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	)))	**CASE NO. 2014-00372**

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.'S RESPONSE TO COMMISSION STAFF'S FIRST SET OF DATA REQUESTS

1. Refer to the Direct Testimony and Exhibits of Lane Kollen ("Kollen Testimony"), page 7, specifically, the chart showing the total electric rates of Louisville Gas and Electric Company ("LG&E") from 2004-2013.

a. Explain whether Mr. Kollen has attempted to break down the increases in LG&E's rates depicted in the aforementioned chart to reflect the amounts of increase in base rates, fuel costs, environmental charges, etc.

b. Explain whether Mr. Kollen has attempted to compare, or match, these prior increases in LG8 E's electric rates with increases in its investment in electric plant over the period 2001-2013.

RESPONSE:

a. No. The purpose of the charts was to show the significant increases in customer rates. Mr. Kollen did not attempt to determine the reasons for the increases.

b. No. The purpose of the charts was to show the significant increases in customer rates. Mr. Kollen did not attempt to determine the reasons for the increases.

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2. Refer to the Kollen Testimony, page 14, line 24, to page 15, line 12.

   a. The Testimony refers to increases in employee staffing levels since the purchase of LGBE in 2010 by PPL Corporation. Explain whether Mr. Kollen recognized the commercialization of Trimble Unit No. 2 in his review of changes in LG8 E's generation facilities since 2010 that may have impacted staffing levels.

   b. Explain whether it is Mr. Kollen's understanding that LG&E is/was the owner of the Tyrone property.

RESPONSE:

Trimble County 2 entered commercial operation in January 2011. Mr. Kollen believes that the additional employees required to operate and maintain the unit were hired in 2010, not in January 2011.

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3. Refer to the Kollen Testimony, page 27, lines 20-22, and Exhibit (LK-20). The Testimony states that LG&E seeks an increase in pension expense of $16.7 million compared to its calendar year 2014 expense and an increase of $13.4 million compared to its base year expense. The Exhibit, which reflects the proposed test-year expense of $28.9 million, supports the statement in the testimony. The Exhibit also reflects that the 2014 expense of $12.25 million was the lowest annual expense since $10.2 million in 2008. It also reflects that for the years from 2009-2013 the annual expense ranged from $25.5-$34.4 million and averaged $28.8 million, $0.1 million less than the proposed test-year level. Explain whether Mr. Kollen would have the Commission focus only on the level of increase cited in his testimony and ignore the older historical levels, including the level in the test year of LG&E's previous rate case.

RESPONSE:

Please refer to Mr. Kollen's workpapers attached.

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4. Refer to the Kollen Testimony, page 33, lines 8-10. Explain how Mr. Kollen selected 30 years as the amortization period for the net actuarial losses reflected in LG&E's pension plan.

RESPONSE:

Pension expense varies from year to year based on actual trust fund assets and various assumptions used to project future trust fund assets and the pension obligation, including the return on trust fund assets, discount rate, mortality statistics, employee compensation increases, and the timing and amounts of future pension payments, among others. Given all these changes from year to year, the pension expense in years prior to the most recent actual historic calendar year is irrelevant for a projected test year. In fact, this is true for pension accounting aside from ratemaking. The Companies' actuaries perform a new standalone calculation of pension expense each year that has nothing to do with the pension expense calculated in prior years, except to the extent the expense changed certain asset or liability amounts. The Companies' actuaries use certain actual and estimated asset and liability amounts at the end of the most recent calendar year (trust fund assets, transition obligation, participant demographics, pension benefit obligation, etc.) including the effects of various assumptions to project all components of pension expense. In other words, the expense in years prior to the most recent actual historic calendar year is irrelevant to the actuaries or their calculation of the projected pension expense for 2015, 2016 and the test year.

If the Companies did not adopt the new mortality tables or reduce the discount rate for 2015, 2016 and the test year, their pension expense would have been comparable to the 2014 level. However, the question facing the Commission is not whether the 2014 expense was reasonable, but whether the test year expense is reasonable. The adoption of the new mortality tables and a lower discount rate created a huge increase in the pension obligation. Under GAAP, the Companies will amortize this increase over less than 10 years. Mr. Kollen does not believe that it is reasonable to amortize the increase over this unduly short time period for ratemaking purposes and proposes a longer period to smooth the impact on customer rates. Mr. Kollen also is concerned that the Companies' expense for GAAP will peak in 2015 based on the actuarial report and that the test year pension expense they propose will result in overrecoveries of this

expense in future years, all else equal. Finally, it should be noted that Mr. Kollen's recommendation will not harm the Companies, diminish their earnings, or cause them to underrecover pension expense. They will be able to defer the timing difference between GAAP pension expense and the amount allowed for ratemaking purposes.

