COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF GAS RATES OF THE UNION LIGHT, HEAT AND POWER COMPANY	))	CASE NO. 2001-092

SECOND DATA REQUEST OF COMMISSION STAFF TO THE UNION LIGHT, HEAT AND POWER COMPANY

The Union Light, Heat and Power Company ("ULH&P") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before July 30, 2001. 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, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Concerning the historic test period selected by ULH&P:

a. Explain in detail why ULH&P selected the 12-month period ending September 30, 2000 as the test period in this case. Include with this explanation why this 12-month period is a reasonable test period in light of ULH&P's request to recognize the effects of a reduction in March 2001 of usage by Newport Steel Corporation.

b. Did ULH&P consider using the 12-month period ending December 31, 2000 as the test period in this case? If yes, explain why that period was not selected.

2. Provide copies of ULH&P's cost allocation manual ("CAM") in effect as of September 30, 2000. In making this request, Staff does not dispute ULH&P's determination that it was not required to file its CAM under KRS 278.2203 and 278.2205. If the CAM has been revised or updated since September 30, 2000, also provide copies of the currently applicable CAM.

3. Provide an organization chart that shows the relationship between ULH&P and the following entities, as of September 30, 2000 and as of the date of this response.

a. The Cincinnati Gas and Electric Company ("CG&E")

b. Cinergy Corp. ("Cinergy")

c. Cinergy Services, Inc. ("Cinergy Services")

d. Cinergy Business Solutions ("CBS")

4. Provide the boards of directors and the executive officers for each of the following entities, as of September 30, 2000 and as of the date of this response.

a. ULH&P

b. CG&E

c. Cinergy

d. Cinergy Services

5. Concerning the compensation paid to boards of directors and executive officers, provide the total amount of compensation and the amounts allocated to ULH&P's gas operations for each of the following entities as of September 30, 2000 and for calendar years 1998 and 1999.

a. ULH&P

b. CG&E

c. Cinergy

d. Cinergy Services

6. Refer to the Application, Volume 1, Tab 27, the reconciliation of ULH&P's rate base and capital. The response does not represent a reconciliation of the rate base and capital, but rather assigns components of the balance sheet to rate base, capitalization, or other. Provide the reconciliation, starting with the gas rate base, plus or minus reconciling items, and ending in the gas capitalization. The rate base and capitalization should match the corresponding amounts shown for ULH&P on Schedules B and J of the Application, Volume 4. Include a description of each reconciling item.

7. Refer to the Application, Volume 1, Tab 30, ULH&P's most recent Federal Energy Regulatory Commission ("FERC") audit report.

a. Explain why FERC has not audited ULH&P's books and records since 1994.

b. Refer to pages 3 and 4 of the "Results of the Examination of the Books and Records of ULH&P." Explain the corrective action actually performed by ULH&P. Include the correcting accounting entities made by ULH&P in conjunction with the FERC report recommendations.

8. Refer to the Application, Volume 1, Tab 31, the FERC Form No. 2 Annual Report ("FERC Form 2").

a. Refer to page 122.5 of the FERC Form 2. Provide a detailed description of the money pool arrangement. Include copies of all governing documents and a recent, representative copy of any borrowing documents signed by ULH&P as part of the money pool arrangement.

b. Does the September 30, 2000 balance for Notes Payable to Associated Companies, as shown on ULH&P's gas operations balance sheet, reflect only its borrowings under the money pool arrangement?

c. Explain how the September 30, 2000 balance for Notes Payable to Associated Companies was allocated between ULH&P's electric and gas operations.

d. If ULH&P's September 30, 2000 balance for Notes Payable to Associated Companies includes borrowings other than those associated with the money pool arrangement, provide a complete description of each borrowing. The description should include, but not be limited to, the payee, the terms and conditions of the borrowing, the amount borrowed, and the repayment schedule.

e. Provide a detailed description of ULH&P's sale of Accounts Receivable program. Include copies of all governing documents and a recent, representative copy of any sales documents signed by ULH&P as part of the Account Receivable sales program.

f. Explain how the September 30, 2000 balance for Accounts Receivable available for sale was allocated between ULH&P's electric and gas operations.

9. Refer to the Application, Volume 1, Tab 32, the depreciation study for the gas and common plant.

a. Indicate when ULH&P started using the depreciation rates contained in this study for accounting purposes.

b. Prepare and provide a schedule comparing the depreciation rates recommended by this study with the rates in effect immediately prior to this study.

c. Provide the total cost of the depreciation study and the amount allocated to ULH&P's gas operations. Explain how the allocated amount was determined.

d. Indicate when ULH&P paid for the depreciation study and the accounting entries recorded on its gas operations books to reflect the payment.

10. Refer to the Application, Volume 2, Tab 36, the monthly management reports sent to the Commission.

a. Explain why monthly balance sheets for ULH&P's gas operations were not included as part of the monthly management reports.

b. ULH&P provides both regulated electric service and regulated gas service to its customers. Explain in detail how ULH&P monitors the performance of its two regulated businesses each month, and describe the manner in which ULH&P separately calculates rates of return for the two businesses.

c. Prepare a balance sheet as of September 30, 2000 that shows ULH&P's combined operations, electric operations, gas operations, and non-jurisdictional operations. Include all calculations, assumptions, and other documents that support the amounts shown on the balance sheet.

d. Beginning with the monthly management report for January 2000, ULH&P ceased reporting financial information for the 12 months ended with the reporting month. Explain in detail why ULH&P ceased reporting this information. Also, explain whether ULH&P made inquiries to the Commission to determine if it was appropriate to discontinue reporting the information.

11. Refer to the Application, Volume 3, Tab 38 and the supplemental responses filed with the Commission on June 6, 2001.

a. Provide copies of the 2000 Securities and Exchange Commission's ("SEC") Form U-13-60, as referenced on page 1(b) of 4.

b. Refer to pages 1(a) and 1(b) of 4 of the supplemental responses.

(1) For each ratio listed in the response, provide the numerical value of each ratio as of September 30, 2000 and as of July 1, 2001.

(2) For each ratio listed in the response, indicate when the ratio was last determined. If the most recent determination of the ratio occurred after September 30, 2000, also indicate when the ratio in effect during the test year was determined.

c. Provide copies of the Internal Auditing department's independent review of Cinergy Services' bills for the month of September 2000, as referenced on page 1(b) of 4.

d. Concerning the allocation of costs between CG&E and ULH&P:

(1) Identify each department of CG&E that utilizes the quantitative measures to allocate common costs.

(2) For each of the six primary quantitative measures listed on page 2(a) of 4 of the supplemental responses, describe the process employed by the applicable departments for reviewing the activities performed and for determining the quantitative measure.

(3) For each quantitative measure, indicate when the current numerical value for the measure was last calculated. If this date varies between departments, indicate the appropriate date for each department for a particular quantitative measure.

(4) If the current numerical value for the quantitative measure was performed after September 30, 2000, indicate the date of the last calculation prior to test-year end. If this date varies between departments, indicate the appropriate date for each department for a particular quantitative measure.

(5) Explain why CG&E department general managers have normally selected the Number of Retail Gas and Electric Customers as the method of allocating common costs.

(6) Match the allocation codes shown on Schedule FR6-t-2 with the six quantitative measures listed on page 2(a) of 4.

e. Concerning the allocation of Administrative and General ("A&G") charges between capital and expense:

(1) Identify each department of ULH&P that charged A&G accounts during the test year and in 1999.

(2) For each of the nine allocation methods listed on page 3(a) of 4 of the supplemental responses, describe the process employed by the applicable department for determining the allocation methods applicable to that department.

(3) Provide a representative copy of the survey questionnaire referenced on page 3(b) of 4.

(4) Based on the narrative on page 3(b) of 4, is it correct that the annual study results in allocation rates that are based on forecasts and expectations of management, rather than historic experience? Explain the response.

