

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF THE RATES OF)
COLUMBIA GAS OF KENTUCKY, INC.) CASE NO. 94-179
ON AND AFTER JULY 1, 1994)

O R D E R

IT IS ORDERED that Columbia Gas of Kentucky, Inc. ("Columbia") shall file the original and 10 copies of the following information with this Commission, 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. The information requested herein is due no later than August 1, 1994. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. Each response should include complete details of any items which are allocated among Columbia and other affiliates.

1. Refer to Exhibit No. 41, Schedule B-3, of the application. For each of the following provide a detailed explanation as to why the reserve balance exceeds the investment:

a. Page 2 of 4, Line no. 55, Tools, Shop and Gar Eq-Und Tank Cleanup;

b. Page 4 of 4, Line no. 41, Other Equip-Other Communication;

c. Page 4 of 4, Line no.55, Tools, Shop, and Gar Eq-Und Tank Cleanup;

2. Provide justification for the continued accruing of depreciation expense on fully depreciated plant assets as reflected on line 55 of pages 2 and 4 of 4 of Exhibit No. 41, Schedule B-3 of the application.

3. Refer to Exhibit No. 41, Schedule B-3.2, Page 2 of 4, of the application. Provide a detailed explanation as to why Columbia is recording a negative depreciation expense on Line no. 41, Tools, Shop, and Gar. Eq. - Garage and Service.

4. Refer to Exhibit No. 41, Schedule B-3.2, of the application. Provide a detailed explanation as to why Columbia is recording a negative reserve balance for each of the following:

a. Page 2 of 4, Line no. 44, Tools, Shop, and Gar. Eq. - Und. Tank Cleanup.

b. Page 3 of 4, Line no. 32, Other Equip - Other Communication.

c. Page 4 of 4, Line no. 44, Tools, Shop, and Gar. Eq. - Und. Tank Cleanup.

5. Provide a reconciliation of Cash Working Capital totalling \$3,615,701 as shown on Exhibit No. 41, Schedule B-5, Sheet 1 of 2, with the Cash Working Capital totalling \$3,603,701 as shown on Schedule B-5.2, Sheet 1 of 2 of the same exhibit. Explain all reconciling items.

6. Refer to Exhibit No. 41, Schedule B-5.2, of the application. Provide the basis for including purchased gas expense and liquified petroleum gas expense in the computation of the base year and forecasted period cash working capital.

7. Refer to Exhibit No. 41, Schedule B-8, of the application. Provide a complete explanation for each balance sheet account whose total has changed by an amount greater than 10 percent in any of the years shown.

8. Refer to Exhibit No. 41, Schedule C-2.2a, of the application. Provide a complete explanation of the variance between the base year and the prior year for each of the following:

a. the 1,010.5 percent increase in Account No. 419, Interest and Dividend Income;

b. the 517.1 percent increase in Account No. 431, Interest Expense Other;

c. the 235.7 percent increase in Account No. 432, Accumulated Funds used During Construction ("AFUDC");

d. the 10.4 percent increase in Account No. 487, Forfeited Discounts;

e. the 90.6 percent decrease in Account No. 741, Structures and Improvements;

- f. the 1,344.7 percent increase in Account No. 805,
Other Gas Purchases;
- g. the 2,834.7 percent increase in Account No. 808, Gas
Withdrawn from Storage;
- h. the 49.3 percent increase in Account No. 904,
Uncollectible Accounts;
- i. the 151.3 percent increase in Account No. 909,
Informational and Instr. Advert.;
- j. the 68.8 percent decrease in Account No. 910,
Miscellaneous Customer Accounts Expense;
- k. the 59.8 percent decrease in Account No. 913,
Advertising Expense;
- l. the 24.0 percent decrease in Account No. 916,
Miscellaneous Sales Expense;
- m. the 78.3 percent decrease in Account No. 922,
Administrative Expense Transferred;
- n. the 24.0 percent increase in Account No. 923,
Outside Services Employed;
- o. the 2.8 percent increase in Account No. 925,
Injuries and Damages Expense;
- p. the 2.6 percent increase in Account No. 926,
Employee Pensions and Benefits Expense;
- q. the 18.0 percent decrease in Account No. 927,
Franchise Requirements Expense;
- r. the 18.0 percent decrease in Account No. 929,
Duplicate Charges Expense;

9. Refer to Exhibit No. 41, Schedule D-2.2, of the application.

a. Provide complete details of the Incentive Plan in the amount of \$120,000 referred to in Adjustment No. 1.

b. Provide the basis for the 20 percent increase in postage referred to in Adjustment No. 2.

c. State whether the purchase of software related to the Stoner Project is a recurring item. Why is this software being expensed instead of capitalized?

d. Provide a breakdown of the costs included in the Outside Services reflected in Adjustment No. 3 for both the base year and the forecasted year. The breakdown should include the cost categories described in Adjustment No. 3.

e. In Adjustment No. 4, Columbia states that the effect of the new Lexington district office building has been reflected in the forecasted test period. Provide complete details of these effects and explain how they are reflected in the forecast.

f. Provide the basis for the anticipated reduction in the State Workers' Compensation Surcharge referred to in Adjustment No. 5.

