

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF GAS AND ELECTRIC RATES)
OF THE UNION LIGHT, HEAT AND POWER) CASE NO. 90-041
COMPANY)

O R D E R

IT IS ORDERED that The Union Light, Heat and Power Company ("ULH&P") shall file the original and 12 copies of the following information with the Commission by June 14, 1990, 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 are 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.

1. Concerning the response to Item 28 of the May 11, 1990 Order, ULH&P indicated that its Job Development Investment Tax

Credit ("JDIC") for the test year was \$6,744,612. Provide the following information:

a. According to Schedule B-6, the amount identified as JDIC for the test year includes investment tax credits classified as 3, 4, 7, and 10 percent credits. A review of the final orders in ULH&P's last gas and electric general rate cases indicates that the 3 and 7 percent credits were not classified as JDIC. Explain why ULH&P has included these amounts as JDIC in this case.

b. To arrive at the total \$6,744,612, the balances in Account No. 255 from the electric and gas Schedule B-6 are added together. Explain why the total electric Schedule B-6 figure of \$4,141,343 was used instead of the jurisdictional amount of \$4,129,788.

c. Schedule D-1 and Exhibit JRM, page 1 of 7 from J. R. Mosley's testimony, present the test-year end capital structure for ULH&P. The total capital figures do not agree. Prepare a detailed reconciliation of the two amounts. Include all supporting workpapers and calculations.

d. In ULH&P's last general rate cases, the Commission allocated the test year JDIC to each component of the capital structure on the basis of the ratio of each component to total capital, excluding JDIC. The Commission indicated that this treatment was consistent with the requirement of the Internal Revenue Service that JDIC receive the same overall return allowed on common equity, debt, and preferred stock. In Exhibit JRM, Mr. Mosley has presented JDIC as a separate component of the capital structure. Prepare a thorough explanation as to why ULH&P has not

treated JDIC in its capital structure in the same manner as was used in its last general rate cases.

2. Concerning the response to Item 31 of the May 11, 1990 Order, provide revised copies of Schedule C-5.1 for the gas department which reflect the effects of the change in the state income tax rate.

3. Concerning the response to Item 33 of the May 11, 1990 Order, the allocation schedules in effect for company and departmental allocations, provide the following information:

a. Copies of any agreements between ULH&P and its parent company which the Company Allocation Schedule is based upon.

b. Identify the allocation bases which are based upon transactions with the parent company or transactions with any affiliated company.

4. Concerning the response to Item 37 of the May 11, 1990 Order, the classification of auto license and maintenance taxes as prepayments to be included in rate base, provide the following information:

a. Explain in detail how these taxes represent an investment of funds.

b. Explain in detail why these taxes should be recognized in the rate base.

c. Explain in detail how the conclusion was reached that these payments are made in advance of the period to which they apply, when auto license taxes are based on a historic

valuation and the maintenance tax is based on the previous year's gross operating revenues.

5. Concerning the response to Item 38 of the May 11, 1990 Order, the monthly calculation of unbilled revenues, explain what happens to the balances in the unique 200 and 300 series subaccounts when the unbilled revenues are calculated for the next month.

6. Concerning the response to Item 41 of the May 11, 1990 Order, the reclassification of charitable contributions, provide copies of studies or analysis which supports the statement that, "[A]ll ULH&P's customers experience a better quality of life because of the activities of charitable organizations as opposed to the quality of life if these organizations did not exist."

7. Concerning the response to Item 52 of the May 11, 1990 Order, the estimated net additions to the electric and gas plant, provide the following information:

a. A thorough description of what a "blanket budget addition" is and the types of plant additions covered by this classification.

b. An explanation as to why a Certificate of Convenience and Necessity was not needed for any of these plant additions.

8. Concerning the response to Item 58c of the May 11, 1990 Order, the compliance exceptions noted in the draft Federal Energy Regulatory Commission audit report, provide the following information:

a. Indicate whether the correcting entry to properly reflect the income tax liability as of December 31, 1989 has been included in the balances reported in this rate case. If the entry has not been included, prepare the accounting entries which would be necessary to reflect this adjustment.

b. ULH&P has indicated that a depreciation study for the electric plant has been started. Indicate when this study is expected to be completed. Explain why a depreciation study for the gas plant has not been started.