(5) For each allocation method, provide the current numerical value associated with the allocation method and indicate when the value was last calculated. If this date varies between departments, indicate the appropriate date for each department for a particular allocation method.

(6) If the current numerical value associated with the allocation method was determined after September 30, 2000, indicate the date of the last calculation prior to test-year end. If this date varies between departments, indicate the appropriate date for each department for a particular allocation method.

(7) Refer to Schedule FR6-t-3. Explain in detail how the amounts allocated for A&G charges to electric and gas expense accounts were determined for the 12 months ended September 30, 2000 and December 31, 2000. Include all workpapers, assumptions, and other supporting documentation that show how the allocation rates were determined and applied.

12. Refer to the Application, Volume 4, Schedules B through H and Workpapers WPB through WPH. In numerous schedules and workpapers, reference is

made to the Kentucky income tax as being 5.15 percent. The Commission has normally used a Kentucky income tax rate of 8.25 percent.

a. Explain why ULH&P has used the rate of 5.15 percent in this application.

b. If ULH&P believes the appropriate income tax rate for Kentucky is 5.15 percent, provide all calculations, workpapers, and other documentation supporting the use of this rate.

c. If the correct income tax rate is 8.25 percent, resubmit all schedules and workpapers using the 8.25 percent rate. In addition, resubmit any schedule or workpaper affected by the correction of the Kentucky income tax rate.

13. Refer to the Application, Volume 4, Schedules B through H and Workpapers WPB through WPH. Provide a schedule that lists each allocation factor or allocation code referenced in these schedules and workpapers, a description of the allocation factor or allocation code, and the numeric value for the allocation factor or allocation code.

14. Refer to the Application, Volume 4, Schedule B-2.2. Describe the gas facilities ULH&P has excluded from its jurisdictional plant in service and explain how ULH&P determined the facilities were devoted to entities other than its customers.

15. Refer to the Application, Volume 4, Schedule B-2.5.

a. Describe the types of meters that are leased from Fleet Capital.

b. Provide the terms and conditions contained in the lease with Fleet Capital.

c. Explain why ULH&P has elected to lease rather than own these meters.

d. Provide the total dollar obligation for ULH&P's gas meters to Fleet Capital.

e. Provide copies of the regulatory guidelines and generally accepted accounting principles ("GAAP") that explain the method of capitalization for this lease.

16. Refer to the Application, Volume 4, Workpapers WPB-2.2a through WPB-2.2f and WPB-3.1a through WPB-3.1f. Explain how the allocation factors of 65.0 percent and 56.5 percent were determined. Include all supporting calculations and assumptions.

17. Refer to the Application, Volume 4, Schedule B-3.2, page 4 of 4, lines 13 through 15. Explain in detail why the allocation percentages for common plant to gas are not the same for plant in service, accumulated depreciation, and annual depreciation expense.

18. Refer to the Application, Volume 4, Schedules B-2.1, B-3, and B-3.2.

a. A comparison of the adjusted jurisdictional balances between plant in service, accumulated depreciation, and annual depreciation expense reveals that Account No. 305, Structures and Improvements, is already fully depreciated. Explain in detail why ULH&P should be allowed, for rate-making purposes, to continue recognizing depreciation expense on assets that are fully depreciated.

b. A comparison of the adjusted jurisdictional balances between plant in service, accumulated deprecation, and annual depreciation expense reveals that ULH&P 2000 Account No. 1911, Electronic Data Processing Equipment, will be fully depreciated in less than 2 years. Explain in detail why ULH&P should be allowed, for rate-making purposes, to recognize depreciation expense on assets that will be fully depreciated within 2 years.

19. Refer to the Application, Volume 4, Schedule B-5.1. ULH&P has included in the determination of its rate base the Kentucky PSC Assessment as a prepayment. The Commission in three previous ULH&P general rate cases, as well as in two other recent proceedings, has rejected the inclusion of the unamortized prepayment balance for the PSC Assessment in the utility's rate base.[1] In light of these Commission decisions, explain in detail why the Commission should in this case allow the inclusion of the unamortized prepayment balance for the PSC Assessment in ULH&P's gas rate base.

20. Refer to the Application, Volume 4, Workpapers WPB-5.1a through WPB-5.1g.

a. Refer to Workpaper WPB-5.1b. Explain how the allocation percentage of 35.0 percent was determined to be the reasonable allocation of gas enricher liquids to ULH&P's gas operations.

[1] See Case No. 90-041, An Adjustment of Gas and Electric Rates of The Union Light, Heat and Power Company, Order dated October 2, 1990, at 10; Case No. 91-370, Application of The Union Light, Heat and Power Company to Adjust Electric Rates, Order dated May 5, 1992, at 4-5; Case No. 92-346, The Application of The Union Light, Heat and Power Company for an Adjustment of Rates, Order dated July 23, 1993, at 4-5; Case No. 98-474, The Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Service, Order dated January 7, 2000, at 52 and footnote 134; and Case No. 2000-080, The Application of Louisville Gas and Electric Company to Adjust its Gas Rates and to Increase its Charges for Disconnection Service, Reconnecting Service and Returned Checks, Order dated September 27, 2000, at 16-17.

b. Refer to Workpaper WPB-5.1c. Explain why it is reasonable to allocate the balances for Account Nos. 154100 and 154300 on the number of retail customers.

c. Explain why it is reasonable to allocate the balance in Account No. 163000 using the 13-month average of other materials and supplies accounts.

d. Refer to Workpaper WPB-5.1e. Explain the purpose of the Prepayments account titled “Pipeline Prepayments” and why ULH&P’s gas operations should be allocated 100.0 percent of the cost. Include with this explanation a schedule showing the determination of the 13-month average balance.

21. Refer to the Application, Volume 4, Schedule B-6. Describe the nature and purpose of “CSS Capitalized” and “IRIF Costs” as shown on this schedule. Include an explanation as to why these items result in deferred income taxes for ULH&P.

22. Refer to the Application, Volume 4, Schedule B-6, the “Other Rate Base Adjustments” section.

a. Concerning the Merger Costs to Achieve Savings rate base adjustment:

(1) Indicate when this deferred asset was first recorded on the books of ULH&P and state the original account balance.

(2) Has ULH&P been amortizing this deferred asset for accounting purposes since it was first recorded? If yes, provide the annual amortization. If no, explain in detail why amortization has not taken place.

(3) Provide a detailed analysis of the costs included in the balance for this deferred asset. This analysis should include, at a minimum, a

description of each cost, the total amount of the cost, the amount allocated to ULH&P, the amount allocated to ULH&P gas operations, an explanation of the allocation methods used, and an indication of whether the cost reflects an immediate cash outlay by ULH&P or requires cash outlays over a number of years. If the cash outlay is for a number of years, provide the number of years.

(4) Indicate whether any of the costs included in this deferred asset have previously been excluded for rate-making purposes by this Commission.

(5) Explain in detail why ULH&P is proposing to amortize this deferred asset over a 3-year period. Include citations to previous decisions of this Commission that support the proposed amortization period.

(6) Explain in detail why ULH&P is proposing to include the unamortized balance of this deferred asset in the calculation of its gas rate base. Include citations to previous decisions of this Commission that support the proposed inclusion in rate base.

b. Concerning the Merger Transaction Costs rate base adjustment:

(1) Indicate when this deferred asset was first recorded on the books of ULH&P and state the original account balance.

(2) Has ULH&P been amortizing this deferred asset for accounting purposes since it was first recorded? If yes, provide the annual amortization. If no, explain in detail why amortization has not taken place.

(3) Provide a detailed analysis of the costs included in the balance for this deferred asset. This analysis should include, at a minimum, a description of each cost, the total amount of the cost, the amount allocated to ULH&P,

the amount allocated to ULH&P gas operations, an explanation of the allocation methods used, and an indication of whether the cost reflects an immediate cash outlay by ULH&P or requires cash outlays over a number of years. If the cash outlay is for a number of years, provide the number of years.

(4) Indicate whether any of the costs included in this deferred asset have previously been excluded for rate-making purposes by this Commission.

