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
APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS BASE RATES	))))	CASE NO. 2008-00252

THIRD DATA REQUEST OF COMMISSION STAFF
TO LOUISVILLE GAS AND ELECTRIC COMPANY

Louisville Gas and Electric Company ("LG&E"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due not later than October 7, 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 the 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.

LG&E shall make timely amendment to any prior responses if it 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 request to which LG&E fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall 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 LG&E's response to Item 5 of Commission Staff's Second Data Request dated August 27, 2008 ("Staff's Second Request"). The 2008 Joint Integrated Resource Plan ("IRP") of LG&E and Kentucky Utilities Company ("KU") calls for two 475 MW combined cycle combustion turbines ("CT") to be added to the LG&E/KU generation fleet in 2015 and 2019, respectively. It shows no coal-fired generation being added and one 155 MW simple cycle CT added over the forecast period, which ends in 2022. Explain which of these units is the "additional base load unit" to which Paul W. Thompson referred on page 15 of his direct testimony. If it is one of the combined cycle CTs, explain why only one combined cycle CT is considered a base load unit.

2. Refer to LG&E's response to Item 10 of Staff's Second Request.

a. Provide the date on which LG&E began to solicit proposals for the new credit facilities discussed in the direct testimony of S. Bradford Rives ("Rives Testimony").

b. What is the specific date by which LG&E must make a decision as to the bank with whom it will enter into a credit agreement for the new credit facilities?

3. Refer to LG&E's response to Item 16 of the Staff's Second Request (page 1 of 5 of the attachment, and page 24 of the Direct Testimony of William Avera). There appear to be significant differences between LG&E and many of the firms that are included as proxies for LG&E in the analysis.

a. Eight of the firms in the proxy group own and operate nuclear power generation facilities, while LG&E does not. Explain why this should not be a factor in rejecting these firms as appropriate for inclusion in the proxy group.

b. Allete, Alliant Energy, Integrys Energy, Scana Corporation, and Vectren Corporation are all mid-cap companies, as reported by Value Line. All others in the proxy group are large-cap companies. Explain how these large companies are appropriately included in the proxy group.

c. Refer to LG&E's response to Item 107 of the Staff's Second Request wherein LG&E provides a discussion of its target capital structure. Allete, Alliant Energy, Constellation Energy, Duke Energy, Integrys Energy, MDU Resources, and Sempra Energy have debt-to-capital ratios of less than 35 percent. Only Dominion Resources, Exelon Corporation, Vectren Corporation, and Wisconsin Energy have debt-to-capital ratios greater than 50 percent.

(1) Explain why firms with capital structures so dissimilar to LG&E's should be included in the proxy group.

(2) For each company in the proxy group, including LG&E, provide the percentage of 2007 revenues derived from: (i) non-utility sources; (ii) utility operations subject to price regulation by a state commission; and (iii) utility operations not subject to price regulation by a state commission.

4. Refer to LG&E's responses to Items 23, 24, and 91(f)(1)(c) of Staff's Second Request, all of which reference the correction of errors or changes LG&E intends to make to its original filing. Based on these corrections and adjustments, provide the revised amounts of LG&E's proposed electric and gas base rate increases.

5. Refer to LG&E's response to Item 25 of the Staff's Second Request. Provide the amount of revenues related to MISO Schedule 10 expenses realized by LG&E since the end of the test year through the most recent month available.

6. Refer to Volume 3 of 5 of LG&E's application at Tab 42 which shows test year electric "Sales to Ultimate Consumers" of $770,423,196. Reconcile this amount to the "Revenue As Billed" of $780,786,963 shown in Volume 5 of 5 of LG&E's application on Seelye Exhibit 3, page 1 of 26.

7. Refer to Volume 3 of 5 of LG&E's application at Tab 42 which shows test year gas "Sales to Ultimate Consumers" of $374,873,592. Reconcile this amount to the "Revenue As Billed" of $388,349,421 shown in Volume 5 of 5 of LG&E's application on Seelye Exhibit 23, page 2 of 2.

8. Refer to LG&E's responses to Items 26, 79, and 81 of the Staff's Second Request, all of which pertain to the coal tax credit which is the subject of the adjustment

on Reference Schedule 1.33 of Exhibit 1 to the Rives Testimony in LG&E's application. The coal tax credit expires at the end of 2009, meaning an application for 2009 must be submitted by March 15, 2010, for use on either LG&E's 2009 state income tax return or its 2010 property tax return.

a. The years in which LG&E did not qualify for the credit were 2000 and 2001, the first two years the credit was available. Given that LG&E has qualified for the credit for six consecutive calendar years, explain why LG&E is concerned about the "contingent nature" of the credit.

b. In response to Item 49(b) of Staff's Second Request, William Steven Seelye refers to "the likelihood that the Companies will need to file rate cases in the near future (i.e. due to the need to recover the costs associated with Trimble County Unit 2)." With the anticipation of filing another rate case in conjunction with Trimble County Unit 2 going into service, which is scheduled for the summer of 2010, explain why LG&E is concerned about the expiration of the credit, the financial impact of which it would not realize until sometime in 2010.

c. Explain why the expiration of the credit is a basis for not continuing to recognize it for rate-making purposes when the amortization expense associated with the Mill Creek Ash Dredging Regulatory Asset is included for rate-making purposes although it is scheduled to expire in April 2010.

