

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

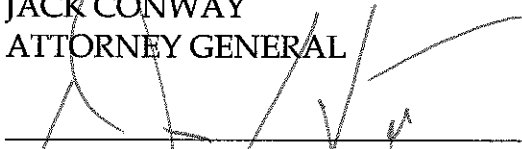
In the Matter of:

APPLICATION OF KENTUCKY UTILITIES )  
COMPANY FOR AN ADJUSTMENT OF ITS ) Case No. 2012-00221  
ELECTRIC RATES )

ATTORNEY GENERAL'S RESPONSES TO THE COMMISSION'S REQUESTS FOR  
INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of  
Kentucky, by and through his Office of Rate Intervention, and submits his responses to  
the Commission's Requests for Information.

Respectfully submitted,  
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**Notice of Electronic Filing, Filing, and Certificate of Service**

With regard to the foregoing pleading, undersigned counsel provides the following certification and notice: Pursuant to ordering paragraph 3 of the Commission's June 22, 2012 Order, the Attorney General files the original and one copy in paper medium and one copy in electronic medium. Per ordering paragraph 10 of the June 22, 2012 Order, undersigned counsel certifies that: (a) the electronic version is a true and accurate copy of the material filed in paper medium; (b) the electronic version has been transmitted to the Commission; and (c) there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

With regard to the electronic filing, in conformity with Ordering paragraph 3 of the June 22, 2012 Order, the Attorney General has submitted his electronic copies of the information by uploading the material to the PSC's Web Application Portal at <https://psc.ky.gov/Security/account/login.aspx> . With regard to the original and paper copy, the material will be filed at the Commission's offices no later than the second business day following the electronic filing (consistent with the instruction contained in ordering paragraph 13 of the June 22, 2012 Order).

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The electronic filing took place on October 26<sup>th</sup>, 2012 with the filing of the documents in paper medium at the Kentucky Public Service Commission scheduled for October 29<sup>th</sup>, 2012.

this 26<sup>th</sup> day of October, 2012.



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Assistant Attorney General

Application of Kentucky Utilities Company  
For an Adjustment of its Electric Rates  
Case No. 2012-00221  
Attorney General's Responses to Data Requests of Kentucky Public Service Commission

WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION No. 1:

The testimony of Glenn A. Watkins ("Watkins Testimony"), at page 26, recommends that Kentucky Utilities Company ("KU") distribution plant be classified as 100 percent demand-related.

- a. Explain why Mr. Watkins did not make the same argument in KU's last rate case, Case No. 2009-00548.
- b. Provide the number of cost-of-service studies that Mr. Watkins has prepared during his career and the number of those in which he recommended that distribution plant be classified as 100 percent demand-related.

RESPONSE:

- a. Mr. Watkins' recommendations in this case (concerning his analyses of customer densities/mix and the classification of distribution plant) differ from KU's last rate case due to technology changes and data availability. Specifically, the theory concerning the need to classify distribution plant as partially customer-related and partially demand-related rests in the relative mix and densities of customers by class. Until recently, data was not available to determine customer densities across KU's (or any other utility's) service area. Recently, the U.S. Census Bureau began publishing land area square miles by zip code. This data then enabled Mr. Watkins to determine customer densities and mixes by zip code.
- b. Mr. Watkins has been practicing public utility ratemaking for 32 years and has not maintained a list of all cost-of-service studies he has conducted. However, Mr. Watkins conducts about 10 to 12 such studies per year which equates to more than 300 studies over his career.

Mr. Watkins has not maintained a list of those studies in which he has recommended that distribution plant be classified as 100% demand-related. However, Mr. Watkins has recommended this treatment of distribution plant

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in all cases before the Washington Utilities and Transportation Commission (electric and gas), and most natural gas cases over the last several years. In addition, Mr. Watkins has made similar recommendations in cases involving PPL Utilities before the Pennsylvania Public Utility Commission.

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Glenn Watkins

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QUESTION No. 2:

The Watkins Testimony, at page 35, states that KU's proposed class revenue distribution is reasonable except for the Fluctuating Load Service ("FLS") class, and he recommends the FLS class be increased at 125 percent of the overall systemwide percentage increase. The testimony of Kentucky Industrial Utility Customers, Inc. witness Stephen J. Baron, at pages 11-16, discusses an error in KU's cost-of-service study related to the treatment of curtailable service revenues. Upon correction of this error, Mr. Baron asserts that the (1.59) percent rate of return for the FLS class becomes a 5.24 percent rate of return. Explain whether Mr. Watkins agrees with Mr. Baron's assertion of an error and, if so, explain if this changes Mr. Watkins' recommendation regarding the revenue increase allocation to the FLS class.

RESPONSE:

As of the required date for this response to Request for Information, Mr. Watkins has not evaluated Mr. Baron's testimony, analyses or recommendations. However, he will review the information and provide a response as soon as practicable..

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Glenn Watkins

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QUESTION No. 3:

Refer to Exhibit GAW-2. The first 10 generating units listed are categorized as base load, while the following eight units are categorized as intermediate load. Explain how the cut-off point between base load and intermediate load was determined.

RESPONSE:

Coal fired and minimum capacity factor of 60% are Mr. Watkins' criteria for base load units.



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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION No. 4:

Refer to Exhibit GAW-5. Provide an electronic copy in spreadsheet format of the cost-of-service study that supports this exhibit with the formulas intact and unprotected and with all columns and rows accessible.

RESPONSE:

Please see OAG response to KU Question Number 2.

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**Data Requests Relating to Testimony of Dr. J. Randall Woolridge**

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

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QUESTION No. 5:

Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), pages 14-15 and Exhibit JRW-4. Provide the most recent published Value Line company analysis for each of the companies in the electric proxy group.

RESPONSE:

The requested documents are provided in the attached zipped file 'Electric V-Lines - September 2012.'

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Attorney General's Responses to Data Requests of Kentucky Public Service Commission

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

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QUESTION No. 6:

Several companies in the proxy group in Exhibit JRW-10 have negative growth rates. Explain why it is valid to have these companies included in the analysis.

RESPONSE:

The projected EPS, DPS, and BVPS growth rates for the proxy companies are predominantly positive. However, negative growth is clearly a possibility. The projected growth rates represent a distribution of projected growth rates for the proxy companies, and negative growth is a possibility for some companies. A review of the 5- and 10- year historic growth rates are provided on page 3 of Exhibit JRW-10. About 20% of the historic figures are negative, which documents that negative growth occurs. To eliminate the negative projected growth rates would lead to asymmetric elimination of low and not high growth rates, and therefore would lead to an overstatement of expected growth.

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WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

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QUESTION No. 7:

Refer to the Woolridge Testimony at pages 33-34 and Exhibit JRW-10, page 4. Explain why using internal growth and return calculations, which are derived in part through rates determined by ROEs awarded in other jurisdictions, as a proxy for dividend growth does not introduce a certain amount of circularity into the calculation.

RESPONSE:

Internal growth is a classic approach to measuring expected growth. As indicated in the testimony, the retention of earnings, and the rate of return earned on those earnings, is very direct measure important indicator of expected growth. For utilities, there is a possibility of circularity due to the fact that rates determined by ROEs awarded in other jurisdictions are used as a proxy for dividend growth. However, I have mitigated this effect by using many alternative indicators of growth – historic and projected growth rates in DPS, EPS, and BVPS as well as analysts' projected long-term EPS growth rates – in addition to internal growth.