(5) Explain in detail why ULH&P is proposing to amortize this deferred asset over a 3-year period. Include citations to previous decisions of this Commission that support the proposed amortization period.

(6) Explain in detail why ULH&P is proposing to include the unamortized balance of this deferred asset in the calculation of its gas rate base. Include citations to previous decisions of this Commission that support the proposed inclusion in rate base.

c. Concerning the Merger Costs to Achieve Savings – (1994 VERP):

(1) Indicate when this deferred asset was first recorded on the books of ULH&P and state the original account balance.

(2) Has ULH&P been amortizing this deferred asset for accounting purposes since it was first recorded? If yes, provide the annual amortization. If no, explain in detail why amortization has not taken place.

(3) Provide a detailed analysis of the costs included in the balance for this deferred asset. This analysis should include, at a minimum, a description of each cost, the total amount of the cost, the amount allocated to ULH&P, the amount allocated to ULH&P gas operations, an explanation of the allocation

methods used, and an indication of whether the cost reflects an immediate cash outlay by ULH&P or requires cash outlays over a number of years. If the cash outlay is for a number of years, provide the number of years.

(4) Indicate whether any of the costs included in this deferred asset have previously been excluded for rate-making purposes by this Commission.

(5) Explain in detail why ULH&P is proposing to amortize this deferred asset over a 3-year period. Include citations to previous decisions of this Commission that support the proposed amortization period.

(6) Explain in detail why ULH&P is proposing to include the unamortized balance of this deferred asset in the calculation of its gas rate base. Include citations to previous decisions of this Commission that support the proposed inclusion in rate base.

d. Concerning the Early Retirement/Involuntary Separation rate base adjustment:

(1) Indicate when this deferred asset was first recorded on the books of ULH&P and state the original account balance.

(2) Has ULH&P been amortizing this deferred asset for accounting purposes since it was first recorded? If yes, provide the annual amortization. If no, explain in detail why amortization has not taken place.

(3) Provide a detailed analysis of the costs included in the balance for this deferred asset. This analysis should include, at a minimum, a description of each cost, the total amount of the cost, the amount allocated to ULH&P, the amount allocated to ULH&P gas operations, an explanation of the allocation

methods used, and an indication of whether the cost reflects an immediate cash outlay by ULH&P or requires cash outlays over a number of years. If the cash outlay is for a number of years, provide the number of years.

(4) Indicate whether any of the costs included in this deferred asset have previously been excluded for rate-making purposes by this Commission.

(5) Explain in detail why ULH&P is proposing to amortize this deferred asset over a 3-year period. Include citations to previous decisions of this Commission that support the proposed amortization period.

(6) Explain in detail why ULH&P is proposing to include the unamortized balance of this deferred asset in the calculation of its gas rate base. Include citations to previous decisions of this Commission that support the proposed inclusion in rate base.

e. Concerning the Allowance for Funds Used During Construction ("AFUDC") adjustment to ULH&P's rate base, explain in detail the reason(s) for this adjustment. Include in this discussion an explanation why this adjustment should be made to the rate base. Indicate whether this Commission has previously made such an adjustment.

23. Refer to the Application, Volume 4, Schedule B-2.7. Explain where the adjustments to the operating and maintenance expenses are located in the workpapers or schedules.

24. Refer to the Application, Volume 4, Schedule D-1. Several columns on this schedule have been marked "Reserved." Does ULH&P contemplate submitting additional adjustments beyond those included in its application? Explain the response.

25. Refer to the Application, Volume 4, Schedule D-2.1, page 4 of 4. The PSC Assessment rate referenced in this adjustment was established in July 2000. A new assessment rate will be established in July 2001. As this proceeding will be finalized after July 2001, would ULH&P agree that any adjustments impacting the PSC Assessment should reflect the use of the July 2001 rate, rather than the test-year assessment rate? Explain the response.

26. Refer to the Application, Volume 4, Workpapers WPD-2.4a through WPD-2.4o.

a. Provide a description of each employee group listed on WPD-2.4a. Include the distinctions between exempt and non-exempt employees.

b. Describe the work in the gas operations provided by members of the Independent Utilities Union ("IUU") and the International Brotherhood of Electrical Workers ("IBEW").

c. Refer to Workpaper WPD-2.4a. Provide the information supporting the wages and benefits allocated from Cinergy Services to ULH&P's gas operations, as shown on lines 10 through 17 of the workpaper. Include all calculations, assumptions, and other documentation supporting the amounts shown on WPD-2.4a.

d. Refer to Workpaper WPD-2.4a, footnote (d). Provide the information supporting the benefit rates shown in the footnote. Include all calculations, assumptions, and other documentation supporting the percentages shown in footnote (d).

e. Refer to Workpaper WPD-2.4g. Explain in detail how the allocations to operation and maintenance expense were determined for both the direct charges and the allocation from Cinergy Services. Include all calculations, assumptions, and other documentation supporting the percentages shown on WPD-2.4g.

f. Refer to Workpapers WPD-2.4h through WPD-2.4l, footnote (1). Explain in detail why the joint and clearing accounts were allocated on the basis of information reported in ULH&P's 1999 FERC Forms 1 and 2.

g. Provide the allocation percentages for joint and clearing accounts based on the information reported in ULH&P's 2000 and 2001 FERC Forms 1 and 2. Also explain why the percentages based on either the 2000 or 2001 FERC Forms 1 and 2 were not used in these calculations.

h. For each employee group shown on Workpapers WPD-2.4h through WPD-2.4l, explain the nature and purpose of the pay code "Other." Include a discussion of why there are hours associated with this pay for some employee groups, but not all employee groups.

27. During the test year, did any of the employees assigned to ULH&P's gas operations perform work for other subsidiaries or affiliates of ULH&P, CG&E, or Cinergy? If yes, provide the following information:

a. The total hours and costs assigned or allocated to the subsidiaries or affiliates for work performed by ULH&P's employees, in total and by employee group. Include a separation between ULH&P's electric and gas operations.

b. An analysis showing the direct charge labor hours and costs for ULH&P, the labor hours and costs assigned or allocated to other subsidiaries or affiliates, and the labor hours and costs allocated by Cinergy Services. This information should be shown for each employee group, as well as separately for ULH&P's electric and gas operations.

28. Refer to the Application, Volume 4, Workpaper WPD-2.5a.

a. Provide the information supporting the amounts reported as "Total Loaded Benefits" for both ULH&P direct and allocated from Cinergy Services. Include all calculations, assumptions, and other documentation supporting the amounts.

b. Explain how the allocation factors described in footnote (2) were determined. Include all calculations, assumptions, and other documentation supporting the amounts.

c. Provide documentation supporting the reported 25 percent increase in health care premiums.

29. Refer to the Application, Volume 4, Workpaper WPD-2.6a.

a. Submit an itemized list of the transactions that make up the Public Utility Holding Company Act and Securities and Exchange Commission Issues shown on this workpaper.

b. Explain how ULH&P determined the amount allocated to its gas operations.

30. Refer to the Application, Volume 4, Workpapers WPD-2.8a through WPD-2.8c.

a. Explain why the property valuation shown on line 13 of WPD-2.8a was based on the 1999 Kentucky valuation, rather than the 2000 Kentucky valuation. If available, provide the same percentage using the 2000 Kentucky valuation.

b. Explain why the property tax rate shown on line 16 of WPD-2.8a was based on the Kentucky average rate for 1999 instead of 2000. If available, provide the Kentucky average rate for 2000.

c. Explain why the average tax rate shown on WPD-2.8c was based on 1999 tax bills instead of 2000 tax bills. If available, provide the average tax rate for 2000 tax bills.

31. Refer to the Application, Volume 4, Workpapers WPD-2.9a and WPD-2.9b.

a. Refer to WPD-2.9a. Explain how the percentage of employees earning under $80,400 was determined, for both direct charges and those allocated from Cinergy Services. Include all calculations, assumptions, and other documentation supporting the percentages.

b. Refer to WPD-2.9b. Explain the basis for assuming that wages to be taxed should be 50 percent, as shown on lines 9 and 18.

