COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY TO FILE DEPRECIATION STUDY	)))	CASE NO. 2007-00564

COMMISSION STAFF'S FIRST DATA REQUEST TO
THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY

The Attorney General of the Commonwealth of Kentucky ("AG"), pursuant to 807 KAR 5:001, is 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 June 11, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

The AG shall make timely amendment to any prior responses if he obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any requests to which the AG fails or refuses to furnish all or part of the requested information, he shall provide a written explanation of the specific grounds for his failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. 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 shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Testimony"), pages 10 and 11 of 26.

a. Based on Mr. Majoros' experience and knowledge, indicate whether the average life group approach ("ALG") or the equal life group approach ("ELG") is the more common approach utilized to determine depreciation rates for regulated electric and gas utilities in the United States.

b. Are there conditions where it is more reasonable to utilize ELG rather than ALG? Explain the response.

c. Concerning Louisville Gas and Electric Company's ("LG&E") proposal to switch from ALG to ELG,

(1) Are there situations or circumstances where it would be reasonable to switch from ALG to ELG? Explain the response.

(2) Does Mr. Majoros believe the situations or circumstances identified in part (1) currently exist at LG&E? Explain the response.

2. Refer to the Majoros Testimony, page 13 of 26. The chart on this page shows that LG&E common utility plant depreciation expense would increase using ALG

by $4,432,873 compared to the current level of expense. Is the increase for this group of plant accounts primarily driven by the adoption of amortization accounting for certain general plant accounts? Explain the response.

3. Refer to the Majoros Testimony, page 15 of 26. Mr. Majoros recommends that if ELG is approved, it should be applied prospectively and that new depreciation studies be undertaken every 3 years.

a. If ELG were to be approved, is Mr. Majoros saying that the depreciation rates for utility plant added during and after 2007 would reflect ELG while depreciation rates for pre-2007 utility plant would continue reflecting ALG? Explain the response.

b. If the Commission were to determine LG&E's depreciation rates would reflect ALG, how frequently would Mr. Majoros recommend depreciation studies be performed?

4. Refer to the Majoros Testimony, pages 16 and 17 of 26. Concerning Mr. Majoros' proposal of incorporating the present value of the cost of removal in depreciation rates:

a. Identify every state regulatory commission which has adopted the approach proposed by Mr. Majoros when determining a regulated electric or gas utility's depreciation rates. Include with this response a discussion of the circumstances which led the applicable state regulatory commission to adopt this approach.

b. Within the last 5 calendar years, indicate the number of proceedings where Mr. Majoros has proposed incorporating the present value of the cost of removal in depreciation rates. For each identified case, provide a discussion of the circumstances existing in the proceeding, the reasons offered in support of the approach, and indicate whether Mr. Majoros' proposal concerning a present value approach was adopted.

c. Does Mr. Majoros contend that accrual accounting requires that all expenses that are affected by inflation must be stated at a present value? Explain the response. In addition, provide applicable citations to generally accepted accounting principles ("GAAP") which require the statement of expenses at a present value.

d. Provide citations to independent auditors' reports or findings by state regulatory commissions that concluded that Mr. Spanos' "traditional" approach for the cost of removal has been found to be inconsistent with accrual accounting and GAAP. The citations or findings should have been issued within the last 5 calendar years.

5. Refer to the Majoros Testimony, pages 20 through 22 of 26. Concerning Mr. Majoros' references to the requirements of Statement of Financial Accounting Standards ("SFAS") No. 143:

a. Does Mr. Majoros agree that SFAS No. 143 discusses the establishment of the fair value of a liability for an asset retirement obligation, and recommends that a present value technique is often the best available technique to estimate the fair value of the liability?

b. Does Mr. Majoros agree that SFAS No. 143 does not discuss determining the fair value of ongoing expenses using a present value technique?

c. Does Mr. Majoros agree that in accrual accounting, there are significant differences between liability accounts and expense accounts?

d. On page 22 of 26, Mr. Majoros states, "The Commission may choose to use something other than the 'credit-adjusted risk-free rate' described in SFAS No. 143 for calculating the present value of the future obligation, but the underlying principle of accrual accounting remains."

(1) Does Mr. Majoros agree that, under the concept of accrual accounting, future obligations are considered liabilities, not ongoing expenses?

(2) If the Commission is to be consistent with GAAP, upon what basis could the Commission choose to use something other than the credit-adjusted risk-free rate as described in SFAS No. 143?

(3) Provide the credit-adjusted risk-free rate for LG&E as of December 31, 2006. Include all supporting workpapers, calculations, and assumptions.

6. Refer to the Majoros Testimony, page 23 of 26. Mr. Majoros states that the treatment of costs of removal proposed by Mr. Spanos is not required under the Federal Energy Regulatory Commission's Uniform System of Accounts ("FERC USoA"). Are there any provisions of the FERC USoA that require the use of the present value approach proposed by Mr. Majoros? If yes, provide specific citations to the applicable provisions of the FERC USoA.

7. Refer to the Majoros Testimony, pages 24 and 25 of 26, and Exhibit MJM-2, pages 10 through 18 of 18.

a. Explain in detail why using the Handy-Whitman Index for the South Atlantic Region is the appropriate way to measure inflation, as opposed to using other indices like the Consumer Price Index – Urban.

b. Explain in detail why it is appropriate to use the “Handy-Whitman indications” to discount Mr. Spanos’ cost of removal proposals.

c. Explain in detail why, if Mr. Majoros is proposing to state the costs of removal at a present value, he has used a factor based on inflation rather than the credit-adjusted risk-free rate prescribed in SFAS No. 143.

d. Provide all supporting workpapers, calculations, and assumptions utilized to determine the values shown in Exhibit MJM-2, pages 10 through 18 of 18, for columns 3, 4, 5, and 10.

8. Refer to the Majoros Testimony, Exhibit MJM-2, page 1 of 18. The schedule shown on this page includes a subaccount for Account No. 312.00 – Boiler Plant Equipment titled “Mill Creek – Land.”

a. Was Mr. Majoros aware that this subaccount does not appear in Mr. Spanos’ Exhibit JJS – LG&E, page III-4, but does appear in LG&E’s response to the AG’s First Data Request, Item 27?

b. Can Mr. Majoros explain why a plant subaccount referencing land would have a net salvage value?

9. Refer to the Majoros Testimony, Exhibit MJM-2, pages 3 through 5 of 18, and Exhibit MJM-3, pages 4 through 6 of 14. LG&E and Kentucky Utilities Company (“KU”) jointly own 10 combustion turbines (“CTs”). The CTs are Paddy’s Run – Generator 13, E. W. Brown CTs 5 through 7, and Trimble County CTs 5 through 10. Although jointly owned, LG&E and KU have proposed different depreciation rates for these CTs. Mr. Majoros has also proposed different depreciation rates for these commonly owned CTs.

a. Was Mr. Majoros aware that LG&E and KU jointly owned these 10 CTs?

b. Explain why Mr. Majoros believes it is reasonable for utility plant jointly owned by two affiliated, regulated utilities to be depreciated using different depreciation rates.

Stephanie Stumbo
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED: _May 28, 2008___

cc: Parties of Record