10. Reconcile and fully explain any differences between Attachment DLM-1 of D. L. Meister's testimony with supporting Workpaper WPD-2.2 of Schedule D of Exhibit 41 filed with the application.

11. Reconcile and fully explain any differences between the Operations and Maintenance expenses discussed by D. L. Meister in

his testimony with the increases reflected on Schedule D-1 of Schedule of Exhibit 41 filed with the application.

12. Refer to Exhibit No. 41, Schedule D-2.2, Sheet 2 of 3, of the application. Explain why the following inflation factors were used:

- a. Adjustment No. 6, 2.5 percent;
- b. Adjustment No. 9, 4.0 percent;
- c. Adjustment No. 10, 2.6 percent.

Provide all studies, analyses, estimates, and reports used to develop these factors.

13. Refer to Exhibit No. 41, Schedule F of the application. Provide a complete explanation of the benefits accruing to ratepayers for the following expenses:

- a. Utilities Telecommunications Council;
- b. Natural Gas Vehicles;
- c. Consortium for Energy Efficiency;
- d. Coalition for Gas Based Environmental Solutions;
- e. IGT Commercialization Center;
- f. Kentucky Press Association;
- g. Associated Industries;
- h. Downtown Frankfort, Inc.;
- i. Japan America Society of Kentucky;
- j. Kentucky Center for Public Issues;
- k. Kentucky Freedom to Work Council;
- l. Kentucky Motor Transportation Association;
- m. Kentucky Restaurant Association;

- n. Lexington Forum;
- o. Council for Ethics in Economics.

14. Refer to Exhibit No. 41, Schedule F-3, of the application. According to Footnote 1, the promotional advertising that Columbia proposes to exclude from the revenue requirements for the forecasted period totals \$41,978. However, at Footnote 2, Columbia proposes to exclude \$108,909 in promotional advertising from the base year. Explain and fully support the basis for the 61.45 percent decrease in promotional advertising in the forecasted period.

15. Refer to Exhibit No. 41, Schedule F-5, of the application. Provide an explanation for each proposed adjustment to Professional Services expense. Include any necessary workpapers and other documentation to support these adjustments.

16. Provide the cost of the annual audit for each of the past 5 years. State the total cost of the audit, the amount allocated to Columbia and the basis for the allocation.

17. Provide a monthly update of Rate Case expense in the format provided as Exhibit No. 41, Schedule F-6, of the application.

18. Refer to Exhibit No. 41, Schedule F-6, of the application. Provide a complete explanation of why Columbia chose to employ an outside consultant to perform its rate of return analysis.

19. Refer to Exhibit No. 41, Schedule F-6, of the application. Provide the basis for the use of a 2 year amortization period for rate case expense.

20. Refer to Exhibit No. 41, Schedule G-2, of the application. Explain the basis for the 6.65 percent increase in straight time hours and the 26.28 percent decrease in overtime hours budgeted for the forecast period. Provide all supporting documentation, including any studies used to make this estimate.

21. Refer to Exhibit No. 41, Schedule G-2, of the application. Explain the significance of and the basis for each of the following:

a. Line 15, Ratio of O&M of Labor Dollars to Total Labor Dollars when ratio exceeds 100 percent.

b. Line 20, Ratio of Employee Benefits expenses to Total Employee Benefits when ratio exceeds 100 percent.

c. Line 26, Ratio of Payroll Taxes expense to Total Payroll when ratio exceeds 100 percent.

22. Refer to Exhibit No. 41, Schedule G-3, of the application. Explain and fully support the 35.6 percent increase in pensions proposed for the forecasted test period.

23. Provide a reconciliation of the base year and forecasted year's income statement on Exhibit No. 41, Schedule I-1, with the income statements provided on Schedule C-2 of the same exhibit. Fully explain each reconciling item.

24. Has Columbia obtained all necessary Commission approvals for the construction projects to be begun and/or completed during

the forecasted test period? For each such construction project for which Commission approval may be required, provide the information as shown in Exhibit No. 41, Schedule B-4, of the application.

25. For each major construction project to be begun and/or completed in the base year and the forecasted year provide the original project completion schedule and the most recent project completion schedule. Provide the original milestone dates and the most recent milestone dates. Explain any variances from the original timelines.

26. Refer to Exhibit No. 21 of the application. Explain why Columbia is not anticipating any changes in its workforce numbers for the years 1995, 1996 and 1997.