32. Refer to the Application, Volume 4, Workpaper WPD-2.10a.

a. Refer to line 15. Explain why the total annualized gas interest expense is shown as a negative amount.

b. Refer to line 18. Explain why ULH&P has included the gas portion of its accounts receivable sale fees in this calculation. Include a discussion of how the FERC requires ULH&P to account for sale fees associated with the sale of its accounts receivable.

33. Refer to the Application, Volume 4, Workpaper WPD-2.12a and WPD-2.12b.

a. Recalculate WPD-2.12b using the December CPI for the years 1990-1999, and the CPI number for year-end 2000, following the approach outlined in ULH&P's last gas rate case.

b. Recalculate WPD-2.12a to reflect the recalculation of WPD-2.12b.

34. Refer to the Application, Volume 4, Workpaper WPD-2.13a. Explain the basis of using the 6.82 percent allocation factor to ULH&P, 47.90 percent allocation factor to gas operations, and 52.10 percent allocation factor to electric operations for the Edison Electric Institute membership dues.

35. Refer to the Application, Volume 4, Workpapers WPD-2.14a and WPD-2.14b.

a. Provide a detailed description of the Limited Early Retirement Program ("LERP"). The description should include, but not be limited to:

(1) The reason(s) for the program.

(2) The number of employees participating in the program. Include totals for Cinergy as a whole, ULH&P as a whole, and ULH&P gas operations.

(3) A detailed analysis of the program costs. This analysis should include, at a minimum, a description of each cost, the total amount of the cost, the amount allocated to ULH&P, the amount allocated to ULH&P gas operations, an explanation of the allocation methods used, and an indication of whether the cost reflects an immediate cash outlay by ULH&P or requires cash outlays over a number of years. If the cash outlay is for a number of years, provide the number of years.

(4) Indicate whether any of the costs included in this program have previously been excluded for rate-making purposes by this Commission.

(5) Explain in detail why ULH&P is proposing to amortize the LERP costs over a 3-year period. Include citations to previous decisions of this Commission that support the proposed amortization period.

b. Refer to WPD-2.14b. Provide an explanation for the references shown in the column labeled "LE Alloc."

c. Refer to WPD-2.14b. Explain how the ULH&P percentages shown on this workpaper were determined. Include all calculations, assumptions, and other documentation that supports the percentages used.

36. Refer to the Application, Volume 4, Workpaper WPD-2.19a.

a. Provide a description of each of the projects listed.

b. Explain the abbreviations "FACCD/LEALLOC" and "RESPCTR."

c. Identify each of the factors used to allocate costs to ULH&P, as well as those used to allocate costs to the gas and electric operations.

d. Explain the basis for using each of the allocation factors.

37. Refer to the Application, Volume 4, Workpaper WPD-2.21a.

a. Explain how each of the amounts were allocated to ULH&P under the section "Allocated from Cinergy Services." Also, explain the basis of the allocations between gas and electric operations.

b. Provide a description of each transaction that explains the nature of the expense.

38. Refer to the Application, Volume 4, Workpapers WPD-2.23a through WPD-2.23e.

a. Refer to WPD-2.23a, page 1 of 2. Explain why the total revenues of $1,324,805 would not be used to calculate the PSC Assessment adjustment.

b. Refer to WPD-2.23c.

(1) Provide a description of each transaction that explains the nature of the expense.

(2) Explain how each of the amounts were determined.

(3) Explain the basis of the allocations to ULH&P's gas operations.

c. Refer to WPD-2.23d. Explain the amounts shown for labor and "M&E" in the calculations.

d. Refer WPD-2.23e. Explain the basis of the allocations made to ULH&P's gas operations.

39. Refer to the Application, Volume 4, Workpaper WPD-2.24a. Provide the calculations, assumptions, and other documents supporting the amounts shown on WPD-2.24a.

40. Refer to the Application, Volume 4, Schedule E-1.

a. Refer to page 1 of 5, line 30. Explain the abbreviation "ADR."

b. Refer to pages 3 and 5 of 5. Explain what is meant by the term "Writebacks" as shown at line 23 on page 3 of 5 and line 1 of page 5 of 5.

41. Refer to the Application, Volume 4, Schedules F-1 and F-2.2. Explain how ULH&P accounts for social club dues, service club dues, club initiation fees, and country club expenses. Identify the accounts in which these expenses are recorded.

42. Refer to the Application, Volume 4, Schedule F-2.3. Explain each of the transactions on this schedule.

43. Refer to the Application, Volume 4, Schedule F-3, and the corresponding Workpaper WPF-3.

a. Provide a schedule listing vendors and suppliers, amounts, document reference numbers, and descriptions of the transactions for the following accounts of Schedule F-3:

(1) Marketing Cust. Asst.-Gas

(2) Community Affairs-Gas

(3) Marketing Operations-Gas

b. Explain why these accounts should be included for rate-making purposes.

c. Provide the supporting documentation and detail on each of the following transactions from Workpaper WPF-3:

(1) Stock Option Loans

(2) Cinergy Services-Various

(3) Community Relations

(4) Miscellaneous

44. Refer to the Application, Volume 4, Schedule F-3 and Workpaper WPF-3. Provide a schedule restating the information contained on WPF-3 to correspond with the account numbers shown on Schedule F-3. The account numbers from Schedule F-3 should be shown as column headings, with the descriptions shown on WPF-3 shown as the line items.

45. Refer to the Application, Volume 4, Schedule F-4. Explain in which proceeding the $151 shown in the "Rate Case" column was expended.

46. Refer to the Application, Volume 4, Schedule F-6.

a. Explain why ULH&P will have to secure outside counsel for this rate case.

b. Explain what roles the consultants will have in the rate case, and what they will be hired to do.

c. For any outside counsel and consultants, provide an estimate of the hours worked as well as the hourly rates. If ULH&P will be paying them on a different basis such as per job or per day, explain what the basis is and the estimated cost.

47. Refer to the Application, Volume 4, Schedule G-2.

a. Refer to page 1 of 14. Explain in detail why the overtime hours for ULH&P are significantly higher for the test year than for any of the previous 4 calendar years. Include in this explanation the reason(s) for the increase in overtime hours for United Steelworkers of America employees, IBEW employees, and the exempt group.

b. Provide the overtime analysis shown on Schedule G-2 for ULH&P's gas operations only. If such an analysis cannot be prepared, explain in detail how ULH&P can assure the Commission that the increases in overtime hours and costs do not reflect increased work for ULH&P's electric operations, rather than for its gas operations.

c. In order to determine a reasonable, ongoing level of overtime hours and costs to reflect in ULH&P's gas rates, would ULH&P agree that one approach would be to base the level on the mathematical average of the test year and 4 previous calendar years? If ULH&P does not agree, explain in detail how a reasonable, ongoing level of overtime hours and costs can be determined.

48. Refer to the Application, Volume 4, Schedules J-2 and J-3. Explain in detail why it is appropriate to include the capital leases for leased meters as components of short-term and long-term debt.

49. Refer to the Application, Volume 5, the Direct Testimony of Leonard C. Randolph, Jr., page 5. Provide copies of the EDS Utilities Division study on ULH&P's optimal propane inventory levels.

50. Refer to the Application, Volume 5, the Direct Testimony of Barry F. Blackwell, page 8 and the Utility Service Agreement, Attachment BFB-1, page 3 of 20. Mr. Blackwell states on page 8 that Cinergy conducts an internal audit of Cinergy Services biannually, noting that the most recent internal audits were conducted in 1998 and 2000. However, the Utility Service Agreement, at Section 2.2, states that the review shall be performed annually. Provide an explanation that resolves the apparent conflicts between Mr. Blackwell's testimony and the Utility Service Agreement.