9. Concerning the response to Item 63 of the May 11, 1990 Order, the variance report for the utility plant and accumulated depreciation reserve, ULH&P responded that the changes in the accounts were for normal additions and retirements incurred during the course of business. Several of these accounts were cross-referenced to Schedule B-2.3 of the application, where the additions and retirements were reported as follows:

a. Subaccount No. 101-2530, Mains: additions - \$6,131,000; retirements - \$145,000.

b. Subaccount No. 101-2590, Services: additions - \$2,012,000; retirements - \$186,000.

c. Subaccount No. 101-3581, Line Transformers: additions - \$2,884,000; retirements - \$619,000.

d. Subaccount No. 106-24, Gas Distribution - Completed Construction Not Classified: additions - \$3,383,000.

e. Subaccount No. 106-34, Electric Distribution - Completed Construction Not Classified: additions - \$2,455,000.

Prepare a schedule indicating where these various plant additions were made to ULH&P's system. Indicate whether the addition was made in an existing service area or a new service area. Provide the same information for Subaccount No. 106-24 and No. 106-34 if the construction has been classified as of the date of this Order.

10. Concerning the response to Item 65b of the May 11, 1990 Order, the experimental and research expenses, provide an explanation of the nature of the \$565,380 research subscription paid to Electric Power Research Institute. Include a detailed description of the benefits received by ULH&P from this research subscription.

11. Concerning the response to Item 68 of the May 11, 1990 Order, the executive salaries paid during the test year, provide the following information:

a. The ULH&P allocation factor for the executive salaries for calendar year 1988.

b. A copy of the Key Employee Annual Incentive Plan in effect during the test year or a narrative of the plan's particular features. The copy or the narrative should describe the eligibility requirements for participants, the award level opportunities, the corporate performance objectives, and a general description of the plan's structure.

12. Item 17 of the response to the Commission's Order of May 11, 1990, addresses the proposal to separate the base fuel cost from the base energy rate. Provide the following information regarding the response to Item 17:

a. Explain and clarify if it is ULH&P's intent to reflect this separation on customers' bill as well as on the tariff schedule.

b. Explain how this separation will make customers' bills more understandable and easier to explain to customers.

c. The other electric utilities operating in Kentucky have rates which include the cost of fuel in base energy rates. Explain how the proposed separation will make it easier to compare ULH&P's rates and bills with the rates and bills of other utilities.

13. Item 24 of the response to the Commission's Order of May 11, 1990, addresses ULH&P's proposal to cancel Rates OP, TS, and CF and replace them with Rate IT. Provide the following information regarding the response to Item 24:

a. The response to part (a) of Item 24 explains the absence of a requirement for alternative fuel capabilities in proposed Rate IT; part (d) of the response identifies the criteria, including alternative fuel costs, for determining flexible transportation rates. Provide a detailed explanation of how ULH&P would determine flexible rates for a customer without an alternative fuel cost and explain why a customer would require a flexible rate absent an alternative source of fuel.

b. In part (a) of the response, ULH&P explains elimination of the requirement presently in Rate CF that customers have alternative fuel capability. For those end users with alternative fuel capabilities presently served under Rate CF, describe the availability of pipeline transportation.

c. The response to part (b) of Item 24 references pages 16 through 18 of the testimony of W. A. Ginn. Explain whether, by this reference, ULH&P is expecting that any customer served under Rate IT will have alternative fuel capabilities and, therefore, will have the ability to command a flexible rate.

d. The testimony of Mr. Ginn on page 18, lines 5 through 16, addresses ULH&P's ability to move its rate up or down in order to optimize throughput and earn a reasonable return. ULH&P's monthly transportation transactions reports for the test year show that the same two customers received flex rates in the months of January, February and March and that all other volumes were transported at the full tariffed transportation rate. Explain whether ULH&P believes its revenues would have been greater had it been able to flex its rate up under Rate IT during the test year.

e. The response to part (f) of Item 24 explains ULH&P's proposal to delete the tariff language requiring a customer's affidavit regarding the use of alternative fuels. Absent the affidavits and the price quotes from alternative fuel dealers, explain how ULH&P would determine alternative fuel prices for the purpose of establishing flex rates and how ULH&P would document this determination in future proceedings before the Commission.

f. The response to part (g) of Item 24 addresses the issue of assigning lowest cost gas supplies to system supply customers versus agency customers. If this proposal were approved, explain whether ULH&P would intend to keep the

Commission apprised of its core and non-core purchases either through its monthly transportation reports and/or its quarterly GCA filings.

g. The response to part (h) of Item 24 explains ULH&P's reasons for proposing to delete the 5-cent gas cost credit included in Rate CF. Per ULH&P's monthly transportation transactions reports for the test year, the full tariffed rate of \$.75 was charged for all service provided under Rate CF and the only rate flexing during the test year was for service provided under Rate TS. Provide a detailed explanation for why imputing a rate of \$.70 for all transportation volumes is considered justification for dropping the 5-cent credit that applies only to agency service.

h. In the response to part (h), ULH&P indicates that it believes it is no longer appropriate to make credits of transportation revenues to other customers. In Case No. 9371, the Commission, in approving the CF tariff, stated that the 5-cent agency fee was intended as a safeguard against the possible conflict of interest between purchasing for system supply and purchasing as an agent for CF customers. Explain in detail if ULH&P believes such a safeguard is no longer needed and why.

i. Part (j) of the response explains that the \$250 monthly administrative charge would not be included in the minimum charges to be paid when a customer re-applies for service within one year of voluntary termination. Explain what consideration was given to including the administrative charge as a deterrent to voluntary termination.