27. For each year 1995, 1996 and 1997 state how many employee retirements or other terminations are expected to occur.

28. Refer to Exhibit No. 33 of the application. Provide an explanation for any total variance exceeding 10 percent between budgeted and actual results for each year 1992, 1993, and 1994.

29. Refer to Exhibit No. 35 of the application. Provide an explanation of the Independent Public Accountants' statement that, "These factors create substantial doubt about the Corporation's ability to continue as a going concern." Additionally, state what impact these factors may have on Columbia's continued operations.

30. Refer to Exhibit No. 39, Schedule 39-A, Pages 2 and 3 of 3. Provide justification for the 31.8 percent increase in Total Affiliate Billings exclusive of gas purchase expense and gas transportation expense.

31. Refer to Exhibit No. 39, Schedule 39-G. Provide justification for the 35 million dollar increase in Columbia Gas Distribution Company's ("CDC") general office charges from the base year to the forecasted test year.

32. Refer to Exhibit No. 39, Schedule 39-G. Provide justification for the 20.7 percent increase in allocated general office charges from CDC to Columbia from the base year to the forecasted period.

33. Refer to Columbia's response to Item 3 of the Commission's June 7, 1994 Order. Explain what the rate refund at Line No. 47 refers to.

34. Refer to Columbia's response to Item 9 of the Commission's June 7, 1994 Order. Provide justification for the \$923,909 increase in O&M expenses.

35. Provide the AFUDC rate used by Columbia for each year 1989 through 1993, the base year, and the forecasted period. Include all supporting documentation for the rate used and the calculation of AFUDC for each of the years.

36. Refer to Columbia's response to Item 10 of the Commission's June 7, 1994 Order. Provide a reconciliation of the numbers in the 1989 construction summary.

37. Refer to Columbia's response to Item 10 of the Commission's June 7, 1994 Order. The comparisons between the actual verses budgeted specific construction expenditures for each year 1989 through 1993 shows that, absent the impact of the Inland Container purchase, Columbia has consistently over-estimated the

projects to be begun and/or completed each year. How has Columbia's base year and forecasted period been adjusted to reflect this trend? If no adjustments have been made, explain why none should be made.

38. Refer to Columbia's response to Item 11 of the Commission's June 7, 1994 Order. Explain why Columbia incurred 25.9 percent more actual overtime in 1993 than in 1992.

39. Refer to Supporting Workpaper WPD-2.2 of the application. Provide justification for all variances between the base year and the forecasted period exceeding 10 percent.

40. Refer to Supporting Workpaper WPD-2.2 of the application. Provide a detailed explanation and any supporting documentation of the term "premium" which is used as a payroll category.

41. Refer to Columbia's response to Item 13 of the Commission's June 7, 1994 Order. Provide the results of the OCAW negotiations when they become available.

42. Refer to Columbia's response to Item 15, page 1, of the Commission's June 7, 1994 Order. Provide a legible copy of the response. For each column heading, explain what the column represents and its calculation methodology.

43. Refer to Columbia's response to Item 16 of the Commission's June 7, 1994 Order. Explain the yearly variances in Employee Relocation Assistance costs. Update the base year costs to reflect actual experience to date.

44. Provide the total costs incurred or budgeted by Columbia for medical, life, and dental insurance for each year 1989 through 1993, the base year and the forecasted period.

45. Identify all costs and benefits included in the test period from Columbia's efforts to implement the recommendations of the management audit. What costs and benefits from these efforts are amounts anticipated annually over the next 3 years?

46. Explain how the costs and benefits from implementing the management audit recommendations have been taken into consideration in the determination of the proposed revenue requirements.

47. State the level of Management Audit Expenses included in:

- a. Base period.
- b. Columbia's proposed cost of service in the forecasted period.

48. List all cost reduction measures Columbia has taken over the past 3 years. For each such measure quantify the dollar amount of savings.

49. Provide a description of current conservation or demand side management programs that Columbia has implemented or is presently considering.

50. Describe how Columbia's parent company currently is involved in Columbia's planning and rate-making process.

51. a. Provide, in comparative form, the weather-normalized sales and transportation volumes by customer class, for each of the calendar years from 1989 through 1993 and the sales and

transportation volumes as originally forecasted by Columbia, by customer class, for each of those five calendar years.

b. For each year from 1989 through 1993 provide a breakdown of the weather-normalized volumes, by customer class, between firm sales, firm transportation, interruptible sales, and interruptible transportation. For each year indicate what portion of the transportation volumes were delivered under the mainline rate.

