment on the most recent 12 months of available actual revenues rather than following an averaging approach.

6. Refer to the Henkes Testimony, pages 20 through 22 and Schedule RJH-11.

a. Provide the workpapers supporting the "Actual Average Annual Revenues for 2003 through 5/31/06" as shown in footnote 1 on Schedule RJH-11. Include all calculations, assumptions, and supporting workpapers.

b. If the determination of these average revenues included the averaging of data for calendar year 2005 and the 12 months ended May 31, 2006, explain in detail why this approach is reasonable, since there would be an overlap of 7 months between calendar year 2005 and the 12 months ended May 31, 2006.

7. Refer to the Henkes Testimony, pages 22 through 24.

a. Was Mr. Henkes aware that in its May 5, 1992 Order in Case No. 1991-00370[1] the Commission rejected Duke Kentucky's electric weather normalization adjustment based on a finding that the weather normalization methodology was not acceptable for rate-making purposes?

b. Was Mr. Henkes aware that Duke Kentucky has indicated the weather normalization methodology utilized in this case is essentially the same as the methodology rejected by the Commission in Case No. 1991-00370?

c. Does the fact that the Commission has previously rejected the weather normalization methodology utilized by Duke Kentucky in this case impact Mr. Henkes' recommendation to use a weather-normalized forecasted test period? Explain the response.

8. Refer to the Henkes Testimony, page 26. Explain why it is reasonable to propose an adjustment based on the terms of the Back-Up PSA as approved by the Commission in Case No. 2003-00252[2] when that Back-Up PSA was never executed by Duke Kentucky.

9. Is Mr. Henkes aware of any reason why a Back-Up PSA based on the terms approved in Case No. 2003-00252 could not have been executed by Duke

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

[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.

Kentucky shortly after the Commission's December 5, 2003 Order in Case No. 2003-00252?

10. Does Mr. Henkes believe that the sole reason for Duke Kentucky's proposal to significantly increase the cost for the Back-Up PSA was Duke Kentucky's delay in executing a Back-Up PSA based on the terms approved in Case No. 2003-00252?

11. Refer to the Henkes Testimony, pages 35 and 36. Concerning Edison Electric Institute ("EEI") dues:

a. In his testimony Mr. Henkes references the Commission's treatment of EEI dues in Case No. 1991-00370. In preparing his testimony, did Mr. Henkes review the treatment of EEI dues in Commission Orders issued since Case No. 1991-00370? Explain the response.

b. What was Mr. Henkes' recommendation concerning EEI dues in the last Louisville Gas and Electric Company base rate case, Case No. 2003-00433?[3]

c. Explain why the treatment of EEI dues in this case should be different than the Commission's treatment of EEI dues in Case No. 2003-00433.

12. Refer to the Henkes Testimony, Schedule RJH-3. Mr. Henkes' testimony included two versions of Schedule RJH-3. One reflected Mr. Henkes' recommendations on capital structure and rate of return on equity ("ROE") as shown on page 9 of his testimony. The other version of Schedule RJH-3 reflects Duke Kentucky's proposed

[3] Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company, final Order dated June 30, 2004.

capital structure and an ROE of 9.50 percent. What is the purpose of the second Schedule RJH-3 and why was it not discussed in Mr. Henkes' testimony?

13. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), pages 4 and 5.

a. Provide a copy of the Jeremy Siegel article.

b. Both Jeremy Siegel and Alan Greenspan made the comments quoted in the testimony in 1999, which was before the market adjustment in 2000. Are there any studies after 1999 which researched the equity premium after the substantial drop in stock prices since 2000?

c. Were Mr. Siegel and Mr. Greenspan talking about the near future or the long-term?

14. Refer to the Woolridge Testimony, page 6 and Exhibit JRW-2. Explain why an investor would forego the benefits of a tax cut and provide tacit approval to the company to lower dividend payouts in order to keep investors' expected return equal to that before the tax cut.