51. Refer to the Application, Volume 5, the Direct Testimony of Paul G. Smith, page 9, lines 14 through 17. Provide a clarification of the statement concerning the depreciation adjustment shown on page 9.

52. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 1.

a. Describe the amendments approved by ULH&P's shareholders on May 26, 1999.

b. Explain why ULH&P's registered office is located in Louisville, Kentucky. Provide the exact location of that office.

53. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 9(a). Provide the gas operations trial balance sheet as was originally requested in Item 9(a). In addition, explain in detail why ULH&P does not maintain such information separately for its gas and electric operations.

54. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 15. For each of the accounts listed below, explain why the account balance changed between September 30, 2000 and September 30, 1999. All account number references are to ULH&P's 2000 Company account numbers.

a. Account Nos. 2761, 2762, and 2763 – Gas Mains – Distribution Lines, Cast Iron and Copper (Balance in Account 101 and 106), page 5 of 14.

b. Account No. 2780 – Gas System Measuring and Regulation – General (Balance in Account 101 and 106), page 6 of 14.

c. Account Nos. 2801, 2802, and 2803 – Services – Cast Iron and Copper (Balance in Account 101 and 106), page 7 of 14.

d. Account No. 2840 – House Regulators Installations (Balance in Account 101 and 106), page 9 of 14.

55. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Items 17 and 18(a). Resubmit the response using the format originally requested.

56. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 25(b), page 2 of 2. Explain in detail why the expense associated with each of the entities listed below was allocated to ULH&P's gas operations.

a. Electric Power Research Institute

b. Institute of Advanced

c. Midwest Energy Association

d. Ohio Gas Association

57. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 26. Explain the nature or purpose of the professional services expense associated with each of the entities and individuals listed below, and explain why each such expense was allocated to ULH&P's gas operations. Multiple transactions with the same entity or individual may be grouped together. If the amounts shown in the response to Item 26 represent total ULH&P expense, specify the expense applicable to gas operations.

a. Clarus Corporation, pages 1 and 2 of 56.

b. Deters Benzinger & LA VE, page 2 of 56.

c. Infotech Consulting, Inc, page 2 of 56.

d. James J. Mayer, page 2 of 56.

e. O'Hara Ruberg Taylor, page 4 of 56.

f. Alternative Resources Corp., pages 8 through 10 of 56.

g. Ameritech Advanced Data Services, page 11 of 56.

h. Applied Psychological Tech, page 11 of 56.

i. Baker & Daniels, pages 12 and 13 of 56.

j. Bell Industries, pages 13 through 15 of 56.

k. Ciber Inc., pages17 through 21 of 56.

l. City of Cincinnati, page 21 of 56.

m. Cleveland State University, page 21 of 56.

n. Convergent Group, page 22 of 56.

o. Edison Electric Institute, page 23 of 56.

p. Electric Power Research Institute, page 24 of 56.

q. Entex Information Services, Inc., pages 24 through 26 of 56.

r. Ernst & Young LLP, page 26 of 56.

s. Four Seasons Country Club, page 26 of 56.

t. Gartner Group Inc., page 27 of 56.

u. Gordon R. Lewis, pages 27 and 28 of 56.

v. Heidrick & Struggles Inc., page 29 of 56.

w. Hoosier Safety Council, page 30 of 56.

x. Howard Systems International, page 30 of 56.

y. Indiana Energy Conference, page 31 of 56.

z. Indianapolis Legal Aid Society, page 31 of 56.

aa. Joseph Graves Associates, Inc., pages 32 and 33 of 56.

bb. Lake County Economic Development Center, page 33 of 56.

cc. McKinsey & Co. Inc., pages 35 and 36 of 56.

dd. Microsoft Corporation, page 36 of 56.

ee. Montana Power Company, page 38 of 56.

ff. NERA, page 39 of 56.

gg. New Media Inc., pages 39 and 40 of 56.

hh. Nitin Nohria, page 40 of 56.

ii. Oppenheimer Wolf & Donnelly, page 40 of 56.

jj. PHB Hagler Bailly Inc., page 41 of 56.

kk. Policy Assessment Corporation, page 41 of 56.

ll. Price Waterhouse Coopers LLC, page 41 of 56.

mm. Prof. Computer Center Inc., pages 42 through 44 of 56.

nn. Repeal PUHCA Now Coalition, page 45 of 56.

oo. Skadden Arps Slate Meagher, pages 48 and 49 of 56.

pp. State of Ohio Treasurer, page 50 of 56.

qq. Sungard Planning, page 50 of 56.

rr. Taft Stettinius & Hollister, pages 50 and 51 of 56.

ss. Tampa Electric Company, page 51 of 56.

tt. The Strategy Group LLC, page 51 of 56.

uu. The Working Data Group Co. Inc., pages 51 and 52 of 56.

vv. U. S. Immigration Service, page 52 of 56.

ww. Valcom Inc., pages 53 through 55 of 56.

58. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 26. Explain why expenses paid to the directors of Cinergy listed below were classified as professional services. In addition, explain why all expenses associated with the directors of Cinergy were not included in the allocation from Cinergy Services.

a. Dudley S. Taft, page 23 of 56.

b. George C. Juilfs, page 27 of 56.

c. John J. Schiff, Jr., page 32 of 56.

d. Kenneth M. Duberstein, page 33 of 56.

e. Neil A. Armstrong, page 39 of 56.

f. Oliver W. Waddell, page 40 of 56.

g. Phillip R. Cox, page 41 of 56.

59. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 33, page 2 of 2. ULH&P did not provide the "Kentucky Jurisdiction" or "Other Jurisdiction" rates of return. Explain why these calculations were not provided.

60. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 40.

a. How much of the executive officers' salaries allocated to ULH&P for 1998, 1999, and the test year were allocated to gas operations? Indicate how the amount for each officer was allocated to gas operations.

b. Explain in detail the reason(s) for the annual increases for these officers for 1998, 1999, and 2000.

c. Explain why the total amounts allocated to ULH&P have been decreasing since 1998. Include the allocation factors used to assign these expenses to ULH&P.

61. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 43(c), page 5 of 27. Describe the status of the contract with the IUU.

62. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 46. Explain why there have been no actuarial studies performed since 1993.

63. Refer to the response to the Commission Staff's 1st Data Request dated April 25, 2001, Item 47. Explain why there have been no actuarial studies performed since 1993.

64. In Case No. 2000-039,[2] ULH&P sought the Commission's approval of a certificate of public convenience and necessity for a gas pipeline in the Silver Grove area that would be co-owned and operated by ULH&P and the Lafarge Corporation ("Lafarge"), a gypsum wallboard manufacturer. The final order, dated August 1, 2000, stated, "It will be the responsibility of ULH&P to justify fully the amount to be recorded on its books for this line prior to inclusion of the cost for rate-making purposes in any future rate proceeding."

a. Explain how CBS and ULH&P are affiliated. Also explain Lafarge's relationship with both CBS and ULH&P.

b. On what date was the Lafarge pipeline placed in service?

c. Provide the journal entries recorded on the books of ULH&P for the Lafarge pipeline. These entries shall include all entries related to the Lafarge line. The entries should indicate the account number, title, amount, and description of what the journal entry is recording.

[2] Case No. 2000-039, The Union Light, Heat and Power Company's Application for a Certificate of Public Convenience and Necessity.

d. Provide all supporting documentation for the journal entries, including workpapers, invoices, etc. To the extent that costs are allocated, provide full details of the cost allocations and explain how the amounts allocated to ULH&P were determined.

e. Provide a flowchart of the accounting for all costs and revenues associated with the Lafarge project. The flowchart should provide complete details of the accounting and bookkeeping process from the original work orders related to the project through the recording of assets, contributions, etc. on the books of ULH&P and/or its affiliates.

f. Include schedules reflecting details of all amounts that ULH&P paid directly and the amounts of other expenses incurred during the construction of the pipeline. Examples of these expenses may include, but are not limited to, the following: construction labor, supervision, materials and supplies, and transportation expenses. The schedule should reflect any allocation of the expenses that ULH&P made to Lafarge, or to CBS acting on the behalf of Lafarge.

g. Provide the detail regarding how costs were billed to ULH&P from any affiliate or non-affiliate. Provide a detailed explanation, including supporting documentation, of any factors used to allocate costs from any of ULH&P's affiliates.