52. At attachment JBC-1, page III-1, Mr. Cohen discusses Columbia's residential demand forecast. In a format which follows the residential forecasting model flowchart shown on the second page after page III-6 of Attachment JBC-1 provide a workpaper, or workpapers, showing (1) the number of customers and the use per customer for each of the relevant customer categories on a company-wide basis and (2) the derivation of the forecasted residential sales for calendar year 1995. Include any necessary narrative explanations.

53. The commercial and industrial volumes shown on the individual rate schedule billing analyses filed in Schedules M-2.1, M-2.2 and M-2.3 for the base period and the forecasted period indicate that Columbia is forecasting further shifts in throughput away from sales service to transportation service and away from firm service to interruptible service. At attachment JBC-1, pages IV-4 and V-3, Mr. Cohen indicates that the division between sales (tariff) gas and transportation gas is based on the judgment of Columbia's marketing department.

a. Describe the factors responsible for the shift from sales (tariff) gas to transportation gas.

b. Is the marketing department also responsible for the division between firm and interruptible service?

c. Describe the factors responsible for the shift from firm service to interruptible service.

54. a. The individual rate schedule billing analyses included in Schedules M-2.1 and M-2.2 show a decrease of 1,500,000 Mcf for the mainline rate. Explain the reasons for a decrease of this magnitude.

b. According to Schedules I-4 and I-5 throughput volumes for the industrial class have increased each year, from 1989 through 1993, over the preceding year's volumes. Explain why this recent trend is not projected to continue.

55. a. Explain the reasons for charging a minimum bill which includes 1 Mcf rather than a customer charge which includes no gas use.

b. How did Columbia determine the exact magnitude of the proposed increases, 27 percent and 34 percent, respectively, for residential and non-residential minimum charges?

56. On pages 3 and 4 of his testimony Mr. Burchett briefly mentions the proposed changes to the GS rate blocks and states that these changes are proposed "to recognize that there are large volume customers served under Rate Schedule GS."

a. Explain why there is a need for the recognition to which Mr. Burchett refers.

b. Columbia's GS rate schedule presently has three rate blocks after the minimum charge with break points at 50 and 200 Mcf while the proposed GS schedule would include four blocks with break points at 50, 400 and 1,000 Mcf. Explain in detail how the proposed rate blocks were developed and describe any alternative rate structures that were considered.

57. On page 10 of his testimony Mr. Burchett refers to proposed movement within Rate Schedule GS that has the effect of transferring some cost responsibility from the commercial and industrial class to the residential class.

a. Mr. Burchett refers to increasing minimum bills and adjusting rate blocks in describing this movement. The residential minimum is being increased by 27 percent to an amount (\$9.50) equal to only 56 percent of the "proper charge" of \$17 shown on Attachment WWB-1 while the non-residential minimum is being increased by 34 percent to an amount (\$22) equal to 64 percent of the "proper charge" of \$34 also shown on Attachment WWB-1. Explain in detail how these proposed increases transfer cost responsibility from the commercial and industrial class to the residential class.

b. Explain in detail how the exact amounts were determined for each of the rate blocks.

58. Refer to Gibbons' Testimony, pages 2-3.

a. Will a maximum payback period be a feature of the economic analysis that Columbia proposes to perform in its evaluation of requests for service line extensions?

b. Explain in detail the criteria Columbia intends to employ in performing the proposed economic analyses.

59. Refer to Gibbons' testimony, Attachment RDG-1.

a. How did Columbia determine that the average time to process a return check is 3/4 hour? What period of time did Columbia review to determine the average processing time? Provide all workpapers, studies, analyses and reports used to determine the derivation of this amount of time.

b. Explain why Columbia is not proposing to include bank charges in its returned check charge.

c. How did Columbia derive the current charge of \$5 approved in 1983? By what percent have Columbia's hourly labor and benefits costs increased since 1983?

d. How was a labor charge of \$10.77 derived?

60. At page 2 of his testimony, Mr. Balog indicates that the proposed Weather Normalization Adjustment Clause ("WNA") will result in benefits to ratepayers, the Commission and Columbia. Describe in detail the expected benefits for ratepayers and the Commission.

61. a. Explain in detail how each customer's base load will be determined under the proposed WNA tariff.

b. How will base load be determined for new construction customers, conversion customers or customers that have just arrived in Columbia's service territory.

62. Refer to Exhibit 2, Sheet No. 70.

a. Identify and describe the "other types of fixed charges" which Columbia may assess at its discretion.

b. Under what circumstances would these charges be assessed?

c. Is there a comparable charge for an industrial customer?

d. Why should more specific conditions be required for Columbia's assessment of this charge?