15. Refer to the Woolridge Testimony, page 8. Concerning the proposed capital structure for Duke Kentucky:

a. Did Dr. Woolridge review the schedules and workpapers submitted by Duke Kentucky concerning the determination of the appropriate capital structure? Explain the response.

b. Is Dr. Woolridge aware of any errors in the assumptions or calculations used by Duke Kentucky to determine the proposed capital structure? Explain the response.

c. Explain in detail why Dr. Woolridge believes the capital structure proposed by Duke Kentucky should not be used. Include with this discussion the specific reasons supporting this conclusion.

d. Dr. Woolridge proposes that the appropriate capital structure for Duke Kentucky should be an average of Duke Kentucky's proposed capital structure with the average capital structure of his proxy Group A companies. Explain in detail why Dr. Woolridge believes this approach is necessary and reasonable. Include in this discussion his reasons for averaging the two capital structures together rather than using the average capital structure of his proxy Group A companies.

e. Has Dr. Woolridge reviewed previous decisions by this Commission concerning the utilization of a hypothetical capital structure to determine a utility's revenue requirements? Explain the response.

16. Concerning Dr. Woolridge's proxy Group A companies, indicate which companies are combined natural gas and electric utilities, charge a regulated bundled rate, and are also part of a multi-state energy holding company system.

17. Concerning Dr. Woolridge's proxy Group B companies, indicate which companies are combined natural gas and electric utilities, charge a regulated bundled rate, and are also part of a multi-state energy holding company system.

18. Refer to the Woolridge Testimony, pages 21 and 22.

a. Explain how Dr. Woolridge's adjustment of multiplying dividend yields by one half the expected growth rate, as described on page 22, satisfies the necessary adjustment as described on page 21.

b. Provide documentation and any official guidelines used by analysts that direct and instruct how dividend yields should be adjusted.

19. Refer to the Woolridge Testimony, page 26 and Exhibit JRW-7.

a. Explain the pros and cons of using each of the data series of Earnings Per Share (“EPS”), Dividends Per Share (“DPS”), and Book Value Per Share (“BVPS”) individually for calculating the growth in dividend figure to be used in the Discounted Cash Flow (“DCF”) model.

b. Explain how taking the collective average of the individual EPS, DPS, and BVPS series mean and median values provides a meaningful estimate of dividend growth as used in the DCF model.

c. Explain why it is valid to use the calculated internal growth rate as a meaningful estimate of dividend growth as used in the DCF model.

d. Explain why using internal growth as a proxy for dividend growth does not introduce a certain amount of circularity into the calculation.

20. Refer to the Woolridge Testimony, pages 34 and 35. Provide legible copies of the articles cited in footnotes 9, 10, and 11.

21. Refer to the Woolridge Testimony, page 40 and Exhibit JRW-8, page 5 of 5.

a. It appears that the Real EPS Growth figure was calculated using a compound annual growth rate formula. Explain why this formula is a better choice than using an average annual growth rate for EPS over the period.

b. Provide a legible copy of the Ibbotson and Chen article cited in footnote 13.

c. On line 10, explain how real Gross Domestic Product growth, which has averaged 3.5 percent over the past 80 years according to McKinsey, was calculated.

d. Provide a legible copy of the Goedhart article referenced in footnote 16.

22. Refer to the Woolridge Testimony, page 47. Dr. Woolridge states that if the Commission were to adopt Duke Kentucky's proposed capital structure, his recommended return on equity would be 9.0 percent. Explain why the recommendation would change based on the capital structure adopted. Include any analyses or studies performed or relied on by Dr. Woolridge to support this alternative recommendation.

23. Refer to the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Testimony"), page 5 of 54. Mr. Majoros states that his depreciation rate recommendations result in a $9,500,000 reduction compared to Duke Kentucky's depreciation witness, Mr. Spanos. On page 41 of the Henkes Testimony, Mr. Henkes states that Mr. Majoros's depreciation recommendations reduce Duke Kentucky's forecasted test period depreciation expenses by $9,996,000.

a. Provide the determination of both the $9,500,000 and $9,996,000 reductions. Include all calculations, workpapers, assumptions, and other supporting documentation.

b. Indicate which of the two reductions in depreciation expense is correct.

c. When determining the proposed depreciation expense using the depreciation rates proposed by Mr. Majoros, were those rates applied to the depreciable plant balances as of December 31, 2005 or December 31, 2007? If the forecasted test-period balances were not used, explain why the plant balances as of December 31, 2005 produce a reasonable adjustment.