65. Refer to the Application, Volume 4, Schedule L, Rate SSIT.

a. Provide the number of existing customers that would qualify for this rate schedule.

b. Provide the number of qualifying customers that already receive interruptible service.

c. If no current customers would qualify for Rate SSIT, provide an estimate of the number of customers ULH&P expects would qualify for this rate by July 2003.

d. The proposed tariff does not require customers to have an alternative fuel source. Explain whether or not ULH&P would expect customers to have alternative fuel sources.

e. If no to part (d), describe ULH&P's expectations as to the frequency and duration of interruptions during the periods that the affected generating units would be expected to operate.

f. Explain the rationale for using the Columbia Gas Appalachian price in the calculation of the rate.

g. Identify and define each component of the proposed formula rate. Show and explain the derivation of the .0204 and the 51.4 used in the formula.

h. Describe the experience of any ULH&P affiliate with this type of rate schedule.

66. Refer to the Application, Volume 4, Schedule L, Rate GCAT.

a. Provide an estimate of the number of IT customers ULH&P expects to switch from sales service.

b. Provide an estimate of the number of FT-L customers that ULH&P expects to switch from sales service.

c. Describe the experience of any ULH&P affiliate with this type of rate schedule.

67. Refer to the Application, Volume 4, Schedule L, Rates IT and Rate AS. Rate IT requires the customer to be a member of a pool under Rate AS. Rate AS states that the usage of all customers within a pool will be combined into a single pool usage number. Explain in detail whether this means that small customers will be allowed to consolidate in order to meet the 10,000 Ccf minimum usage required under Rate IT.

68. Refer to the Application, Volume 4, Schedule L, Rate GTS. Provide cost support for the $5 charge.

69. Refer to the Application, Volume 5, the Direct Testimony of William A. Ginn, page 12. Mr. Ginn states that the DGS rate was developed for what ULH&P believes will be a new, emerging market.

a. Provide the number of customers that ULH&P anticipates serving under this tariff by July 2003.

b. Provide a detailed narrative description of the anticipated demand for this service.

c. Describe the experience of any ULH&P affiliates with this type of rate schedule.

70. Refer to the Application, Volume 4, Schedule L, Rates AS and FRAS.

a. Provide a copy of the "Large Volume Customer Transportation Pooling Agreement" required under Rate AS.

b. Provide a copy of the "Gas Supply Aggregation/Customer Pooling Agreement" required under Rate FRAS.

c. Provide a description of any ULH&P affiliate's experience with this type of pooling agreement in other states.

71. Refer to the Application, Volume 5, the Direct Testimony of James A. Riddle. Mr. Riddle discusses the decision to use degree day normals based on the period 1990 through 1999 rather than NOAA normals based on the period 1961 through 1990 in normalizing ULH&P's test year sales volumes to reflect normal weather. The series M schedules contained in ULH&P's application reflect normalized sales volumes based on the degree day normals derived from the period 1990 through 1999 and the adjustment for year-end customers. For comparison purposes, provide the information identified in sub-parts (a) through (c), along with workpapers and a narrative explanation that separately identifies the impact of the year-end customer adjustment that is incorporated in the normalized volumes and revenues.

a. A modified version of the series M schedules that shows actual test year sales volumes and revenues by rate class, with no normalization.

b. A modified version of the series M schedules that shows normalized test year sales volumes and revenues, by rate class, based on the NOAA 30-year degree day normals for the period 1961 through 1990.

c. A modified version of the series M schedules that shows normalized test year sales volumes and revenues by rate class based on degree day normals derived by using a 30-year period that ends with 1999, which corresponds with the last year in the 10-year period recommended by Mr. Riddle.

72. Refer to the Application, Volume 5, the Direct Testimony of Paul F. Ochsner. Mr. Ochsner states that class coincident peak demands were developed from test period gas load research data rather than from linear regression equations using

actual test period sales data and heating degree day data as had been done in prior cases.

a. Provide the rationale for calculating class coincident peak demands based on test period load research data. Specifically address whether the development of class coincident peak demands from load research data rather than actual test year sales data and heating degree day data is an industry trend in rate design. If yes, provide references to support that opinion.

b. If demand data was also calculated using linear regression equations based on actual sales data and heating degree day data, supply the results obtained using that method.

73. Refer to the Application, Volume 5, the Smith Direct Testimony, page 18 and Schedule D-2.23 of the application.

a. Provide a customer-by-customer analysis of the $1,324,805 in revenues related to facilities devoted to other than ULH&P customers.

b. Provide a narrative description of the manner in which the revenues are generated and the pricing provisions that give rise to revenues that are approximately five times the associated expenses.

74. Refer to the Application, Volume 5, the Smith Direct Testimony, page 19 and Schedule D-2.24 of the application.

a. Provide a detailed explanation for why demand-side management ("DSM") revenues of $2.6 million were generated during the test year when the associated DSM expenses were only $24,205. Explain whether a difference of this magnitude between DSM revenues and expenses is ongoing or a non-recurring event.

b. For the most recent 12 months for which information is available, provide the actual amounts of DSM revenues and expenses recorded on ULH&P's books.

75. Clarify whether the new rate schedules/tariffs proposed in ULH&P's application are entirely voluntary or will replace existing rate schedules/tariffs thereby requiring customers to switch to one of the new schedules.

76. For any new rate schedules that are not voluntary provide schedules similar to the schedule M series showing proposed revenue by rate classification.

77. ULH&P proposes an 11.8 percent increase for residential ratepayers plus an average annual increase of 1.7 percent for Rider AMRP. In an effort to make gas service more attractive to developers ULH&P also proposes to eliminate the provision in Tariff Rider X that requires deposits by developers to finance gas main extensions. Provide a description of the effect that ULH&P predicts the requested base rate increase and Rider AMRP will have on the desirability of gas service to new homeowners and the related impacts on homebuilders and developers.

78. ULH&P has not proposed a weather normalization adjustment tariff ("WNA") in its application. In ULH&P's last gas rate case, the Commission denied a proposed WNA that would have carried over- and under-recoveries over from one heating season to the next heating season. Since that time the Commission has approved WNA mechanisms for Kentucky's four other major jurisdictional gas distribution utilities, which adjust customers' bills on a real-time basis to reflect normal temperatures. Explain ULH&P's position regarding making such adjustments on a real-

time basis. Explain ULH&P's position regarding WNA mechanisms in general and describe its familiarity with any other Kentucky utility's WNA mechanisms.

79. Refer to the Application, Volume 6, the Stone & Webster Consultants, Inc. ("Stone & Webster") Report. Concerning the recommendations listed in Section 1, page 7, is ULH&P in agreement with Stone & Webster's recommendations? Explain in detail.

80. Has ULH&P prepared a plan to implement the replacement of bare steel and cast iron pipelines? If yes, provide copies of the plan.

81. Has ULH&P prepared bid documents for contractors to replace the bare steel and cast iron pipes in its system? If yes, provide copies of bid documents.

82. Has ULH&P considered feasibility studies for the most economical ways of replacing the bare steel and cast iron pipes? If yes, provide a copy of the feasibility study.

83. What are the estimated costs of replacement of the bare steel and cast iron pipelines, and what is the annual budget allotted for this project for the next 10 years?

84. What is the estimated annual gas loss from leaks incurred from bare steel and cast iron pipelines in ULH&P's system in the past 3 years?

85. Are the bare steel transmission pipelines crossing the Ohio River included in Stone & Webster's study? If the answer is no, explain why they are not included and explain how safe is it to operate these pipelines in their present conditions? Provide the estimated remaining life for each one of the six pipelines crossing the Ohio River.