63. At pages 4 and 5 of his testimony, Mr. Gibbons discusses the additional revenues expected from the proposed increases in non-recurring charges as shown on Attachment RDG-3 to his testimony.

a. How was the deterrent factor of 30 percent which is applied to certain reconnect charges and returned check charges developed?

b. Mr. Gibbons has not included any revenues for the seasonal reconnect charge in Other Gas Department Revenues. The revenues from minimum bills shown in the Schedule M-2.3 billing analyses should include summer season revenues from all customers in order to be consistent with Mr. Gibbons' decision not to include any revenues for seasonal reconnects. Are summer season minimum bill revenues for all customers included in revenues for the forecasted test period? Provide all supporting workpapers and a narrative explanation.

64. Schedules D-1 and D-2.1 show the adjustments proposed to decrease the amounts of Forfeited Discounts and Miscellaneous

Service Revenues. On Schedule D-2.1, Sheet 1 of 2, both adjustments are shown to be decreases of 40.8 percent with the explanation that this reflects estimated normal levels based on calendar year 1993 after removing any unusual entries.

a. Describe the process by which these adjustments are derived. Identify and describe any unusual entries that are being removed.

b. Columbia is proposing to increase its late payment penalty from 1.5 percent to 5 percent. What recognition, if any, has been given to this proposed increase in the calculation of Forfeited Discounts in the forecasted test period? Why was this proposed increase in the late payment penalty not addressed by Mr. Gibbons with the approach used for calculating the revenues from reconnection charges and returned check charges?

65. Quantify and describe the rate impact the proposed Gas Cost Adjustment separation of demand and commodity costs have on each customer class.

66. How often will the refund, actual cost, and balancing adjustments be calculated? For any adjustment not proposed to be calculated on a quarterly basis, explain why.

67. Provide comparative sample GCA filings for a hypothetical period using existing and proposed methodologies.

68. Has Columbia considered lowering the volumetric requirement for IS sales and delivery service from 25,000 Mcf? Why? What additional costs are involved in making this service

available to lower volume customers? Have any lower volume customers expressed an interest in receiving this service?

69. Has Columbia considered lowering the volumetric requirement for the flex provision of Delivery Service from 25,000 Mcf? Why? Would lowering the volumetric requirement reduce the possibility of by-pass on the part of lower volume customers? Does Columbia expect by-pass and its attendant cost-shifting to become a problem for itself and its ratepayers?

70. Is Sheet No. 40 complete? The end of the last sentence appears to be missing.

71. Has Columbia considered lowering the volumetric requirement for Main Line Delivery Service? Why? How many customers have dual-purpose meters? What are the volumes per customer?

72. Why is an administrative charge proposed for main line customers?

73. Has Columbia considered permanently assigning firm capacity to its IUS customers?

74. Has any IUS customer expressed an interest in procuring its own gas supply through some means other than IUS service?

75. Explain why Columbia is proposing to charge \$25 as opposed to \$10 for unauthorized takes of gas?

76. Explain the criteria Columbia uses to decide whether to waive the charge for unauthorized taking of gas. What change does Columbia propose to make in the criteria?

77. Provide the rate of return on equity most recently approved by their respective regulatory commissions for Columbia Gas of Virginia, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, and Columbia Gas of Maryland. State the date of each authorization.

78. Provide the rate of return on equity most recently approved by their respective regulatory commissions for each of Mr. Moul's "barometer group" companies. State the date of each authorization.

79. Would a WNA change Columbia's business risk?

a. If it would not change Columbia's business risk, why would Standard & Poor's include rate stabilization clauses as one factor representing a key to the business position of a gas utility?

b. If it would change Columbia's business risk, why would cost of equity not be affected?

80. a. Does the ability to use a forecasted test period tend to change investors' perception of Columbia's risk?

b. If it does not lessen Columbia's risk as an investment, why would Standard & Poor's include the ability to earn allowed returns as one factor representing a key to the business position of a gas utility?

c. If it lessens Columbia's risk as an investment, why would cost of equity not be affected?

81. For each Standard & Poor's assessment factor listed at pages 13 and 14 of Mr. Moul's testimony, discuss Columbia's

position relative to the "barometer group." Reference any factor already discussed.

82. What future level of construction expenditures is expected for the "barometer group"?

83. Which companies in the "barometer group" have the ability to use a fully forecasted test period?

84. Can the earnings variability for Columbia mentioned at line 5 of page 30 of Mr. Moul's testimony be improved by:

- a. The proposed weather normalization adjustment?
- b. The use of a fully forecasted test period?

85. Can the operating ratio for Columbia mentioned in the Operating Ratios section of page 30 of Mr. Moul's testimony be improved by:

- a. The proposed weather normalization adjustment?
- b. Use of a fully forecasted test period?

86. Can Columbia's fixed charge coverage ratio mentioned pages 30 and 31 of Mr. Moul's testimony be improved by:

- a. The proposed weather normalization adjustment?
- b. Use of a fully forecasted test period?