9. Refer to LG&E's response to Item 33 of Staff's Second Request and Rives Exhibit 1, Reference Schedule 1.29.

a. Explain whether the improper accounting of the IT contracts discovered in July of 2007 occurred only during 2007 or if it had occurred in prior years. If it occurred in prior years, what has LG&E done to correct the prior year incidents?

b. Explain whether LG&E's proposed adjustment results in more than 12 months of IT contract expense being included in the pro forma expense amount.

10. Refer to LG&E's response to Item 37 of Staff's Second Request, which includes LG&E's estimates of its residential customers' average annual temperature normalized gas consumption for the years 2003 through 2007. The discussion of the decline in average residential gas consumption in the direct testimony of J. Clay Murphy referred to the decline between the test year in LG&E's previous rate case and the test year in this case. The data response indicates a general trend of declining usage; however, it shows an increase at the end of the 5-year period 2003-2007. Identify and describe the factors that account for the increase in average annual consumption, from 68.1 to 72.8 Mcf, between 2006 and 2007.

11. Refer to LG&E's response to Item 47 of Staff's Second Request. Provide a list of the types of costs included in "Outside Services" along with the accompanying test year dollar amounts.

12. Refer to LG&E's response to Item 51 of Staff's Second Request.

a. Provide a list which identifies the LG&E gas customers that are served under special contracts.

b. Provide a schedule, by customer, which shows the throughput and base rate revenue of each special contract customer during the test year. Generic references, i.e., "Customer A, Customer B, etc." may be substituted for specific customer names on this schedule.

13. Refer to LG&E's response to Item 54(c) of Staff's Second Request. Explain why the revised runs of Seelye Exhibits 18 and 19, which were based on fewer variables than the original run contained in the exhibits, resulted in larger kWh adjustments than the adjustment in the exhibits.

14. Refer to LG&E's response to Item 54 of Staff's Second Request, pages 33 to 37 of the Direct Testimony of William Steven Seelye, and Seelye Exhibits 15, 18, and 19.

a. Describe in detail the reasons for developing the proposed electric temperature normalization adjustment based on degree day variations for individual months as opposed to degree day variations for a complete season, i.e., the cooling season or the heating season.

b. Provide a revised run of Seelye Exhibits 18 and 19 based on total degree day variations for the heating season and cooling season based on the same bandwidth of two standard deviations centered on the mean used in LG&E's proposed electric temperature normalization adjustment.

15. Refer to LG&E's response to Item 63(a) of Staff's Second Request.

a. For the 12-month periods ended April 30, 2004, 2005, and 2006, provide the amount of expense recorded in Account 512, Maintenance of Boiler Plant.

b. For each of the 12-month periods ended April 30, 2004, 2005, 2006, and 2007, identify the generating units which had a scheduled maintenance outage or major turbine overhaul similar to those that occurred during the test year at Trimble County Unit 1 and Cane Run Unit 5.

c. For each of the calendar years 2009, 2010, and 2011, identify which LG&E generating units are planned to have a scheduled maintenance outage or major turbine overhaul similar to those that occurred during the test year at Trimble County Unit 1 and Cane Run Unit 5.

16. Refer to LG&E's response to Item 63(b) of Staff's Second Request. Clarify the meaning of Trimble County Unit 1's "combustion turbine" outage work.

17. Refer to LG&E's responses to Item 64(a) of Staff's Second Request and Item 78 of the Attorney General's August 28, 2008 data request. Explain what is meant by "regulatory work in the areas of pipeline integrity and corrosion."

18. Refer to LG&E's response to Item 64(c) of Staff's Second Request.

a. Explain why the inspections of mains required by the Metropolitan Sewer District ("MSD") differed between the 12 months immediately preceding the test year and the test year.

b. Explain whether MSD requires a consistent number of inspections of mains by LG&E on a yearly basis and provide the number of inspections, number of mains inspected, and feet of mains inspected that MSD required of LG&E annually for the years 2003 through 2007.

