COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND	**)**
ELECTRIC COMPANY FOR AN ADJUSTMENT OF	**)**
ITS ELECTRIC AND GAS RATES, A CERTIFICATE	**)**
OF PUBLIC CONVENIENCE AND NECESSITY,	**) CASE NO. 2012-00222**
APPROVAL OF OWNERSHIP OF GAS SERVICE	**)**
LINES AND RISERS, AND A GAS LINE SURCHARGE	**)**

KIUC'S RESPONSES TO
COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION

1. Refer to the Direct Testimony of Dennis W. Goins, page 22, at which Mr. Goins discusses the recommended three percent increase to Curtailable Service Rider credits. Provide the basis for the proposed three percent increase, and all calculations supporting its reasonableness.

RESPONSE:

Please see the workpapers filed with Dr. Goins' direct testimony—specifically, the Excel file KIUC_Goins_WPs_2012-00221-00222-dg.xls at tab 2012-1K. Cells L30-L34 show the percentage increase in demand charges for various industrial firm service rates proposed by KU and LG&E. These increases range from 5.87 percent to 21.08 percent. In a perfect world, the CSR credits should increase by these amounts to maintain the existing relative relationship of firm and nonfirm service prices. However, Dr. Goins has proposed 3 percent increase in the CSR credits to offset partially the increase in firm service rates proposed by KU and LG&E, and to mitigate the relative price distortion between firm and interruptible service that would arise if KU's and LG&E's proposed firm service rate increases were approved.

Answering Witness: Dennis W. Goins

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2. Refer to the Direct Testimony and Exhibits of Lane Kollen ("Kollen Testimony), pages 8-10, and the last attachment to Exhibit (LK-4), which relate to the off-system sales ("OSS") margin adjustment proposed by Louisville Gas and Electric Company ("LG&E"). On page 8 at lines 13-14, Mr. Kollen states that the proposed adjustment "fails to fully address any effects of seasonality on the margins that might occur over a full month test year." However, starting on page 9 at line 19, and concluding on page 10 at line 2, Mr. Kollen states that "there is no obvious pattern to the OSS margins...." a statement which appears to be supported by the quarterly OSS sales data in the attachment. As there is "no obvious pattern", explain why Mr. Kollen cites "effects of seasonality" as a problem with the proposed adjustment.

RESPONSE:

Seasonality does not necessarily reflect itself in a pattern, but does affect a utility's off-system sales and margins. For example, scheduled maintenance tends to be performed during the off-peak months during the year, thus leaving less capacity and energy to sell into the market. Purchased power tends to be cheaper during the off-peak months during the year. There are a

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multitude of other factors that also influence OSS sales and margins, all of which change throughout the year. Thus, the best measures of all of these effects, if the Commission does not adopt a selective post-test adjustment, as the Companies now propose, are the actual test year off-system sales and margins. In Mr. Kollen's opinion, the Commission should use the test year amounts unless there is something unusual or abnormal and nonrecurring that should be normalized. The Companies have failed to demonstrate that any amounts of the off-system sales and margins were unusual or abnormal and nonrecurring in the test year. The mere fact that the off-system sales and margins were different in the immediate months after the test year compared to the months during the test year in and of itself is not a valid test as to whether the amounts in the test year should be normalized.

Answering Witness: Lane Kollen

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3. Refer to pages 12-14 of the Kollen Testimony where Mr. Kollen discusses his proposed adjustment to normalize LG&E's generation outage maintenance expense. Mr. Kollen calculates his adjustment based on five years of historical data adjusted for inflation, and cites LG&E's data responses which indicate that its projected 2013 generation outage maintenance expense will be less than the test year expense level.

a. The test year expense was $20.9 million, the expense levels in the five years used in Mr. Kollen's proposed adjustment ranged from $8.2 to $16.9 million, while LG&E's projected expense levels are $15.2 million in 2013 and $14.9 million in 2014. With a range of this magnitude in annual expense levels, explain why an adjustment, be it a decrease or an increase, is appropriate.

b. Explain the extent to which Mr. Kollen's proposed adjustment is dependent on LG&E's 2013 projected expense being less than the test year expense.

e. If an adjustment such as that proposed by Mr. Kollen were to be accepted by the Commission, explain whether KIUC believes that similar adjustments would need to be made in future LG&E cases, regardless of whether the adjustment was an increase or decrease.

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d. Explain why a five-year historical period was used in the proposed adjustment, as opposed to either a shorter or longer period.

RESPONSE:

a. The generation maintenance expense in the test year was greater than in any of the preceding 5 years and is greater than LG&E anticipates when new base rates are effective in 2013. The Commission and the Companies recognize that the effects of unusually high or low expense amounts in the test year sometimes need to be normalized in order to ensure that the Companies' reasonable expenses over time are recovered on the one hand and that customers are not required to provide excessive recovery over time on the other hand. Accordingly, the Commission traditionally has normalized revenues and expenses to remove unusual or abnormal and nonrecurring events and amounts, allowed certain storm damage expenses to be deferred and then recovered on an amortized basis, and used averages over historic time periods for certain expenses that vary significantly over time, such as storm damage expense and injuries and damages.