87. Can Columbia's quality of earnings and internally generated funds mentioned at page 31 of Mr. Moul's testimony be improved by:

- a. The proposed weather normalization adjustment?
- b. Use of a fully forecasted test period?

88. Can Columbia's higher risk traits related to variability in earned returns mentioned at pages 32 and 33 of Mr. Moul's testimony be lowered by:

- a. The proposed weather normalization adjustment?
- b. Use of a fully forecasted test period?

89. How would investors perceive the risk of a company with 51.61 percent common equity when the "barometer group" companies are historically 5 or 6 percentage points lower in their average equity ratios?

90. How would Columbia's rates be affected by approval of a common equity ratio higher than the average?

91. Compare Columbia's long-term debt capital cost rates on Mr. Moul's Schedule 1, page 1, with Columbia Gas Distribution Companies' long-term debt rates on Schedule 2, page 1; with the barometer group's long-term debt rates on Schedule 3, page 1; and with the proposed composite interest rate of 8.32 percent on Schedule 6, page 2.

- a. How was the 8.32 percent cost of long-term debt determined to be reasonable when Columbia's long-term debt cost has consistently been higher than that of Columbia Gas Distribution and the "barometer group"?

- b. What is Columbia's own long-term debt cost projected to be?

- c. How would investors perceive the risk of Columbia whose long-term debt cost is consistently higher than that of

Columbia Gas Distribution Companies as well as a comparable group of companies?

92. Until 1993, Columbia Gas Distribution Companies show greater long-term debt cost rates than the "barometer group" by more than a percentage point.

a. Do these higher cost rates support any inherent advantage to having Columbia System issue debt on Columbia's behalf?

b. Do these higher cost rates support the reasonableness of the long-term debt cost proposed for Columbia in this rate proceeding?

c. How does relatively higher long-term debt cost affect Columbia's ability to achieve favorable interest coverage ratios?

93. Does Columbia incur any cost in issuing common equity?

94. Does making an adjustment for flotation cost in calculating the cost of equity remove any inherent advantage to Columbia and its ratepayers of having a parent supply infusions of equity capital?

95. Does Columbia realize any cost in incurring short-term debt?

96. Refer to Moul testimony, Schedule 6, page 2. What is the benefit to ratepayers of paying a 5.44 percent composite interest rate on short-term debt when a portion of long-term debt financing is projected to be at 5 percent?

97. Why is short-term debt projected to be at a level of 10.27 percent for the forecasted period?

98. Are Columbia's gas supply arrangements made through Columbia Distribution Companies? If so, describe the process of purchasing gas for the entire system.

99. Provide comparative weighted average gas cost statistics for the last 5 years for Columbia and its distribution affiliates in other jurisdictions. Choose a method that provides the most meaningful basis for comparison among the 5 distribution companies.

100. Has Columbia considered the use of capacity release or assignment mechanisms to maximize its firm pipeline transportation capacity? If yes, what has it concluded?

101. Provide details of any adjustments made to a plant account or a regulatory asset account for the implementation of SFAS 109 and SFAS 96.

102. What is the balance of Account No. 253.32 at the following dates:

- a. January 1, 1994;
- b. December 31, 1995.

Specify whether the balance is a debit or credit and explain what the balance represents.

103. Did Columbia take into consideration in its budgeting process the Commission's findings relative to Statement of

Financial Accounting Standards ("SFAS") 87 and 106 in Case Nos. 92-452¹ and 93-133²?

104. Refer to Ms. Phelps' testimony pertaining to SFAS 106.

a. At page 4, she states that "Columbia is deferring OPEB costs on its financial statements, consistent with the requirements of SFAS 71." Explain why this is consistent with SFAS 71.

b. Ms. Phelps indicates at page 4 that the transition obligation includes the OPEB accrual minus cash payments through January 1, 1995. Page 8 shows the adoption date of SFAS 106 for rate purposes to be January 1, 1993. Why is the transition obligation measured at January 1, 1995 rather than the date of adoption for rate purposes of January 1, 1993?

c. For financial reporting purposes Columbia adopted SFAS 106 on January 1, 1991. Why shouldn't the Commission require the use of this date in determining the amount of the transition obligation for rate purposes?

d. At page 11, Ms. Phelps states that Columbia proposes to fund OPEBs 100% although it is unable to fully deduct this amount for tax purposes. Columbia proposes that the resulting "negative taxes" be treated as an increase to rate base. Project

¹ Case No. 92-452, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on and After February 22, 1993, final Order dated November 19, 1993, rehearing Orders dated December 22, 1993 and May 4, 1994.