86. In October 2000, water was injected into ULH&P's bare steel main from a water pipeline owned by the city of Newport, which caused interruption of gas service

and high financial costs. Has ULH&P investigated the technical causes of the pipe's failure? If yes, provide a copy of the investigation report.

87. Refer to the Application, Volume 4, Schedule L. Will the Accelerated Main Replacement Program ("AMRP") factors cover all the annual costs of replacement of the bare steel and cast iron mains and service lines? Explain the response in detail.

88. Refer to the Application, Volume 5, the Direct Testimony of Sevket Torpis. In the Stone & Webster report, you have recommended replacing the pipes that score above 90 in total leak in the regression analysis. Do you recommend that ULH&P replace bare steel and cast iron pipes linearly along the 10-year period or according to the regression results and the score? State how many miles annually should be replaced for the next decade if the replacement is not linear. Explain your answer.

89. Refer to the Application, Volume 6, the Stone & Webster Report, Section 14. On page 9, the last paragraph, states "field maps supported 165.4 miles of CI and BS mains. Further study may be required concerning remaining lengths in service." Is Mr. Torpis concerned that there are more cast iron and bare steel pipelines in ULH&P's system than are revealed in the maps?

90. Refer to the Application, Volume 5, the Smith Direct Testimony, page 25.

a. Provide references to the applicable statutes and regulations in Kentucky which permit consideration of ULH&P's Rider AMRP.

b. If ULH&P sought recovery of the investment and expenses for the AMRP through a traditional rate case proceeding, would there be regulatory lag experienced in that process?

c. If ULH&P were following the traditional rate case proceeding approach to deal with the effects of the AMRP, would it be allowed to defer depreciation and continue to accrue AFUDC? Explain the response.

d. Would ULH&P agree that the proposed Rider AMRP, which would be recalculated annually, reduces the regulatory lag that would normally be experienced between traditional rate case proceedings? Explain the response.

e. Explain in detail why ULH&P should be permitted to defer depreciation and continue accruing AFUDC under Rider AMRP when it traditionally has not been afforded that rate-making treatment in a traditional rate case proceeding.

91. Refer to the Application, Volume 4, Schedule L, Rates RS, GS, IT and FT-L. The rationale for the proposed customer charge levels for these rate schedules indicates that, over a 10-year period, the proposed AMRP tracker will increase the customer charge to the indicated cost of service level. The AMRP tracker is designed to recover the costs associated with ULH&P's main replacement program over 10 years after which time the rider should no longer be needed.

a. Explain whether ULH&P is proposing that the AMRP tracker become a permanent part of these customer charges after 10 years.

b. Explain whether Rider AMRP will be shown as a separate line item on customers' bills.

c. Given the age of its cast iron and steel pipe system, explain why ULH&P is now undertaking a replacement program as opposed to having done so 5 to 10 years earlier.

92. Refer to the Application, Volume 4, Schedule L, Rider AMRP and Volume 5, the Torpis Direct Testimony, page 6.

a. The proposed rider would provide 30 days for the Commission to review the relevant cost information submitted with the annual AMRP filing. Explain how ULH&P determined that 30 days was the appropriate period of time for the Commission to review the filing.

b. Mr. Torpis states in his testimony that the industry average for this type of replacement program is 26 years. Explain in detail the reasons for proposing 10 years for the program as opposed to 15 or 20 years.

93. Refer to the Application, Volume 5, the Direct Testimony of John P. Steffen, page 6. Mr. Steffen describes tracking mechanisms similar to ULH&P's proposed AMRP tracking mechanism in Virginia for Roanoke Gas Company ("Roanoke") and in Georgia for Atlanta Gas Light Company ("Atlanta Gas").

a. ULH&P provided information pertaining to these two tracking mechanisms during the informal conference held on June 12, 2001. Provide the attachments referenced in the Hearing Examiner's Report for Roanoke and the actual stipulation and terms of the agreement for Atlanta Gas.

b. Provide a detailed narrative description comparing ULH&P's mechanism to the mechanisms approved for Roanoke and Atlanta Gas.

c. Provide a copy of the commission orders for both the Roanoke and Atlanta Gas mechanisms.

94. The Hearing Examiner's report in the Roanoke case states that the cost recovery mechanism includes an annual earnings test to ensure that Roanoke will not over-earn.

a. Did ULH&P give any consideration to including such a mechanism in the AMRP tariff? Explain the response.

b. Given the recovery provided ULH&P under the Rider AMRP, should there be some mechanism in place to monitor for over-earnings and provide for adjustments if ULH&P experiences over-earnings?

c. What procedures would ULH&P propose to address the potential for over-earnings during the operation of its proposed Rider AMRP?

95. Refer to the Application, Volume 5, the Steffen Direct Testimony, page 6. Mr. Steffen discusses tracking mechanisms for accelerated main replacement programs approved for utilities in Georgia and Virginia that are similar to ULH&P's proposed Rider AMRP.

a. Explain whether ULH&P is familiar with other jurisdictions in which tracking mechanisms have been approved for accelerated main replacement programs that are dissimilar to the proposed Rider AMRP.

b. For any such dissimilar tracking mechanisms identified or reviewed by ULH&P, provide copies of commission orders approving the mechanisms.

96. Refer to the Application, Volume 5, the Direct Testimony of Leonard Randolph, Jr., page 15. Mr. Randolph states that "if Rider AMRP is not approved, ULH&P would be forced to recover its cast iron and bare steel replacement costs

through a series of “pancaked” rate cases over the next ten years, probably as often as every 15 months.”

a. Provide a narrative description of any alternative, more traditional methods of financing line replacement programs that were considered by ULH&P.

b. Discuss the extent to which ULH&P is familiar with the cost recovery of similar large-scale replacement programs when tracking mechanisms have not been approved.

c. In the same format as PGS-2, attached to the Smith Direct Testimony, provide a schedule showing the estimated effect on ULH&P’s main replacement revenue requirement over the same 10 years assuming Rider AMRP is not approved.

d. Explain how ULH&P will handle surpluses or deficits in the pool of funds created by Rider AMRP if the funds exceed or fall short of expenditures made on the replacement program at a particular point in time.

e. Provide a detailed analysis that shows the total cost of distribution line replacements during the test year and the 3 previous years in comparison to the projected annual cost of line replacements including the AMRP program.

f. Provide the information in part (e) above broken down into the cost of service line replacements versus the other line replacements.

97. Refer to the Application, Volume 5, the Randolph Direct Testimony, page 13. Mr. Randolph states that under the AMRP, ULH&P will replace the customer-owned cast iron and bare steel service lines when it replaces the mains under the AMRP program.

a. Explain ULH&P's current practice with regard to customer service line ownership and installation.

b. Explain ULH&P's current requirements with regard to repair or replacement of customer service lines.

c. Provide a copy of any orders issued by this Commission regarding the installation and/or ownership of customer service lines by ULH&P.

98. Refer to the Application, Volume 5, the Randolph Direct Testimony, page 13. Mr. Randolph states that ULH&P expects a decline in operational expenses associated with the maintenance of cast iron and bare steel mains.

a. Provide the annual cost of operational expenses over the past 3 years associated with the maintenance of the cast iron and bare steel mains. This information is to be provided for all cast iron and bare steel mains as well as the mains that are included in the AMRP. The information should be broken down into the various functional components of the costs, and/or on an account or sub-account basis.

b. Provide a comparative breakdown to part (a) above of the estimated amount of savings that will occur annually as a result of the AMRP over the 10 years of the program.

99. Refer to the Application, Volume 5, the Randolph Direct Testimony, page 14. With regard to the statement that the line replacements will enable ULH&P to serve a potential emerging market for microturbines:

a. Provide the amount of investment that will be made to lines that would be sized adequately to provide supply for microturbines. The information should be broken down into the various functional components of the costs, and/or on an account or sub-account basis.

b. Explain how the additional revenues associated with sales to microturbines are considered in the calculation of the AMRP adjustment mechanism.

c. Provide details of any other potential sales increases that will result from the AMRP.