19. Refer to LG&E's responses to Items 72 and 83 of Staff's Second Data Request. In the first response, LG&E states that it did not accrue any "unbilled expenses" concurrently with the recording of unbilled revenue. In the second response,

LG&E states that accrued expenses were not removed because there were no accrued expenses associated with the accrued revenues listed.

a. Explain how recording unbilled revenue without associated expenses satisfies the "matching principle" as dictated by generally accepted accounting principles.

b. LG&E has proposed adjustments for unbilled revenues (Rives Reference Schedule 1.0) and accrued revenues (Rives Reference Schedule 1.09). Explain the distinction between unbilled revenues and accrued revenues and state whether accrued revenues are also unbilled.

20. Refer to LG&E's response to Item 74(d) of Staff's Second Request.

a. The order of the Pennsylvania Public Utility Commission does not identify that the equal life group ("ELG") method was proposed. Provide the relevant section of the testimony of John Spanos in the Pennsylvania case which reflects that the depreciation proposal of the utility was based on the ELG method.

b. In the order of the Indiana Commission, identify whether there is any support for the decision to adopt ELG other than the first full paragraph on page 55 of the order which states that the Commission had "on numerous occasions accepted the use of the ELG methodology."

21. Refer to LG&E's response to Item 75 of Staff's Second Request.

a. Pages 2-10 of the attachment include a comparison of depreciation under "Current rates ASL" and "2006 New ELG" rates. The Direct Testimony of Shannon L. Charnas in Case No. 2007-00564 indicates that John Spanos "studied the Average Service Life ("ASL") and Equal Life Group ("ELG") methodologies for determining depreciation rates . . . ." Clarify that the "Current rates ASL" shown in the attachment are not rates developed by Mr. Spanos in conjunction with his 2006 depreciation study, which LG&E submitted in Case No. 2007-00564.

b. If the response to (a) above indicates that the "Current rates ASL" were not developed by Mr. Spanos in conjunction with Case No. 2007-00564, provide, in the format used on pages 2-10 of the attachment, a comparison of depreciation under the ASL rates developed by Mr. Spanos in conjunction with his 2006 depreciation study and the ELG rates he has recommended for LG&E.

c. Describe all favorable and unfavorable consequences to LG&E if the Commission were to require reclassification of LG&E's asset removal costs from accumulated depreciation to a regulatory liability account for regulatory reporting purposes.

22. Refer to LG&E's response to Item 77 of Staff's Second Request and the attached KU response to Item 94 of Staff's Second Request in Case No. 2008-00252.

a. Is it LG&E's contention that the ARO assets recorded on its books of account are not supported by the capital recorded on its books? If yes, explain the response.

b. Provide the amounts of the "net ARO asset" and offsetting "higher accumulated depreciation" referenced in the last sentence of the response to Item 77.

c. Using the same methodology as was used by the Commission in LG&E's last rate case, Case No. 2003-00433,[1] provide the amount of the adjustment

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

that would be made to LG&E's capitalization to correspond to its ARO-related adjustment to rate base.

23. Refer to LG&E's responses to Items 80(b) and 105 of Staff's Second Request and Item 26(a)(8) of Staff's initial data request. The responses indicate, among other things, that E.ON U.S. Investments Corp. files consolidated federal and state income tax returns. The responses also indicate that federal and state income tax returns are filed for LG&E.

a. Is LG&E aware that the Commission has previously approved the use of an effective income tax rate based on the filing by the utility and its affiliates of consolidated income tax returns (see the Commission's January 31, 2002 Order in Case No. 2001-00092[2] and its February 28, 2005 Order in Case No. 2004-00103[3]).

b. State LG&E's position on the use of an effective tax rate in determining its revenue requirements in this case.

24. Refer to LG&E's response to Item 86 of Staff's Second Request, specifically page 2 of 2 of the attachment, which pertains to the proposed electric year-end customer adjustment.

a. The number of GS customers ranged between 41,772 and 42,573 during the test year, except for December 2007, when it was only 39,544. Explain why the number of customers in December is fewer than the number of customers during the rest of the test year.

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[2] Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company.

[3] Case No. 2004-00103, Adjustment of the Rates of Kentucky-American Water Company.

b. The number of LP customers served at secondary voltage was 324 at the end of the test year, the lowest level of the test year (which was the same as in December 2007). Explain why the number of customers in those months declined as compared to the other months of the test year.

c. The number of TLE customers ranged between 872 and 914 during the test year except for the first-of-the-year level of 753 and the year-end level of 720. Explain why the number of customers was fewer at those points in time compared to the other months of the test year.

d. The number of PSL customers ranged between 39,230 and 40,371 during the test year except for the last three months when the numbers were 37,917, 43,432, and 37,725. Explain why the number of customers fluctuated in this manner for the months of February, March, and April of 2008.

e. The number of OL customers was 53,971 at the beginning of the test year and ranged between 44,609 and 47,490 thereafter, until the last month of the test year, when it increased to 48,971. Explain why the number of customers changed in this manner over the course of the test year.

