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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC.) CASE NO.
FOR AN ADJUSTMENT OF RATES FOR GAS SERVICE) 2013-00167

ATTORNEY GENERAL'S RESPONSES TO DATA REQUESTS OF KENTUCKY PUBLIC
SERVICE COMMISSION

Comes now the Attorney General of the Commonwealth of Kentucky, by and through his
Office of Rate Intervention, and files his responses to the data requests of the Kentucky Public
Service Commission staff.

Respectfully submitted,

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Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

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this 7th day of October, 2013



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QUESTION No. 1

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Refer to the Direct Testimony and Exhibits of Frank W. Radigan ("Radigan Testimony") at pages 7-8.

- a. Identify the sources for the annual use per customer and heating degree days ("HDD") discussed in the testimony and shown on the graph at the top of page 8.
- b. Identify the specific weather stations upon which the HDD totals are based.

RESPONSE:

- a) **CGK Response to AG-156**
- b) **In reply to AG-165 Columbia Gas reports that they use Lexington, KY and Huntington, WV for weather normalization. Mr. Radigan has not been able to verify if this information is correct or how Columbia Gas weighs the information from the two sources.**

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QUESTION No. 2

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Refer to the Radigan Testimony at pages 10-11.

- a. Lines 19-20 on page 10 refer to annual HDD as being approximately 4,500 per year. Identify the specific 12-month period in which HDD were at this level.
- b. Lines 6-7 on page 11 refer to "data supplied by the Company...." Identify the specific data to which the testimony is referring.
- c. If not clearly reflected in the data Identified in response to part b. of this request, provide the calculations, workpapers, etc., which show how the customer level of 120,000 referenced on line 10 of page was derived.

RESPONSE:

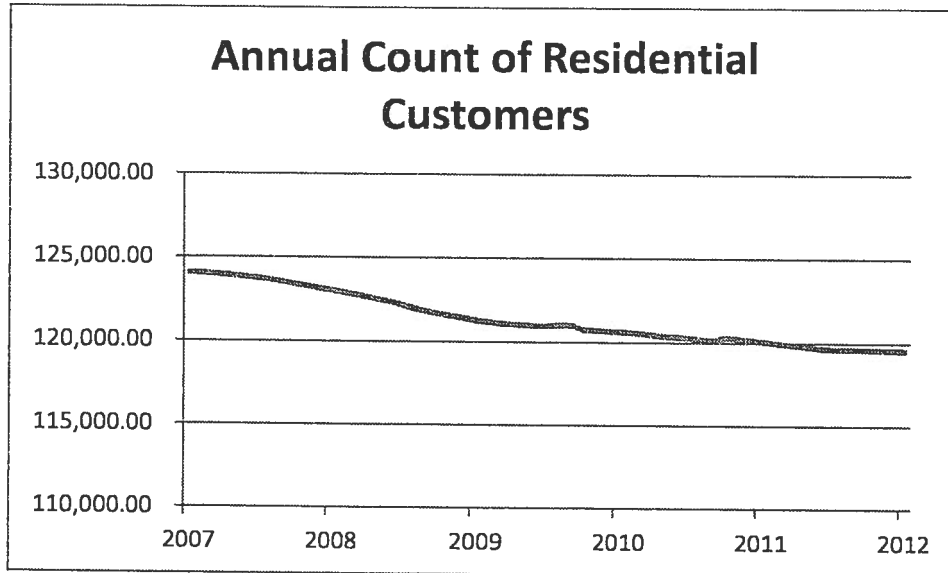
- a) Please see Ag response to CGK question 20. Please see graph in Mr. Radigan's testimony of UPC. Also please see workpaper HDD Lexington.123 which contains actual HDD for the period from September 1924 through May 2013. The average HDD for Lexington for that period was 4,674 and Mr. Radigan used 4,600.
- b) Please see CGK reply to AG-157.
- c) Please see AG reply to CGK question 26. Please see work paper Copy of AG-157 and the graph below developed from that data. Mr. Radigan interprets this graph to indicate that customer loss has stabilized.

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QUESTION No. 3

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Refer to the Radigan Testimony at pages 12-13.

- a. Identify the source of the use per customer for the commercial class for the 12 months ending June 2013 cited on lines 11-12 of page 12.
- b. Identify the source of the industrial class sales volume for the 12 months ending June 13 cited on lines 14-15 of page 12.
- c. Provide the calculations, workpapers, etc., showing the derivation of the revenue requirement impacts cited on lines 14-15 of page 12.

RESPONSE:

- a) Please see CGK reply to AG-157.
- b) Please see CGK reply to AG 1-56.
- c) Please see Mr. Radigan's workpapers provided in response to CGK question 16, file RevenueAdjustmentWorkpaperForRadigan-rewfwr.xlsx

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QUESTION No. 4

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Refer to the Radigan Testimony at pages 14-16.