14. Item 25 of the response to the Commission's Order of May 11, 1990, addresses the proposed standby service rate SS:

a. Part (a) of the response explains the reasons for not offering standby service to industrial customers. Clarify that this response means that the only supplies available to these customers from ULH&P will be the spot market purchases discussed in Item 24 (g) and/or agency supplies purchased by ULH&P on the customers' behalf.

b. Parts (b) and (c) of the response indicate that the standby charges specified in each customer's written agreement with ULH&P represent the flow through of standby charges from ULH&P's pipeline suppliers. This being the case, explain whether there is any reason why the SS tariff should not include a statement that ULH&P's charges will be a flow through of pipeline supplier charges.

c. Part (c) of the response indicates that the standby charges will vary by customer. Provide a detailed explanation for why the charges will vary on a customer-by-customer basis and an example of ULH&P's calculation of these charges for three hypothetical customers.

15. Exhibit PVC-GCOS, Schedule 1 shows total gas and individual class rates of return at proposed rates. Prepare a similar exhibit which shows total gas and individual class rates of returns at present rates.

16. In response to Item 9 of the Commission's Order dated May 11, 1990, Mr. Van Curen states that "a disproportionate amount of plant would be assigned by the zero intercept method to the

residential class which would distort their total cost of service". Prepare exhibits which show total gas and individual class rates of returns at proposed and present rates using the zero intercept method to allocate distribution mains to customer classes.

17. Regarding Mr. Van Curen's response to Item 146 of the Attorney General's Request for Information pertaining to the zero intercept method:

a. Page 2 of 5 shows the 8 data observations used in the linear regression program. Explain why all seventeen pipe sizes, as shown in Exhibit PVC-GCOS, Schedule 14, Page 6 of 6, were not used as data observations in the program. What would have been the regression results had all pipe sizes been used in the program?

b. Explain why the first degree equation was not selected as the best fit.

c. Page 4 of 5 shows the results of the linear regression program using a second degree equation. These results show an F-value for the second degree variable, SIZE2, to be 1.03. Performing an individual F-test for SIZE2 with degrees of freedom of 1 and 5 and a confidence interval of 95 percent and using an F-distribution table shows that the SIZE2 F-value of 1.03 is less than the critical F-value of 6.61. This means that SIZE2 is not a significant predictor of AVGCOST and adds no explanatory power to the equation. This implies that another equation, such as the first degree equation, would provide a better prediction of the

dependent variable AVGCOST. Comment on this assessment and explain why the second degree equation was chosen as the best fit.

18. In response to the Commission's first information request, Item 3, which asked why the time period chosen was considered appropriate in determining risk attributes similar to ULH&P the Company responded that "The time periods (1980-1988) were used because they would be readily available to investors." This response does not address why this time period is valid, only that it is "readily available" (i.e. convenient). Therefore, provide:

- a. Justification why the 1980-88 time period is valid.
- b. The results of the cluster analysis if the period 1984-1988 is used, grouping the utilities according to "risk attributes."

19. Provide the beta for each utility in Mosley Exhibits, page 4 of 7, as published in Value Line's most recent editions. (and where available)

20. Explain why the Mosley cluster analysis is superior to other measures of risk, such as beta.


21. Provide copies of any textbook discussion available regarding the use of cluster analysis in preparing DCF models, including the uses, applicability, and limitations of cluster analysis in DCF models.

22. Were other measures of risk, in addition to the seven chosen by witness Mosley, considered for inclusion into the cluster analysis but rejected? If so, why? If not, should other measures of risk be included in the analysis? Why or why not?

23. In response to the Commission's first information request, Item 4, the Company states that each risk group "is a distinct category of risk" but that "The cluster analysis does not purport to rank the groups in terms of relative risk." If the risk groups cannot be ranked in terms of relative risk, explain whether and how the cluster analysis is useful to an investor faced with alternative investment choices between utilities in different risk groups.

Done at Frankfort, Kentucky, this 7th day of June, 1990.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director