² Case No. 93-133, Adjustment of Rates of the Lewisport Telephone Company, final Order dated March 1, 1994.

this deferred tax item and its impact on rate base from 1995 through 2005.

e. At page 11, Ms. Phelps states that Columbia's 1995 estimated annual accrual is \$1,113,000. Provide the workpapers showing the calculation of this number by component (e.g. service cost, interest cost, etc.).

f. At page 6, Ms. Phelps states that \$1,898,080 is allocated to Columbia's OPEB costs for services provided by Columbia Gas of Ohio employees. It appears this balance is as of January 1, 1995. Provide the balance of this allocation at January 1, 1991 as well as the additions in each of the following years to support the \$1,898,080.

g. At page 11, Ms. Phelps states that the OPEB funding amount for the test period is calculated to be \$1,594,480. Why were housekeeping costs not included in this amount?

h. At page 10, Ms. Phelps calculates the capitalized portion of both the transition obligation and the estimated 1995 expense. Why were the housekeeping costs included in the transition obligation and expense amounts before applying the capitalization percentage?

105. Is Columbia currently funding any of its OPEB costs?

106. Refer to Ms. Phelps' testimony pertaining to SFAS 112.

a. What justification does Columbia have for deferring the SFAS 112 costs as a regulatory asset?

b. At page 15, Ms. Phelps estimates Columbia's SFAS 112 costs to be \$652,700. Provide the workpapers to support this

amount showing separate calculations for the January 1, 1994 accrual (with and without housekeeping costs) and the 1994 and 1995 expense amounts (with and without housekeeping costs).

c. At page 15, Ms. Phelps states that the \$652,700 accrual does not include the pay-as-you-go costs for the forecasted test period. Provide the estimated pay-as-you-go costs for the test period showing all calculations.

e. Is the \$652,700 amount included in Columbia's rate base calculation (other than the \$34,353 amortization listed in "Other items")? If yes, indicate where.

107. Refer to Columbia's response to Item 21 of the Commission's June 7, 1994 Order, (Appendix-6th page from the last).

a. Does the word "incremental" on this schedule refer to the amount of Columbia's OPEB costs that were deferred as a regulatory asset (i.e. the difference between the SFAS 106 accrual and the pay as you go amount)?

b. It appears from this schedule that the transition obligation at January 1, 1993 was \$7,401,058 (\$6,261,000 + \$538,000 + \$602,058) before adjusting for capitalization and housekeeping costs. Is this correct? If yes, provide workpapers showing the calculations of these amounts. If not, provide the transition obligation at January 1, 1993 showing all calculations.

108. Exhibit 41, schedule C-2.1, page 7 of 8, shows Employee Pensions and Benefits as \$4,857,503. Separately identify SFAS 87 costs, SFAS 106 costs, SFAS 112 costs, group insurance and all other costs included in this amount.

109. Provide Columbia's explanation for not funding SFAS 112 costs.

110. Columbia is proposing to capitalize a portion of the transition obligation over 18 years and amortize the remaining portion into expense over 18 years rather than 20 since 2 years have elapsed since the adoption date of SFAS 106. Why should Columbia be permitted to recover the increase in costs for the 2 years since the adoption date?

111. According to Surface's testimony, page 4, a capitalized portion of SFAS 106 costs is included in the calculation of line item 11, Other items on Schedule B-1, Sheet 2 of 2. \$87,100 pertains to the transition obligation and \$97,102 is the capitalized portion of the 1995 incremental OPEB expense. Why was the capitalization percentage applied only to the estimated 1995 OPEB incremental?

112. a. State the projected 1995 pension expense.

b. Provide the latest actuarial study to support pension expense (include all pension cost calculations and actuarial assumptions).

c. Identify (by company) the amount allocated from other companies included in Columbia's pension costs.

d. State Columbia's funding policy for pensions and describe the tax deductibility of such funding.

113. Refer to Meister Testimony, page 8. Does this inflation measure accurately reflect the inflation expected for specific budgetary line items? Explain why the GNP deflator is an

appropriate inflation measure for specific costs included in budgets.

114. Refer to Burchett Testimony, Exhibit WWB-1.

a. Is Exhibit WWB-1 derived from the Customer/Demand Forecasted Period Study? If yes, where is the study located?

b. Document the source of each entry in Column D, Total Company.

c. Document the source of all figures used to calculate each allocation factor in Column C.

d. For the purposes of calculating a customer charge, explain why it is not better to use the cost of service results derived from blending the Customer/Demand and Demand/Commodity studies.

115. Refer to Cohen Testimony.

a. Why is it appropriate to deflate gas prices by the CPI and the GDP deflator in the respective residential and commercial econometric use per customer models?

b. Why are different deflators used in these models?

c. Why does Columbia believe that the gas price inflation actually experienced by these customers is accurately reflected by these two different deflators?

116. For the residential and commercial econometric use per customer models, provide and explain the final computer run(s) used to generate the forecasts.