In the Matter of:

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b. This fact provides further evidence that the test year expense is unusually high and abnormal and nonrecurring. Mr. Kollen did not use the Company's projection in the quantification of his adjustment.

c. Yes. This expense is greater than the storm damage expense and injuries and damages expense, which the Commission historically has normalized based on averages of actual expenses in prior years. Thus, the variability of this expense from year to year has a greater impact on the Company's revenue requirement and on its earnings than the other expenses.

d. Mr. Kollen used a shorter period than the Commission's use of a 10 year average for storm damage expense and injuries and damages expense due to the changes in the Company's generation portfolio that have occurred over the last 10 years. The use of a 5 year average provides a closer proxy to its present generation portfolio than would a 10 year average.

Answering Witness: Lane Kollen

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4. Refer to page 18 of the Kollen Testimony where Mr. Kollen discusses the amortization of the 2011 deferred windstorm costs. At lines 3-5, Mr. Kollen states that "the revenue requirement in this proceeding includes a return on the full amount of the deferred costs." Explain whether this statement is premised on the regulatory asset which LG&E established being included in its rate base.

RESPONSE:

Yes. It also is predicated on the fact that LG&E financed the regulatory asset and the amount of this financing is included in the capitalization used to quantify the return component included in the Company's revenue requirement.

Answering Witness: Lane Kollen

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5. Refer to page 21 of the Kollen Testimony at lines 3-9. Provide the amount of the change to LG&E's rate case amortization expense based on this alternative to Mr. Kollen's primary recommendation.

RESPONSE:

It would be $0 because the 2008 and the 2009 rate case expenses would be more than fully recovered, unless the Commission chose to recapture the excess recovery that will occur before rates are reset in this proceeding.

Answering Witness: Lane Kollen

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6. Refer to the Direct Testimony of Stephen J. Baron ("Baron Testimony"), page 28. Provide all calculations and assumptions used in the proposed Carbide net revenue adjustment. Provide Carbide energy and demand usage for each of the 24 months prior to the March 2011 explosion and for each month since Carbide resumed normal operations.

RESPONSE:

See Attached CONFIDENTIAL files.

Answering Witness: Stephen J. Baron

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7. Refer to Baron Exhibits SJB-2, SJB-6, and SBJ-7. Provide an electronic copy in spreadsheet format of each of the cost of service studies that support these exhibits with the formulas intact and unprotected and with all columns and rows accessible.

RESPONSE:

See attached.

Answering Witness: Stephen J. Baron

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8. Refer to page 5 of the Testimony of Richard A. Baudino ("Baudino Testimony"), pages 16 through 18. Explain why no gas utilities or combination utilities were included in the proxy group, and whether excluding such companies makes the proxy group size too small for a reliable comparison group.

RESPONSE:

Please note that according to the AUS Utility Report, September 2012, the following companies in Mr. Baudino's comparison group are considered combination electric and gas companies:

Alliant
Avista
Black Hills Corp.
Consolidated Edison
Dominion Resources
DTE Energy
Pepco Holdings
PG&E Corp.
TECO Energy

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Wisconsin Energy

Xcel Energy

Mr. Baudino did not include gas distribution utilities because he estimated the cost of equity for LGE's electric operations. Mr. Baudino believes that 16 companies comprise a sufficiently large enough group to reliably estimate the cost of equity for LGE.

Answering Witness: Richard A. Baudino

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9. Refer to pages 21 and 22 of the Baudino Testimony. 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:

Mr. Baudino agrees that a degree of circularity exists in the retention growth method when Commission-allowed returns are used as the expected growth rate. In the retention growth rates used by Mr. Baudino in his testimony, he used Value Line forecasts that are based on expected returns from Value Line.

Answering Witness: Richard A. Baudino

VERIFICATION

The undersigned, Richard A. Baudino of Kennedy & Associates, being duly sworn, deposes and states that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge, and belief.

Richard A. Baudino Oct. 25, 2012

STATE OF NORTH CAROLINA
COUNTY OF FORSYTH

Richard H. Reich
Notary Public
Forsyth County, NC
My Commission Expires Feb. 11, 2017

Sworn to and subscribed before me on this 25th day of October, 2012.

Notary Public : Richard H. Reich
My commission expires: February 11, 2017

VERIFICATION

The undersigned, Dennis W. Goins of Potomac Management Group, being duly sworn, deposes and states that he has personal knowledge of the matters set forth in the foregoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge, and belief.

Dennis W. Goins

Sworn to and subscribed before me on this 24th day of October, 2012.

Joshua J. Toth

Notary Public

JOSHUA J. TOTH
Notary Public
Commonwealth of Virginia
7206060
My Commission Expires Jun 30, 2016

VERIFICATION

The undersigned, Lane Kollen of Kennedy & Associates, being duly sworn, deposes and states that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge, and belief.

Lane Kollen

Sworn to and subscribed before me on this 24th day of October, 2012.

Notary Public

RANDY A FUTRAL
MY COMMISSION EXPIRES
NOTARY
PUBLIC
AUGUST 25, 2016
COBB COUNTY, GEORGIA

VERIFICATION

The undersigned, Stephen J. Baron of Kennedy and Associates, being duly sworn, deposes and states that he has personal knowledge of the matters set forth in the forgoing responses for which he is the identified witness and that the information contained therein is true and correct to the best of his information, knowledge, and belief.

Stephen J. Baron

Sworn to and subscribed before me on this 24th day of October, 2012.

Notary Public

RANDY A FUTRAL
MY COMMISSION EXPIRES
NOTARY
PUBLIC
AUGUST 28, 2016
COBB COUNTY, GEORGIA