24. Refer to the Majoros Testimony, page 6 of 54. Mr. Majoros states, "For example, Mr. Spanos is proposing straight line, equal life group depreciation combined with the remaining life technique."

a. Does Mr. Majoros agree that this approach is the same as was used in Duke Kentucky's last gas and common plant depreciation study?

b. Does Mr. Majoros agree that the Commission in Case No. 2005-00042[4] approved Duke Kentucky's last gas and common plant depreciation study, with some modifications?

c. Does Mr. Majoros agree it would be desirable for a combination utility like Duke Kentucky to have its depreciation studies for its gas and electric operations reflecting the same approaches and methodologies?

25. Refer to the Majoros Testimony, page 10 of 54. Mr. Majoros states that an excessive depreciation rate is one that produces more depreciation expense than necessary to return the cost of a company's capital asset over the life of the asset.

a. This definition of excessive depreciation rate does not include any references to legal asset retirement obligations ("ARO") and costs of removal. When determining whether a depreciation rate is excessive, should these two items also be considered and recognized? Explain the response.

[4] Case No. 2005-00042, An Adjustment of the Gas Rates of The Union Light, Heat and Power Company, final Order dated December 22, 2005.

b. Does Mr. Majoros agree that depreciation, as defined in the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts, and adopted by this Commission, defines depreciation as the loss of service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance?

26. Refer to the Majoros Testimony, page 14 of 54. Mr. Majoros states that Mr. Spanos' application of the equal life group approach to all prior vintages produces a composite remaining life which is inconsistent with past depreciation practices.

a. Explain what Mr. Majoros means by "inconsistent with past depreciation practices."

b. What group approach (equal life or vintage) and life technique (whole life or remaining life) was used for the 1975 depreciation rates for transmission and distribution plant and the 1997 electric general plant depreciation rates? Indicate how Mr. Majoros was able to determine which group approaches and life techniques were utilized in those depreciation rates.

27. Refer to the Majoros Testimony, page 16 of 54. Mr. Majoros states that if the equal life group is accepted for Duke Kentucky, the Commission should require new depreciation studies every 3 years. Explain how Mr. Majoros determined the 3-year interval is appropriate and reasonable.

28. Refer to the Majoros Testimony, pages 19 through 29 of 54.

a. Based on his review, does Mr. Majoros believe Duke Kentucky is in compliance with the provisions of paragraph 38 of FERC's Order No. 631? Explain the response.

b. Has Mr. Majoros prepared any analyses for any retirement of utility plant made by Duke Kentucky that compares the cost of removal incorporated into the depreciation rate and accrued for that utility plant with the actual cost of removal incurred at retirement?

(1) If yes, provide all analyses.

(2) If no, explain why such analyses have not been performed.

c. On page 28 Mr. Majoros states, "Furthermore, even if it was highly probable that this money would all be spent for cost of removal, it is fair and reasonable for the Kentucky PSC to specifically recognize the ratepayers' security interest in these monies until they are actually spent on their intended purpose." Explain what Mr. Majoros means by the "ratepayers' security interest" and what is the basis for the claim such a security interest is created when developing and charging depreciation rates.

d. In its December 22, 2005 Order in Case No. 2005-00042, the Commission expressly rejected the AG's recommendation that a regulatory liability should be created for non-legal AROs. Explain in detail what circumstances have changed since December 22, 2005 to support and justify the creation of a regulatory liability for Duke Kentucky's electric plant non-legal AROs.

29. Refer to the Majoros Testimony, page 29 of 54.

a. The non-legal ARO costs of $7,288,105 identified by Mr. Majoros reflect the net salvage accruals as shown on Exhibit MJM-1, page 3 of 3. Does Mr. Majoros agree that net salvage is comprised of gross salvage and cost of removal?

b. Does Mr. Majoros agree that the total original cost of the depreciable plant associated with the $7,288,105 net salvage accruals is $1,044,907,843?

c. Does Mr. Majoros agree that this amount of net salvage accruals divided by the total original cost of the depreciable plant equals .697 percent?

30. Refer to the Majoros Testimony, page 33 of 54. Indicate when Statement of Financial Accounting Standards No. 143 became effective.

31. Refer to the Majoros Testimony, pages 42 and 43 of 54. Provide the basis for each statement concerning replacements, beginning at line 23 on page 42 and continuing through line 8 of page 43.