- a. Explain why Mr. Radigan believes Columbia Gas of Kentucky, Inc.'s ("Columbia") increase in forfeited discounts since its 2009 rate case is "most likely the impact of aggressive collection activities by the Company...."
- b. Explain why, on page 15, an average of the three years 2010 to 2012 was used to derive the recommended level of revenue from forfeited discounts of \$490,806, while the information provided by Columbia included 2013 year-to-date figures.
- c. Provide the calculation of the "\$3.3 million per year from the table above..." referenced on page 15, lines 13-14.
- d. Explain why the period 2009 through June 2013 was used to derive the average of \$3.3 million in unbilled revenues cited on line 13 of page 15.
- e. Confirm that if the three years 2010 to 2012 were used, the average level of unbilled revenues would be \$369,659.

RESPONSE:

- a) **This is based on Mr. Radigan's observation that the Company's last rate case had new rates go into effect in October 2009. For 2008 and 2009 forfeited discounts was approximately \$200,000 per year. After new rates went into effect the forfeited discounts increased approximately \$490,000. At the same time that forfeited discounts were increasing uncollectible expense levels were decreasing significantly. For example, in 2009, uncollectible expense was approximately \$2,000,000 but in 2013 it had**

Data Requests Relating to Testimony of Frank W. Radigan

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- decreased to approximately \$530,000. Both of these factors indicate an increased emphasis on revenue collection on the part of the Company and this observation was the basis of Mr. Radigan's testimony.
- b) See response to 4 a) above.
 - c) The \$3.3 million on page 16, line 13, is a typographical error, it should be \$3.03 million.
 - d) Based on the CGK response to AG 1-228, Mr. Radigan had access to detailed trial balance information for 2009 onwards and that is why that period was chosen.
 - e) Confirmed.

Data Requests Relating to Testimony of Frank W. Radigan

QUESTION No. 5

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Refer to the Radigan Testimony, pages 22-24, Schedules FWR-11 and FWR-11A, and the Columbia depreciation study filed to comply with filing requirement 12.3., specifically, pages III-101, III-102, III-110 and III-111 of the study, which include the specific plant accounts to which Mr. Radigan refers in his testimony.

- a. Mr. Radigan's testimony, at page 22, lines 18-19 states, "Based on December 31, 2012 data, moving to the equal life group procedure would increase depreciation expense by \$3.2 million (Response to AG question 1-92)." Sch. FWR-11A appears to indicate, in the far right column, that the difference in depreciation expense from using the equal life group ("ELG") method versus the average service life ("ASL") method is \$2.3 million. Explain how Mr. Radigan determined the difference from using the ELG versus the ASL method is \$3.2 million based on the data response he cites.
- b. Refer to the two schedules. Confirm that Mr. Radigan developed an adjustment of \$2,829,000 on Sch. FWR-11A based on plant in-service balances as of December 31, 2012, and then applied that adjustment to Columbia's proposed level of depreciation expense for the test year ending December 31, 2014.
- c. The historical data in the depreciation study covers the years 1969 through 2010. Explain why, for Account 376, Mains, and Account 380, Services, Mr. Radigan selected the periods of 1969-2000 and post-2000 to compare retirements and net salvage ratios, rather than some other periods within this 42-year span.
- d. Mr. Radigan states that Columbia's accelerated main-replacement program ("AMRP") is affecting the indicated net salvage rates for Accounts 376 and 380 in the post-2000 period, with the result being lower net salvage rates during this period. Explain whether Mr. Radigan is aware that the AMRP was only in effect for part of 2009 and the years 2010-2012 during this period.
- e. Given that the AMRP was in effect for less than four of the 12 years in the post-2000 period, explain why Mr. Radigan believes the AMRP had an impact of any significance on the net salvage rates for this period.

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- f. For Account 376, Mains, after describing the 1969-2000 period, on page 24, lines 3-4, Mr. Radigan refers to more recent years which "show retirements in the \$900,000 to \$1,200,000 per year range and net salvage rates for the years with high retirements between (6%) and (10%)." Pages iii-101 and -102 show retirements during the post-2000 period for Account 376 ranging from \$168,669 in 2006 to \$2,023,544 in 2003, with retirement amounts (when rounded) failing within a \$900,000 to \$1,200,000 range in only four of 12 years. With the retirement data for Account 376 being what it is, explain how Mr. Radigan developed the aforementioned range and identify the specific years to which he refers as the "years with high retirements."
- g. For Account 376, Mains, Mr. Radigan bases his recommendation for net salvage rates on the "years with high retirements" in the post-2000 period. However, for Account 380, Services, he bases his recommended net salvage rate on the average of the five years, 2008-2012. Explain why it is appropriate to use different approaches for developing recommended net salvage rates for these two accounts.