117. Provide and explain the final computer run(s) used to derive the residential saturation rate forecasts.

118. Refer to Balog Testimony at pages 20-21 and Exhibits 40A and 40C.

a. Why are the demand and commodity components given equal weighting?

b. Is this weighting biased against high load factor customers? Explain.

c. Reconcile the assumption of equal weighting with attempting to tie cost causation to specific rate classes.

119. a. Is the methodology used in the Demand/Commodity Study more appropriately used as a pricing mechanism rather than for cost of service study? Explain.

b. Provide all documentation validating this methodology for cost of service studies.

120. a. If an equal weighting assumption is valid in the Demand/Commodity study, is a United or Modified Seaboard Method, which assumes 75 percent commodity and 25 percent demand weights not also valid?

b. Would this method better represent an "outside limit of the possible allocations of mains to the various classes of service"?

121. Explain the derivation and appropriateness of the 50 percent weights used to combine the Demand/Commodity and the Customer/Demand study results for rate-making purposes. Does not this methodology automatically carry through a built-in bias against high load factor customers?

122. a. Has Columbia conducted a Kentucky-specific metering study to estimate customer class consumption?

b. Has Columbia used a metering study from another state to estimate customer class consumption?

c. Provide and explain the results of all studies used to estimate customer class consumption. Explain how Columbia used it to derive allocation factors.

123. Provide detailed documentation explaining how the exact account lines in Exhibits 40-40C are used to derive allocation factors 3-19.

124. For Allocation Factor Nos. 1 and 2:

a. Provide and explain all calculations used to derive the design peak day mean temperature.

b. Provide and explain all calculations utilizing the design peak day mean temperature used to estimate the maximum daily demand of Columbia's customers.

c. Explain why the actual temperatures experienced during the peak day or season were not used in estimating maximum daily demand. Does this perpetuate an inherent bias against low load factor customers? Explain.

d. Does maximum daily demand mean each customer class' contribution to Columbia's system coincident peak day volume? Explain.

e. Explain why Columbia's actual experienced maximum daily demand should not be used for the base period studies, rather than estimates.

125. For Allocation Factor No. 4:

a. Explain the derivation of base period customer class throughput volumes. This explanation should include a description of all relevant calculations.

b. Explain the derivation of the forecasted throughput volumes. This explanation should include a description of the forecast methodology, identify all assumptions used, and show calculations.

126. Explain the forecast methodology, assumptions and calculations for each account or data series appearing in Exhibits 40B and 40C.

127. Provide a table illustrating the number of feet, total cost, and cost per foot of every size pipe on Columbia's system.

128. a. Refer to Balog Testimony, Exhibit JB-2. What are the customer and demand factors using the zero-inch main method? Show all appropriate calculations.

b. Using the zero-inch main method, recalculate the tables on pages 4-5 of Exhibit JB-2.

129. Refer to Exhibit 2, sheets Nos. 62-63.

a. At what levels of "potential consumption and revenue" will no charge for a service line installation result? Will these levels differ for residential and commercial customers? If yes, why?

b. What amount of capital expenditures would Columbia need to incur which would result in a charge to the customer?

c. Does the proposed revision apply to the replacement of existing service lines which Columbia previously did not own?

d. Does the proposed language not provide Columbia much broader latitude in determining when to charge a customer than presented in the example in the prefiled testimony of R. D. Gibbons?

e. Given the numerous local offices which Columbia has in its area of service and the number of people who will be making a decision, how will Columbia avoid arbitrary decisions to charge customers?

130. Columbia proposes to change from \$15 to \$23 its reconnect fee when service has been disconnected for nonpayment of bills. Provide support for Mr. Gibbons' conclusion in his prefiled testimony that increasing this charge will act as a deterrent in checks written by customers for insufficient funds and in instances where customers are disconnected for nonpayment.

131. Refer to Clyde Clay's testimony:

a. Explain the derivation of peak day volumes in Exhibit No. CEC-4.

b. Explain the limitations which prevent Columbia from purchasing more gas from Kentucky producers, whether such purchases are delivered directly to the Columbia system or via Columbia Gas Transmission Corporation ("TCO").

c. What percentage of local production is delivered via TCO on an interruptible basis? Of that amount, was any delivery interrupted during the 1993-94 heating season?

132. At page 11 of his testimony, Mr. Clay states that some of Columbia's firm contracts "have the ability to swing upwards to replace a lost spot purchase," but that such contracts are priced at a premium.

a. Provide an example of such a contract.

b. To what extent were such contracts utilized during the 1993-94 heating season?

c. Refer to Exhibit No. CEC-1. What percentage of Columbia's supplies in the 1993 Long Range Gas Supply Report will be provided by such contracts?

Done at Frankfort, Kentucky, this 20th day of July, 1994.

~~PUBLIC SERVICE COMMISSION~~


For the Commission

ATTEST:


Executive Director