100. If ULH&P is aware of line replacement programs approved in Mississippi and Tennessee, provide copies of the plans and explain how these plans compare to the proposal of ULH&P in this case.

101. In May 2001, Yankee Gas Services ("Yankee") submitted a proposal to the Connecticut Department of Public Utility Control to adjust rates by up to $13 million per year, if needed, to accommodate capital projects for system expansion and reliability investments. Provide any information available to ULH&P concerning this filing and explain how the proposal of Yankee compares to the proposal of ULH&P in this case.

102. Provide a detailed discussion of the accounting entries that will be made to record the costs and revenues associated with the AMRP. Include sample bookkeeping and journal entries to record all aspects of the plan, including the retirement of the assets being repaired and replaced.

103. Refer to the Application, Volume 5, the Smith Direct Testimony, Attachments PGS-1 and PGS-2.

a. Provide all workpapers and supporting documentation including applicable calculations and explanations of the methodology used to determine each of the amounts included in the attachments.

b. Explain why the Accumulated Depreciation exceeds the Original Cost of the Plant in Service on Attachment PGS-1.

c. Attachment PGS-2 is titled and described as an estimate of 10-year revenue requirements. Clarify whether PGS-2 is intended for illustrative purposes and explain its relationship to PGS-1.

d. Explain in detail the calculation of the O & M expense savings.

104. Refer to the Application, Volume 5, the Smith Direct Testimony, page 25. Discuss the accounting for the accrual of AFUDC after the replacement is placed in service and explain how this accounting treatment is in accordance with the Uniform System of Accounts prescribed for gas utilities and GAAP.

105. Provide the proposed forms, including the actual formula(s) and supporting schedules that will be used to file for the annual adjustment of the Rider AMRP. Include copies of a set of completed forms reflecting the estimated amounts for the initial Rider AMRP that ULH&P proposes to begin charging in the revenue month beginning April 2002.

106. Refer to the Application, Volume 5, the Direct Testimony of Dr. Roger A. Morin, pages 30-34. In his testimony, Dr. Morin discussed the need to recoup flotation costs in an adjustment to the rate of return on equity ("ROE").

a. Dr. Morin states that investors should be compensated for flotation costs on an ongoing basis rather than by expensing such costs at the time they are incurred. He also states that the flotation cost adjustment should continue for the entire time that the firm retains the initial funds. Provide the average time a firm would retain the funds received from a stock issuance.

b. Explain whether the fund retention could easily be tracked.

c. In ULH&P's case, explain whether ULH&P or an affiliate incurs the flotation costs.

d. Explain how funds received from equity issuances are allocated or disbursed between ULH&P and its affiliates.

e. Explain whether the flotation costs could be allocated in a like manner.

f. A ROE award provides an opportunity, not a guarantee, to earn that return. Explain whether a company's having earned more than its allowed return during a certain period would result in the company's recouping a portion of its flotation costs.

g. Explain whether the recovery of "vintage" flotation costs violates the principle that ratepayers should only pay for what it costs to serve them.

107. Refer to the Application, Volume 5, the Morin Direct Testimony, page 35. Dr. Morin refers to the risk involved with the recovery of $3 million in damages incurred due to the bursting of a water pipe in the city of Newport, an incident which caused the flooding of ULH&P's distribution system. ULH&P has stated that it will not request recovery of these expenses from ratepayers.

a. Explain in detail whether ULH&P expects to recover these costs, in full or in part, from any other source(s).

b. If yes, identify the source(s). If no, explain why there is no expectation of recovery from the city of Newport, its insurers, or ULH&P's insurers.

c. If yes, explain whether this expectation of recovery would reduce ULH&P's risk.

108. Refer to the Application, Volume 5, the Morin Direct Testimony, page 36.

a. Explain why the combination of CG&E and Public Service Indiana lowered the ROE recommendation.

b. Explain why the combination affects the recommendation by 25 basis points. Supply any workpapers or documentation to support the 25 points.

109. Provide a detailed description of ULH&P's historical use of equity issuances since 1990.

110. Describe ULH&P's typical method of financing large construction projects. Describe the process including, but not limited to, the following:

a. The factors that influence the type of financing, i.e. – debt versus equity or short-term versus long-term.

b. The timing of financing issuances relative to the actual construction and the timing of conversions, i.e. – from short-term to long-term or from debt to equity.

111. Refer to the Application, Volume 5, the Morin Direct Testimony, page 19. Dr. Morin states that the expected return on the aggregate equity market of 5,000 stocks ranges from 7.5 percent to 16.9 percent with a midpoint of 12.2 percent.

a. Provide the median and simple average of returns over the range of 5,000 stocks.

b. Explain why it would not be appropriate to use the median, a simple average, or a weighted average of the returns for the stocks over the range.

112. Refer to the Application, Volume 5, the Morin Direct Testimony, page 20.

a. Provide documentation that supports the statement that the CAPM produces a downward bias estimate of equity cost for companies with a beta of less than 1.00.

b. Document and explain the basis for the weights used in the ECAPM equation on line 22.

c. Explain whether or not other weights are commonly used and accepted in this equation.

113. Refer to the Application, Volume 5, the Morin Direct Testimony, page 21, lines 10-12.

a. Dr. Morin states that the reason for performing the risk premium study on an industry composite rather than on individual company data is to mitigate the possible vagaries of individual company results. Explain in detail the rationale that supports this statement.

b. In rate cases it is not an uncommon argument that a company that is in play due to possible mergers or acquisitions, or that may derive a significant portion of its revenue from unregulated or other utility industry sources should not be included in a proxy company sample. By using an industry composite index, Dr. Morin implicitly includes all individual company vagaries. Explain why it is not better to use a smaller sample and eliminate companies that are impacted by some of the factors cited above.

114. Refer to the Application, Volume 5, the Morin Direct Testimony, page 21, lines 19-21. Provide the average risk premium over Treasury bonds for the average gas distributor without a flotation cost adjustment.

115. Provide a copy of the Value Line company profile sheets for each of the gas companies that make up the utility industry index, and that were used by Dr. Morin for the calculations contained in his testimony.

116. Refer to the Application, Volume 5, the Morin Direct Testimony, Exhibit RAM-2, page 6 of 6, column 6. The results in Column 6 do not seem to be calculated using the formula contained in the notes at the bottom of the page. Explain whether column 4 should be used in the calculation, rather than column 5.

117. Refer to the Application, Volume 5, the Morin Direct Testimony, Section 3 - Historical Risk Premium Estimates, page 22.

a. Explain whether or not the risk premium calculation includes an adjustment for flotation costs.

b. Describe the relative benefits of the method used in Section 3, which uses annual time series data going back to 1955, compared to the method used in Section 2, which includes monthly data for the past 15 years. In addition, explain why a method that uses monthly data going back to 1955 would not be preferable to either of these two methods.

118. Refer to the Application, Volume 5, the Morin Direct Testimony, Section 4 - Allowed Risk Premium, pages 22-24. Identify any state commissions that have endorsed the use of risk premium analysis based on allowed returns. Provide copies of the relevant commission orders.

119. Refer to the Application, Volume 5, the Morin Direct Testimony, pages 26 and 29.

a. Explain why it is reasonable to use electric utilities predominately involved in electric distribution as proxy companies for gas distribution companies.

b. Provide documentation from other state commissions that have accepted electric companies as specific proxies for gas distribution companies.

120. Refer to the Application, Volume 5, the Morin Direct Testimony, pages 27-28. Explain why there is such a large disparity between the IBES and Value Line estimates of the average long-term earnings growth forecasts.

121. Provide a copy of the Value Line company profile sheets for each of the electric distribution companies used by Dr. Morin for his calculations.

122. Provide copies of orders from the Ohio or Indiana commissions that document the acceptance, by either state commission, of the use of a flotation cost adjustment in ROE calculations in either an electric or gas utility rate proceeding since 1990.

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cc: All Parties