RESPONSE:

- a) **The number cited in the testimony is a typographical error. \$3.2 million should be \$2.3 million.**
- b) **Confirmed.**
- c) **Based on Mr. Radigan's review of the data, the pre-2000 period and post 2000 period showed markedly different levels of retirement work and he decided to review the pre-2000 and post-2000 period separately. For services the marked increase in retirements occurred beginning around 1995 but really accelerated after 2000. For mains, increased retirements occurred beginning in 1998 but really accelerated after 2000.**
- d) **Yes but a simple observation of the data indicates that post 2008 is significant. For services, for the 2005-2008 period net salvage was negative 96% and for 2009-2012 it was negative 46%. At the same time the level of retirements increased by over 50%. For mains, for the 2005-2008 period net salvage was negative 16% and for 2009-2012 it was negative 7% and the level of retirements increased by approximately 30%. The increased retirements after the AMRP program and the marked decrease in net salvage was the basis for Mr. Radigan's recommendations.**
- e) **See response to d) above**

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- f) Mr. Radigan does not agree with the way the evidence is presented in the question. For an understanding of Mr. Radigan's analysis of net salvage please see responses to c) and d) above.**
- g) See response to d) above**

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QUESTION No. 6

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Refer to the Radigan Testimony, page 25, lines 6-16. Columbia plans to complete Automated Meter Reading device ("AMRs") Installation in 2014 and estimates \$419,731 in annual expense related to the AMRs. It estimates a \$741,000 expense reduction in 2015 due to operation of the AMRs. Explain whether Mr. Radigan believes it is reasonable to recognize this expense reduction so that a full year of the AMRs' net cost is reflected in Columbia's cost of service.

RESPONSE:

If Columbia Gas of Kentucky were to present an alternative expense reduction for AMR's, Mr. Radigan would certainly be open to the examination of reasonableness as Mr. Radigan is not opposed to AMR but rather opposed to ratepayers paying for the full cost of AMR and the utility receiving the full benefit of expense reduction.

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QUESTION No. 7

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Refer to the Radigan Testimony, pages 33-34.

- a. State whether Mr. Radigan is sponsoring the Direct Testimony of J. Randall Woolridge from Case No. 2012-00520.¹
- b. Explain how the third quarter of 2013 allowed Returns on Equity of 9.3 to 10.2 percent referenced on these pages supports the 8.5 percent apparently drawn from a water utility rate case that has not been decided by the Commission and that was recommended by a witness that has not offered testimony in this proceeding.

RESPONSE:

- a) **Mr. Radigan submitted the testimony of Mr. Woolridge for informational purposes and is not sponsoring its contents.**
- b) **The reference to the third quarter returns of 2013 was done for informational purposes to show that regulatory agencies around the country are approving returns on equity much lower than the one proposed by CGK in this proceeding. The 8.5 percent return was also presented as informational evidence.**

¹ Case No. 2012-00520, Application of Kentucky-American Water Company for an Adjustment to Rates Supported by a Fully Forecasted Test Year, filed Dec. 28, 2012.

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QUESTION No. 8

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Refer to the Radigan Testimony, pages 34-35.

- a. State whether the AG is aware that Columbia's proposed change in the Accelerated Main Replacement Program Rider tariff with regard to property taxes is consistent with similar provisions contained in the tariffs of Delta Natural Gas Company, Inc. and Atmos Energy Corporation.
- b. State whether the AG is aware that Columbia's proposal to true up actual with projected costs will ensure that there is no over-recovery of property tax expense.

RESPONSE:

- a) Yes.
- b) Yes, but the true-up does not prevent front loading of cost to ratepayers.

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QUESTION No. 9

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Refer to page 12 of the Direct Testimony and Schedules of Glenn A. Watkins ("Watkins Testimony"). Starting at line 12, Mr. Watkins states that "[t]he Peak and Average approach is the most fair and equitable method to assign natural gas distribution mains costs to the various customer classes." Provide all analysis and documents relied upon in making this statement. Include in the response whether Mr. Watkins has ever supported a cost-of-service study ("COSS") for a natural gas utility based on something other than the Peak and Average method. If so, identify the proceeding and the method supported.

RESPONSE:

Please refer to Mr. Watkins's Direct Testimony, pages 16 through 20 regarding the conceptual reasons for the preferred use of the Peak and Average method. Other than these specific documents referenced in Mr. Watkins' Testimony, no other specific documents were utilized. Rather, Mr. Watkins relied upon his knowledge and experience in conducting cost allocation studies regarding the cost causation of mains investment and the economic theory relating to the benefits of integrated utility systems.

