COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF COLUMBIA GAS OF KENTUCKY, INC.	) CASE NO.) 10498

O R D E R

IT IS ORDERED that Columbia Gas of Kentucky, Inc. ("Columbia") shall file the original and 15 copies of the following information with the Commission by May 10, 1989, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets is required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

Information Request No. 3

1. In Item 34(a) of the response to the Commission's Order of March 27, 1989, Mr. Burchett describes a flaw in Columbia's revenue allocation and states, as an example, that the number of bills for residential customers should be increased 26,020 bills. Provide the increases in the number of bills for Rate Schedules GSO, FI and IS.

2. Item 35 of the response to the Commission's Order of March 27, 1989, shows the change in the number of customers from the end of the test year to December 31, 1988.

a. The change in GSO customers is 467 (12,410 - 11,943). Identify the amount of this increase caused by seasonal heating customers and the amount due to general customer growth.

b. The change in GSR customers is 4,571 (106,789 - 102,218). Identify the amount of this increase caused by seasonal heating customers and the amount due to general customer growth.

c. The number of customers identified as LG&E declined by 957 from August to December (1,093 - 136). Provide a detailed explanation for this decrease.

3. In Item 36 of the response to the Commission's Order of March 27, 1989, Mr. Payne addressed questions regarding a year-end customer adjustment.

a. Explain why a proper calculation of customer usage would need to cover a 10-year period.

b. Explain in more detail why a proper average usage cannot be computed.

c. Regarding part (a) of the response, explain why both customer growth and customer attrition are not already reflected in the number of customers at year end.

4. In Item 58 of the response to the Commission's Order of March 27, 1989, Mr. Burchett addressed questions regarding the proposed changes for Columbia's gas cost adjustment clause.

a. Under the proposal, FI and IS customers' gas costs would be $.80 to $.90 less per Mcf than other customers' gas costs. To what extent does Columbia project this will increase FI and IS sales or cause shifts by FI and IS customers from transportation to tariff sales?

b. IS customers contribute to peak-day deliveries if not interrupted and the capacity established by peak-day demand is available to those customers the remainder of the year. With Columbia's interruption history, explain why IS customers should not incur a demand cost greater than the D-2 demand charge?

c. In what jurisdictions do any Columbia affiliates have in place a gas cost adjustment clause similar to Columbia's proposal in this case?

d. In its Order of May 29, 1987, in Administrative Case No. 297,[1] the Commission requested that cost-of-service studies also consider how the costs of gas differ by customer class. Does Columbia consider its application to be responsive to

---

1 Administrative Case No. 297, An Investigation of the Impact of Federal Policy on Natural Gas to Kentucky Consumers and Suppliers.

the Commission's directive in Administrative Case No. 297? Explain.

e. Provide any analyses Columbia has performed which demonstrate how gas costs vary by customer class.

5. In Item 60 of the Response to the Commission's Order of March 27, 1989, Mr. Burchett addressed questions regarding Columbia's flex rate proposal.

a. Explain how the percentage to be retained/absorbed was set at 20 percent.

b. Per page 16 of Mr. Burchett's testimony, provide a detailed explanation for why the most recent flex rate levels are more representative of future flex rates than an historical test-year average.

6. In Item 61 of the response to the Commission's Order of March 27, 1989, Ms. Cole explained why the fixed transportation rate was used to show the loss Columbia would incur if rate flexing were not allowed.

a. The difference between the fixed rate and Columbia's historical flex rates was built into the tariff rates granted in Case No. 10201.[2] Doesn't this mean the loss per Mcf due to the inability to flex is nearer the 1.49 cent contribution described by Mr. Burchett rather than 7.08 cents? Explain.

b. Per Columbia's application, its normalized flex rate revenues are $272,771. Isn't this the amount at risk if flexing were discontinued? Explain.

---

[2] Case No. 10201, An Adjustment of Rates of Columbia Gas of Kentucky, Inc.