32. Refer to the Majoros Testimony, pages 45 through 46 of 54. Provide complete copies of the decision by the Kansas Corporation Commission and the Kansas Court of Appeals that are referenced on these pages. Also indicate if the decision by the Kansas Court of Appeals has been appealed and the current status of that appeal.

33. Refer to the Majoros Testimony, Exhibit MJM-5, pages 3 and 4 of 4. Mr. Majoros states in his testimony that he opposes the use of the equal life group for Duke Kentucky's depreciation rates. Explain why for over half of the accounts shown on pages 3 and 4 Mr. Majoros uses the equal life group remaining life values.

34. Refer to the Majoros Testimony, Exhibit MJM-6.

a. Explain in detail why the use of a 5-year average net salvage component is reasonable.

b. Explain in detail why it would not be reasonable to base the net salvage component on the average of all data years available, which based on the information contained in Exhibit MJM-10, pages 3 through 68 of 68 appears to be 16 years.

35. Refer to the Majoros Testimony, Exhibit MJM-10, pages 1 and 2 of 68. It appears that there are nine plant accounts for which there is no summary of book values sheet. Explain in detail why it is reasonable to assume no net salvage for these nine plant accounts.

36. Refer to the Direct Testimony of Steven W. Ruback ("Ruback Testimony"), pages 12 and 13. Mr. Ruback proposes modifying the 12 Coincidental Peak ("12-CP") methodology proposed by Duke Kentucky, recognizing both class contributions to the 12 monthly peaks as well as capitalized energy.

a. Explain in detail how Mr. Ruback calculated Duke Kentucky's extra investment in non-peaking generating facilities and provide a workpaper showing the calculation.

b. Explain whether Mr. Ruback agrees with Duke Kentucky that the Average 12-CP method is generally accepted in the utility industry and was approved by the Commission in Duke Kentucky's last rate case. In the explanation, include any changes at Duke Kentucky or within the electric industry subsequent to the company's last rate case that justify the modifications to the 12-CP methodology proposed by Mr. Ruback.

c. Explain whether the 12-CP and Average Demand methodology recommended by Mr. Ruback has been proposed in rate cases before in Kentucky, or in other states. If the 12-CP and Average Demand methodologies have been proposed or accepted in Kentucky or other states, identify the state and provide the case number in which the methodology was proposed and whether the methodology was adopted by the state commission.

37. Provide a schedule similar to Schedule M-2.3 in Volume 12 of Duke Kentucky's application that shows the resultant rates, including the customer charge, demand charge (if applicable), and energy charge for all customer classes using the cost-of-service study and rate design proposed by Mr. Ruback. Assume for the purposes of your response to this question that Duke Kentucky is granted the full increase that it has proposed in this case.

38. Refer to the Ruback Testimony, page 11. Mr. Ruback states that, "A preponderance of peaking facilities is appropriate if the utility has a needle peak, but not if a utility has a reasonable load factor." On page 12, Mr. Ruback states that Duke Kentucky's annual load factor is a reasonable 56.66 percent. Explain whether Mr. Ruback believes Duke Kentucky's peaking facilities are excessive.

39. Refer to the Ruback Testimony, page 29. Mr. Ruback states that in Duke Kentucky's proposed Green Power ("GP") tariff, GP revenues will not be used to purchase or develop environmentally friendly resources, but instead will be used to purchase Renewable Energy Certificates ("REC") and carbon credits. Explain whether or not Mr. Ruback is aware of GP programs in Kentucky or in other jurisdictions that use RECs and carbon credits exclusively to fill GP portfolio requirements.

40. There are adjustments and tariff changes proposed by Duke Kentucky that have not been specifically addressed by the AG's witnesses. For each of the following issues, provide the AG's position, if any:

a. Increase in labor expenses and labor fringe benefits expenses.

b. Treatment of the Annual Incentive Compensation expense.

c. Treatment of additional deferred income taxes as a result of changes in Ohio tax law and the recognition of these additional deferred income taxes as an "above the line" deferred tax liability.

d. Changes to six outdoor lighting tariffs.

e. Approach to continue the sharing of off-system sales margins.

Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED September 26, 2006

cc: All Parties