Mr. Watkins has been practicing public utility cost allocations for more than thirty years and has conducted or evaluated several hundred such studies. Mr. Watkins does not maintain a list for every such study. However, Mr. Watkins recalls supporting other mains allocation methods in some cases when the facts and circumstances support alternative methods. For example, in Pennsylvania, Mr. Watkins has supported the Average and Excess method in some natural gas distribution company cases because the end-results were not materially different than those obtained using other allocation methods such that additional areas of controversy were eliminated. As Mr. Watkins recalls, these cases included Philadelphia Gas Works and Pennsylvania Power & Light (Gas) [now owned by UGI]. As a general matter, Mr. Watkins represents that he normally supports the Peak and Average method as the most equitable approach as it best reflects cost causation and the system benefits that accrue to all ratepayers.

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QUESTION No. 10

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Refer to the Watkins Testimony, pages 27-31, regarding Mr. Watkins's disagreement with the use of specific allocators in Columbia's COSS, his changes to the allocations, and his assertion that the changes are consistent with the COSS filed by Columbia in prior cases. State whether Mr. Watkins made any changes to allocations that are not consistent with the COSS Columbia filed in its last rate case. If so, identify the changes.

RESPONSE:

Mr. Watkins is not aware of any inconsistencies with the Peak and Average class cost of service study sponsored by Columbia witness Mark Balmert in the Company's last rate case.

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QUESTION No. 11

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Refer to page 34 of the Watkins Testimony. Beginning at line 8, Mr. Watkins states that "...it is therefore, logical, equitable, and appropriate to assign these costs to classes based on the utilization of Columbia's facilities; I.e., MCF usage." Explain why MCF usage is more appropriate for allocating NISource Corporation Service Costs than another allocation basis, such as customer number.

RESPONSE:

Please refer to Mr. Watkins' Direct Testimony, page 32, line 10 through page 34, line 18. Furthermore, as shown in Mr. Watkins' Schedule GAW-3, the NSCS costs charged to Columbia of Kentucky relate generally to overhead costs which are incurred to support the Company's overall business activities. If these charges are allocated to classes based on number of customers, a small apartment residential customer that uses only a few MCF of gas per year is assigned the same level of costs as a large industrial customer that uses several million MCF per year. Furthermore, overhead costs are considered a cost of doing business such that the more a particular customer relies upon (utilizes) a company's business resources, the more overhead costs that customer should responsible for. Such a theory and application is consistent with competitive markets in that the more a customer uses of a firms resources, the more he/she contributes to the cost of the resources.

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QUESTION No. 12

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Refer to page 41 of the Watkins Testimony. Beginning at line 4, Mr. Watkins states that "...no recognition should be given to any cost allocations In this case for purposes of evaluating class revenue responsibility or in assigning the overall approved Increase in revenue requirement to Individual classes." State whether Mr. Watkins believes that the COSS results filed as his Schedule GAW-5 should not be used for this purpose

RESPONSE

For the reasons provided throughout his testimony, no. However, Mr. Watkins' various alternative CCOSS results provided in Tables 2 through 7 as well as his discussion on page 40, lines 12 through 17, provide legitimate and appropriate allocation of costs which result in significantly different class rates of return from those obtained by Mr. Feingold.

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QUESTION No. 13

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Refer to the Watkins Testimony, page 63. Starting at line 8, Mr. Watkins states that Columbia witness Russell Feingold calculated a residential customer charge ranging from \$22.28 to \$31.98, which can be found on page 13 of Schedules 2 and 3 of Mr. Feingold's Direct Testimony. Provide the same information that appears on the referenced page 13 that would result from using Mr. Watkins COSS, the results of which are presented in Schedule GAW-5.

RESPONSE

Mr. Watkins has not performed such an analyses. Furthermore, Mr. Watkins is of the opinion that the amounts shown on Mr. Feingold's Schedules 2 and 3, page 13, are of no use as they simple reflect placing all costs into one of three categories --- demand, commodity, or customer. With respect to Mr. Feingold's "customer" category, these costs include the allocation of many overhead costs as well as the assignment of many rate base items that are not directly related to the cost of connecting a customer or maintaining a customer's account.

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QUESTION No. 14

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Refer to the Watkins Testimony, pages 63-64. Given the referenced monthly cost range of \$8.44 to \$11.48, provide the derivation of the \$14.00 maximum residential monthly customer charge recommended on line 20 of page 64.

RESPONSE

There were no mathematical calculations used to derive Mr. Watkins recommended \$14.00 maximum residential monthly customer charge. Rather, informed judgment was utilized in making Mr. Watkins recommendation considering the facts provided on page 62, line 15 through page 64, line 21 of Mr. Watkins' direct testimony.

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QUESTION No. 15

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Refer to Schedule GAW-5. Provide the COSS in Excel spreadsheet format with the formulas intact and unprotected and all rows and columns accessible.

RESPONSE

See attached file: GAW-5.xls and GAW-5.123. Please note that Mr. Watkins utilized Lotus 1-2-3 to conduct his CCOSS analyses. These have been converted to Excel as a matter of courtesy.