7. Item 62 of the response to the Commission's Order of March 27, 1989, shows the number of transportation customers for the test year and the months since the end of the test year.

a. This data shows a general increase in the number of transportation customers. What customer losses to alternate fuels did Columbia experience during this time period?

b. Delivery service volumes increased by 5,000,000 Mcf annually from 1986 through 1988, a period during which DS interruptible rates were fairly constant (37 cents to 43 cents). For what reasons did volumes increase so substantially?

8. In Item 64 of the response to the Commission's Order of March 27, 1989, Mr. Burchett stated that a shrinkage factor of 1 percent would be reasonable to recognize a level of gas lost on transportation volumes.

a. If the test year in this case were used for a gas cost adjustment filing, would this cause purchased gas volumes to be reduced by 72,529 Mcf (1 percent of delivery service volumes)? Explain.

b. Explain how this shrinkage factor might be reflected in Columbia's cost-of-service studies.

9. In Item 65 of the response to the Commission's Order of March 27, 1989, Mr. Burchett addressed questions regarding Columbia's fixed rate transportation sales.

a. Provide a specific description of the market conditions that have led to the decision to propose no increase in transportation rates.

b. Provide any analyses or studies Columbia has performed that measure or quantify these market conditions.

10. In Item 67 of the response to the Commission's Order of March 27, 1989, Mr. Phelps addressed questions concerning the proposed Customer Owned Volume Transfer Tariff.

a. In what jurisdictions have any Columbia affiliates had this tariff approved?

b. Please elaborate or provide an example of the competitive reasons for which Columbia would waive the proposed fee and Mcf charge.

11. In Item 68 of the response to the Commission's Order of March 27, 1989, Mr. Burchett addressed questions concerning the proposed Cost Avoidance Service Tariff.

a. Explain further and/or provide an example of how and when this service could be used to offset take-or-pay charges or gas inventory charges.

b. Why would this service be targeted only to customers with alternate energy capability?

c. Explain in detail how Columbia would set the rate for this service for an individual customer.

d. Is this intended as a means of avoiding commodity rate take-or-pay charges from suppliers by obtaining gas from other sources? Explain.

12. In Items 39 through 54 of the response to the Commission's Order of March 27, 1989, Mr. Payne addresses questions concerning Columbia's cost allocation study.

a. Identify the factor(s) used on Schedule 6, of both studies, to allocate net taxable income before income tax.

b. Provide a detailed explanation for the factor(s) or method(s) identified in part (a) above.

13. What is the overall cost of the research center for projects relevant to the area of gas distribution service? Tabulate the projects and prorate the cost of each project for the test period of 12 months ending August 31, 1988.

14. With reference to Columbia's response to Commission Information Request No. 1, Item 40, by computing the charges to Columbia of all the projects listed, the total charges totaled $344,900, which is higher than the $243,000 stated in Columbia's response to Information Request No. 2, Item 75. Please provide the actual cost of the research projects to Columbia.

15. With reference to Columbia's response to Commission Information Request No. 2, Item 78:

a. What is the useful life of the approximately 600 miles of bare pipeline in Columbia's distribution system? Explain the procedure adopted in determining the useful life of these pipelines.

b. In what class locations are the bare steel pipes located? Give percentage of each class location to the total bare steel pipeline.

c. What is the leakage incidence (LI) factor in Class 3 and Class 4 locations of the bare pipes during the test period?

d. What procedure does Columbia adopt, other than the LI factor, in discovering the potentially hazardous leaks in the bare pipes? Provide the records for these tests.

16. In response to Item 46 of the Commission's Order dated March 27, 1989, Columbia provided pages 18-19 of testimony presented in a Pennsylvania case regarding the zero-intercept methodology.

a. Provide the following information:

1. Filing date and docket number and name of the Pennsylvania case.

2. Brief description of the case and of the Pennsylvania Commission's ruling pertaining to the allocation of main-related costs.