25. Refer to LG&E's response to Item 89 of Staff's Second Request and Rives Exhibit 1, Reference Schedule 1.15, of LG&E's application.

a. Explain whether the amounts included in the calculation of pro forma payroll include a provision for compensated absences. If yes, provide a schedule which shows the compensated absences included in the "Grand Total" pro forma payroll for each account shown on Item 89(a).

b. State the amount of leave time an employee is allowed to carry forward.

c. Describe how LG&E estimates the increase or decrease in employee leave time carry-forward balances when calculating pro forma payroll costs.

d. Identify all employee positions that were vacant as of April 30, 2008, and state whether or not each position is currently vacant.

e. For all employee positions identified in (d) above, state when LG&E expects to fill the position.

26. Refer to LG&E's response to Item 91 of Staff's Second Request. For each amount of other compensation listed for each executive employee, describe how the level of compensation was determined.

27. Refer to LG&E's response to Item 94(a) of Staff's Second Request. The level of conservation advertising recorded by LG&E in Account 909 increased from roughly $319,000 in 2005 to more than $571,000 in 2007.

a. Explain how LG&E determines the level of conservation advertising it will incur in a given year.

b. Provide the amount of conservation advertising included in LG&E's 2005, 2006, and 2007 operating budgets.

c. Provide the amount of conservation advertising included in LG&E's 2008 operating budget and the amount that has been expended to date in 2008.

28. Refer to LG&E's response to Item 97 of Staff's Second Request. Provide the monthly average per-gallon cost of fuel for September 2008. Also provide the

monthly average per-gallon costs for October and November 2008 as those costs become available.

29. Refer to LG&E's response to Item 99 of Staff's Second Request, specifically, the attachment to the response. Explain in detail why the annual expense incurred by LG&E for contracted labor for maintenance contracts increased from $13.7 million in 2005 to over $24.1 million during the test year.

30. Refer to LG&E's response to Item 110 of Staff's Second Request. Provide a detailed description of the unique operating characteristics and other circumstances of LG&E's gas system that cause its transportation tariffs to differ from the transportation tariffs of other Kentucky gas distribution companies.

31. Refer to LG&E's response to Item 72 of the Attorney General's August 28, 2008 data request. The response indicates that total Edison Electric Institute ("EEI") expenses booked by LG&E in the test year were $437,595.55. It also indicates that EEI determined that 16.15 percent of dues paid was spent on lobbying activities in 2007. Provide the amount of LG&E's total EEI expenses in the test year that represent its EEI dues.

32. Refer to LG&E's response to Item 2 of the Attorney General's April 14, 2008 data request in Case No. 2007-00564 and pages 7-8 of the Direct Testimony of Sidney L. "Butch" Cockerill concerning the Customer Care System ("CCS") which is planned to go into service in February of 2009.

a. Provide the amount of any costs associated with the CCS which were recorded as operating expenses by LG&E during the test year and explain why the costs were expensed rather than capitalized.

b. Provide the test year operating expenses incurred in conjunction with the operation and maintenance of all systems whose functions will be performed by the CCS after it goes into service.

c. Provide the estimated annual operating and maintenance expenses for the first 12 months' operation of the CCS.

33. Refer to LG&E's response to Item 3 of the Attorney General's Initial Request for Information. Provide the origin of the $1,157,302,781 shown as "Billed revenues from ultimate customers for the twelve months ended 04/30/08."

34. Refer to LG&E's response to Item 7(a) of the August 27, 2008 data request of the Kentucky Industrial Utility Customers, Inc. Explain why there were no unbilled FAC fuel revenues reported as of April 30, 2007.

35. LG&E and many other utilities have recently been dealing with the issue of storm-related service restoration.

a. Describe, generally, the process used to account for (1) restoration services provided to LG&E by other utilities and (2) restoration services provided by LG&E to other utilities. This description should indicate how, and in which accounts, LG&E records amounts it reimburses other utilities and how, and in which accounts, it records reimbursements it receives from other utilities.

b. Provide the amounts of all restoration costs, reimbursements, etc. recorded by LG&E in the test year for services it received from other utilities as well as services it provided to other utilities.

c. Refer to Rives Exhibit 1, Reference Schedule 1.18

(1) Provide the amount of payroll costs included in the test year storm damage expenses of $5,587,633.

(2) Identify in which account(s) the payroll costs provided in (1) were recorded.

(3) Explain whether the proposed storm damage adjustment results in a portion of LG&E's in-house labor costs being included for recovery in LG&E's overall labor costs as well as the storm damage adjustment. If there are any amounts that are included for recovery in both areas, identify the amounts and describe how LG&E intends to remedy the potential for double-recovery of these amounts.

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DATED: SEPTEMBER 24, 2008

cc: Parties of Record