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5. Refer to the Kollen Testimony, page 36, lines 10-20, wherein Mr. Kollen recommends using a five-year historical average to determine the appropriate level of late payment revenues for LG&E, and Exhibit (LK-26). The question and answer on lines 18-20 read as follows: "Should the Commission use the five year average for late payment revenues in the same manner as you recommend for uncollectible accounts expense?" "Yes, and for the same reasons."

a. On lines 1-2 of the same page, Mr. Kollen cites the volatility in the amount of uncollectible expense as a reason for using an average level of expense. The last page of the Exhibit shows that LG&E's electric uncollectible expense over the past five years declined from $5.9 million in 2010 to $1.7 million by 2012, then increased to $4.7 million by 2014. The first page of the exhibit shows that its electric late payment revenues over the past five years have declined from $6.4 million in 2010 to $5.7 million in 2011, $5.4 million in 2012, and $2.4 million in both 2013 and 2014. Explain whether Mr. Kollen evaluated why uncollectible expense moved down and up by large amounts while the late payment revenues only moved down over the same five-year period.

b. If, as it appears, LG&E's late payment revenues have not shown the level of volatility as its uncollectible expense has shown over the past five years, explain why it is appropriate to use an average as Mr. Kollen proposes "for the same reasons" offered in support of his recommended adjustment to uncollectible expense.

RESPONSE:

a. No. Mr. Kollen did not attempt to evaluate the reasons for the changes from year to year. Mr. Kollen would note that the Company did not attempt to explain the reasons for the changes from year to year for the Mitchell plant maintenance and offered no justification for using a three year average other than it provided a levelized amount consistent with Commission precedent.

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b. Unlike in a historical test year where actual revenues are known with certainty, the Companies' projections of revenues in the forecast test year are uncertain and the Commission must determine if those projections are reasonable. The best approach for miscellaneous revenues, such as late payment revenues, is to compare the projections to the actual revenues in prior years. That is why Mr. Kollen proposes the five year average. An average does not require an assessment of the variables that caused the revenues to vary in the prior years or how they may vary in the projected test year and it is consistent with the Company's proposal to use a three year average for the Mitchell plant maintenance expense.

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6. Refer to the Direct Testimony of Stephen J. Baron ("Baron Testimony"), pages 14-15, which state that Exhibits (SJB-4) and (SJB-5) contain summary results for two alternative cost-of-service studies prepared for Kentucky Utilities Company. The alternative studies use the 12 coincident peak ("CP") method and the PJM Interconnection, Inc. 5 CP method of allocating production and transmission demand costs. Explain why alternative cost-of-service studies were not prepared for LG&E.

RESPONSE:

Mr. Baron did prepare alternative cost of service studies for LGE. See Table 4 and Baron Exhibits SJB-6 and 7.

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7. Refer to the Baron Testimony, page 24, lines 1-4, which state, "Since the buy-through option is also being eliminated, this means that a customer would likely 100 hours of shut-down of its manufacturing operations, without the opportunity to buy-through, whenever the Companies deem that such an interruption should occur. Explain whether KIUC would be supportive of LG&E changes to its curtailable service rider tariff if, during the 100 hours of interruption, it included the option to buy-through market power.

RESPONSE:

KIUC would support a reduction in the maximum hours of annual interruption to 100 hours, if a customer could buy-through any interruption, unless such interruption is called due to a system emergency event. Notwithstanding this position, KIUC continues to support its proposal to increase the interruptible credit in this case, as recommended in Mr. Baron's testimony.

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8. Refer to the Baron Testimony, Table 9 on page 38.

   a. For the Commercial Time-of-Day Primary class, explain why Mr. Baron proposes to increase the energy charge and decrease the demand charges to achieve his desired outcome rather than increase all charges or some other combination of increases/decreases.

   b. For the Industrial Time-of-Day Primary class, explain wh. Mr. Baron proposes to increase the energy charge, decrease two demand charges, and increase one demand charge to achieve his desired outcome rather than increase all charges or some other combination of increases/decreases.

RESPONSE:

a. Mr. Baron developed both the commercial and industrial rates simultaneously such that the net increases to both rates differed by 1% and the overall increase to the combined commercial and industrial TOD rate class was identical to the Company's proposal (i.e., revenue neutral). In order to accomplish these dual objectives, Mr. Baron solved for both energy and demand rate changes to each rate (commercial and industrial), which produced the results in Table 9. While it is possible that other combinations of energy and demand rate changes could have achieved the dual objectives (1% rate increase differential and overall revenue neutrality), Mr. Baron believes that the proposed rate changes in Table 9 are reasonable and should be implemented.

b. See response to (a) above.

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9. Provide an electronic copy, in Excel spreadsheet format with the formulas intact and unprotected and with all columns and rows accessible of the cost-of-service study that supports the summary presented in Baron Exhibit (SJB-2).

RESPONSE:

See attached (includes electronic copies of SJB- 2, 6 and 7).