3. Complete testimony presented in the Pennsylvania case pertaining to the allocation of main-related costs, including but not limited to the zero-intercept study, and the name(s) of the witness(es) providing the testimony.

4. Data used to conduct the zero-intercept study presented in the aforementioned testimony and all other work-papers. This includes the diameters, total costs, and total footage of all 36 main sizes included in the study.

b. On page 18, line 13, the witness states that there are two shortcomings of the zero-intercept methodology. What is the second shortcoming?

c. Explain theoretically how the cost of a zero diameter main could ever be negative.

17. Provide the diameters, total costs, and total footage of all main sizes currently installed on Columbia's system.

18. Of the two commonly-used procedures to allocate distribution main costs - zero-intercept and minimum-system - which would result in the largest customer-related cost component? Explain.

19. In response to Item 47 of the Commission's Order dated March 27, 1989, Columbia explains that the Demand/Commodity methodology does not identify a portion of main costs as customer related. Provide Columbia's rationale for conducting a cost allocation study that assumes that there are no customer-related main costs.

20. Provide a complete description of the development and determination of Allocation Factor 18.1 as shown in the response to Item 51 of the Commission's Order dated March 27, 1989.

21. Using the same format as Item 14 of the Commission's Order dated March 27, 1989, provide the central office expense for the 5 years preceding the test period.

22. Per Columbia's responses to Items 14 and 15 of the Commission's Order dated March 27, 1989, Columbia could not provide the requested information because of the method of recording. However, in response to Item 2 of the same data request, Columbia refers to the direct basis of billing its affiliates. If the primary method for billing is the direct charge, please explain how Columbia is not able to differentiate. If this is not the case, provide the requested information. If Columbia maintains that this information is not available, explain how Columbia determines

that these costs are reasonable when billed from the affiliate. Provide complete detailed support for the response.

23. Using the data provided in response to Item 2 of the Commission's Order dated March 27, 1989, on Sheet 1 the increase in test-period payroll is approximately 3 percent over the 12 months prior to the test period. Provide the percent increase in management salaries and wages and the percent increase in nonmanagement salaries and wages for the test period and for the 12 months preceding the test period.

24. Provide the actual salary and wage expense portion of each of the following categories of operation and maintenance expense for the test period: (Differentiate between regular and overtime pay.)

a. LP gas production expense.

b. Other gas supply expenses.

c. Distribution expenses.

d. Customer expense.

e. Gas utilization expenses.

f. Administrative and general expenses.

Reconcile this information with the information provided in Item 18(c) of the Commission's Order dated January 17, 1989.

25. In reference to Item 10 of the Commission's Order dated March 27, 1989, are the actual expenditures that are reflected in the response representative of the completion of the planned additions that were budgeted for November and December 1988? If not, provide a complete list containing the dollar amounts of the differences.

26. On Item 2, Sheet 11 of the Cost Data, filed February 11, 1989, Columbia has General and Administrative Labor of $25,451,800 on line 12. Is this a system-wide amount? Explain the derivation of this number (with detailed workpapers) and the amount for each month shown.

27. Provide a detailed explanation for the substantial test-period changes in the following expense accounts:

a. Account No. 741, Maintenance of Structures and Improvements.

b. Account No. 742, Maintenance of Production Equipment.

c. Account No. 801, Natural Gas Well Head Purchases.

d. Account No. 803, Natural Gas Transmission Line Purchases.

e. Account No. 807, Purchased Gas Expenses.

f. Account No. 871, Distribution Load Dispatching.

g. Account No. 874, Mains and Services Expenses.

h. Account No. 880, Other Expenses.

i. Account No. 881, Rents.

j. Account No. 894, Maintenance of Other Equipment.

k. Account No. 904, Uncollectible Accounts.

l. Account No. 908, Customer Assistance Expenses.

m. Account No. 913, Advertising Expenses.

n. Account No. 916, Miscellaneous Sales Expenses.

o. Account No. 920, Administrative and General Salaries.

p. Account No. 923, Outside Services Employed.

q. Account No. 930.1, General Advertising Expenses.

r. Account No. 931, Rents.

28. Does Columbia provide free gas service to anyone? If so, provide the names and addresses of such person(s) and the quantity of free gas service received during the test period, and an explanation of why they receive free service.

29. Provide an analysis of accounts payable to associated companies which includes all end-of-month balances in excess of $50,000 owed to a single supplier for each month from August 1987 through August 1988.

a. Provide the name of the vendor to be paid, the date of indebtedness, and the debit side of the entry.

30. Provide the following information regarding Columbia's implementation of each recommendation made in the Commission's management audit of Columbia:

a. List the specific recommendation and state whether or not the recommendation has been implemented.

b. For recommendations that have not been implemented state the reasons why.

c. For each recommendation that has been implemented provide the cost of implementation and any resultant cost savings, efficiencies or any other benefits expected.

d. The costs of implementation incurred during the test period. Provide a breakdown of the amount for each recommendation into the accounts charged.

e. The estimated costs of completing implementations.

f. The expected annual costs of maintaining any programs initiated as a result of implementation.

g. The expected annual savings resulting from implementation.

31. Provide the estimated amount of any tax savings or other benefits afforded Kentucky ratepayers as a result of Columbia filing a consolidated tax return. With this response, provide complete details and supporting workpapers used to derive the amounts identified.

32. Provide the workpapers for the derivation of the amount of unbilled revenues shown on Sheet 2 of Item 6 of the Cost Data filed February 13, 1989.

33. Provide the actual amount of federal and state income tax liability for the year 1988. If actual information is not available, provide Columbia's best estimate. Provide supporting documentation concerning the estimate.

34. Provide Columbia's 1988 state and federal tax returns. If Columbia has obtained an extension, provide a copy of the filing of estimated taxes along with all supporting workpapers.

35. Provide the information concerning the activity in Account No. 283 as requested in Item 20(a) (1-3) and (6) of the Commission's Order dated January 17, 1989.

36. Reference Item 25 of Columbia's response to the Commission's Order of March 27, 1989. Provide the following information concerning labor costs billed to Kentucky by other Columbia companies:

a. The services performed by each of the other companies.

b. The percentage of pay increases received by employees of each company.

c. The benefits received by Kentucky ratepayers as a result of any services performed by other companies.

37. Provide Columbia's actual test-period cost for each of the following insurance plans:

a. Medical (CMEP and HMOs).

b. Medicare Supplement (MAP).

c. Medicare Part B.

d. Insurance company reserve liability.

e. Group life insurance plan.

f. Long-term disability plan.

Should these costs add to the total on line 10, Sheet 6, Item 2, of the cost-of-service study?

38. Reconcile the cost of benefits in Wise's testimony and the numbers from the memorandum in Item 28 of the Commission's Order of March 27, 1989 with the cost numbers shown on lines 10-13 on Sheet 6, Item 2, of the cost-of-service study.

39. Provide, in the same format as used in Item 28 of the Commission's Order of March 27, 1989, the derivation of the costs for 1988 of the benefit plans discussed in the memorandum and in Wise's testimony.

40. Does Columbia use competitive bidding among different insurers to provide benefits for its employees? If so, provide documentation of such bids. If not, explain why.

41. Using the same format as Item 1, Schedule 1, page 2 of 3, provide the capital structure of Columbia as a "stand-alone" entity.

42. Using the same format as in Schedule 5, Sheet 1 of 18 of the cost data filed February 13, 1989, provide the same information for Columbia Gas Systems as a whole.

43. Provide for the test period actual amount of billings to Columbia operations from Columbia Gas Systems Service Corporation. The charges should be itemized according to the types of services provided. In addition, provide the total billings for the 12-month period preceding the test period.

Done at Frankfort, Kentucky this 3rd day of May, 1989.

PUBLIC SERVICE COMMISSION

For The Commission

ATTEST:

Executive Director