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

THIRD 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 September 20, 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. In the Commission's May 13, 1994 Order in Case No. 94-104,[1] ULH&P was required to provide certain reports to the Commission on an annual, periodic, or other basis. These reports included:

[1] Case No. 94-104, Application of The Cincinnati Gas and Electric Company and Cinergy Corp. for Approval of the Acquisition of Control of The Union Light, Heat and Power Company by Cinergy Corp.

- The annual financial statements of Cinergy Corp. (“Cinergy”) including consolidating adjustments of Cinergy and its subsidiaries.
- The financial statements for the non-consolidated subsidiaries of Cinergy.
- Quarterly filing of a report detailing ULH&P’s proportionate share of Cinergy’s and The Cincinnati Gas and Electric Company’s (“CG&E”) total operating revenues, operating and maintenance expenses, and number of employees.
- An annual report containing a general description of the nature of intercompany transactions with specific identification of major transactions, and a description of the basis upon which cost allocations and transfer pricing have been established.
- An annual report that identifies professional personnel transferred from ULH&P to Cinergy or any of the non-utility subsidiaries and describes the duties performed by each employee while employed by ULH&P and to be performed subsequent to transfer.
- The filing of any contracts or other agreements concerning the transfer of utility assets and investments or the pricing of intercompany transactions at the time of transfer.
- A quarterly report of the number of employees of Cinergy and each subsidiary on the basis of payroll assignment.
- An annual report containing the years of service at ULH&P and the salaries of professional employees transferred from ULH&P to Cinergy or its subsidiaries.

- An annual report of cost allocation factors in use, supplemented upon significant change.

- Summaries of any cost allocation studies when conducted and the basis for the methods used to determine the cost allocation in effect.

- An annual report of the methods used to update or revise the cost allocation factors in use, supplemented upon significant change.

- The current Articles of Incorporation and Bylaws of affiliated companies in businesses related to the electric or gas industry or that would be doing business with ULH&P.

- The current Articles of Incorporation of affiliated companies involved in non-related business.

The Commission also indicated that if the requested information had been filed with the Securities and Exchange Commission ("SEC"), copies of the SEC filings could be submitted.[2] Indicate whether ULH&P has been filing these reports and information in compliance with the May 13, 1994 Order. If the filings have not been routinely made, explain in detail why ULH&P has not been providing the reports and information and indicate how it proposes to come into compliance with these reporting requirements.

2. Provide a schedule showing for the test year all goods and services ULH&P either acquired from or provided to affiliated companies of Cinergy. Individual transactions or multiple transactions with the same affiliate of $1,000 or more should be shown on this schedule. The schedule should describe the goods or services acquired or provided, the providing company, the acquiring company, the date of the transaction,

[2] Case No. 94-104, May 13, 1994 Order, at 19-22.

the total dollar amount of the transaction, and the valuation basis of the transaction (cost or market). The routine cost allocations from Cinergy Services, Inc. ("Cinergy Services") are to be excluded from this schedule.

3. Provide the following ULH&P customer data as of test-year end and as of July 31, 2001:

a. The number of Kentucky jurisdictional electric only customers.

b. The number of Kentucky jurisdictional gas only customers.

c. The number of Kentucky jurisdictional combined electric and gas customers.

d. The number of other jurisdictional customers, either electric, gas, or combined.

4. Refer to the response to the Attorney General's ("AG") 1st Data Request dated July 10, 2001, Item 3. Was ULH&P aware that in the Louisville Gas and Electric Company's last rate case, Case No. 2000-080,[3] the Commission included accumulated deferred income tax balances associated with Statement of Financial Accounting Standard No. 109 in the determination of the gas operations rate base?

5. Refer to the response to the AG's 1st Data Request dated July 10, 2001, Item 64.

a. Did ULH&P, CG&E, or Cinergy have the Key Employee Annual Incentive Plan ("KEAIP") during the test year?

[3] Case No. 2000-080, The Application of Louisville Gas and Electric Company to Adjust Its Gas Rates and to Increase Its Charges for Disconnecting Service, Reconnecting Service and Returned Checks.

b. If yes to part (a), explain how the expenses associated with that KEAIP were recorded and on what affiliates' books were the entries made.

c. If no to part (a), identify what compensation offerings have replaced the KEAIP. To the extent those programs have not been discussed in this record, provide a complete description of each program.

6. Refer to the response to the AG's 1st Data Request dated July 10, 2001, Items 88 and 124. In Item 88, ULH&P indicates that it will recommend and provide a more recent capital structure prior to the public hearing. In Item 124, ULH&P indicates that its rate of return witness will update his rate of return recommendation one to two weeks prior to the hearing. ULH&P has filed a historic test year in this proceeding.

a. If ULH&P plans on updating its capital structure and rate of return recommendation, does it also plan on revising its requested increase in revenues? Explain the response.

b. As ULH&P has filed a historic test year case, rather than a forecasted test year, explain why ULH&P believes it is appropriate to update its capital structure and rate of return recommendation without a corresponding update to the revenues and expenses.

7. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 2. Explain why ULH&P provided a draft of the cost allocation manual ("CAM") instead of the final version. Provide the final version of the CAM, if different from the draft version.

8. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 5.

a. Explain why the percentage of the Cinergy Board of Directors' Fees allocated to ULH&P's gas operations has been increasing every year.

b. For the four executive officers shown on page 2 of the response, explain why the percentage allocated to ULH&P's gas operations decreased for the first three (i.e., Chairman of the Board; Chairman, President, and CEO; Group President), but increased for the Executive VP/Chief of Staff.

9. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 8.

a. In the responses to Item 8(c) and 8(f), ULH&P states that its Notes Payable to Associated Companies and Accounts Receivables that have been sold were not allocated between gas and electric operations when reported in the Federal Energy Regulatory Commission's ("FERC") Form No. 2 Annual Report. As FERC Form No. 2 reports gas operations only, has ULH&P received a waiver or other deviation allowing it to report these items on a total basis, rather than gas operations only? If yes, provide documentation of this waiver or deviation. If no, explain why ULH&P is not required to present gas operations only on its FERC Form No. 2.

b. In the response to Item 8(e), ULH&P provided its accounts receivable sales agreement. Provide a summary narrative that describes the process ULH&P goes through each time its accounts receivables are sold under this program.

10. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 9. For each of the plant classifications listed below, explain the reason(s) for the change between the current and proposed depreciation rates.

a. Account No. 2910 – Office Furniture & Equipment.

b. Account No. 2980 – Miscellaneous Equipment.

c. Account No. 1911 – Electronic Data Processing Equipment.

d. Account No. 1930 – Stores Equipment.

e. Account No. 1980 – Miscellaneous Equipment.

11. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 10.

a. Explain in detail why ULH&P does not prepare separate balance sheets for its gas and electric operations.

b. Explain in detail how ULH&P can determine the regulated returns for its gas and electric operations without the separation of its combined balance sheet into gas and electric operations.

c. In the response to Item 10(c), ULH&P has provided "hypothetical" balance sheets for its gas, electric, and non-jurisdiction operations. The allocations to the various balance sheets are based on factors provided throughout this record. Given this fact, why aren't the provided balance sheets the actual gas and electric balance sheets, rather than hypothetical? Explain the response.

12. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 11(e)(4).

a. Is it a correct reading of this response that each year's Administrative and General capitalization study ("A&G study") is used to adjust the current year to actual experience as well as establish the next year's allocation between capitalized and expensed costs? Explain the response.

b. Is it correct that the test year reflects the 1999 A&G study results?

c. Provide a comparison of the 1999 A&G study results with the 2000 A&G study results.

d. If there are differences between the two study results, identify the affected expense accounts and the amount of the difference.

e. If there were differences between the 1999 A&G study results and the 2000 A&G study results, would ULH&P agree that an adjustment should be made to the affected expenses to reflect the 2000 A&G study? Explain the response.

13. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 12.

a. Provide copies of the ruling, regulation, or other documentation from the Kentucky Revenue Cabinet that permitted the Cinergy companies to file a consolidated Kentucky Corporate Income Tax Return.

b. Have the Cinergy companies filed a consolidated Kentucky Corporate Income Tax Return for the 2000 tax year? If no, explain why not.

c. Provide ULH&P's effective Kentucky income tax rate for the 2000 tax year. If the information is not available, does ULH&P expect that its effective Kentucky income tax rate will be 5.15 percent for the 2000 tax year?

d. Throughout its application, ULH&P has used both the 5.15 percent effective tax rate and the stated 8.25 percent tax rate.

(1) Does ULH&P agree that only one income tax rate should be consistently used in this rate case? Explain the response.

(2) If ULH&P agrees that only one tax rate should be used, indicate which tax rate should be used for rate-making purposes. Explain the response.

14. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 13.

a. Provide the CG&E/ULH&P Agreement for use of ULH&P's Erlanger Propane Plant. Specifically, provide the section of the agreement establishing the 65 percent-35 percent split.

b. Provide the CG&E/ULH&P Transportation and Reimbursement Agreement. Specifically, provide the section of the agreement establishing the 56.50 percent-43.50 percent split.

15. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 15(a). ULH&P was asked to describe the types of meters being leased from Fleet Capital. Although the lease documentation was provided, there are no descriptions included of the types of meters being leased. Provide the originally requested information. In addition, indicate how many of the 6,821 meters recorded on attachment page 4 of 25 went to ULH&P.

16. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 22.

a. Concerning ULH&P's creation of deferred assets for the Merger Costs to Achieve Savings, the Merger Transaction Costs, and the Merger Costs to Achieve Savings – (1994 VERP), did ULH&P seek Commission authorization prior to creating these deferred assets? Explain the response.

b. Was ULH&P aware that in Case No. 2000-120[4] the Commission informed the Kentucky-American Water Company that it would have to formally apply for Commission approval before accruing an expense as a regulatory asset, regardless of the rate-making treatment that the Commission had afforded such expense in previous rate case proceedings?

c. Refer to the response to Item 22(a)(3). Explain why ULH&P's gas operations were allocated approximately 61.78 percent of the Merger Costs to Achieve Savings.

d. For the costs identified in Item 22(a) through 22(d), were there any costs associated with KEAIP? If yes, indicate the total amount and the portion allocated to ULH&P's gas operations.

e. Does ULH&P expect that the benefits from the costs identified in Item 22(a) through 22(d) will only last for 3 years? Explain the response.

f. Explain in detail why the expected timing of ULH&P's next gas rate case is a reasonable basis to determine the amortization period.

g. Provide citations to any proceeding before this Commission in the last 10 years where the unamortized balance of deferred assets relating to merger costs or workforce reductions was included in the determination of the utility's rate base.

h. Refer to the response to Item 22(e). ULH&P was requested to explain in detail the reason(s) for this adjustment, discuss why this adjustment should be made to the rate base, and indicate whether this Commission has previously made

[4] Case No. 2000-120, Application of Kentucky-American Water Company to Increase Its Rates, final Order dated November 27, 2000, at 23-24.

such an adjustment. ULH&P's response to the AG's 1st Data Request dated July 10, 2001, Item 13, does not contain any of the requested information. Provide the information originally requested.

17. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 26. Describe the information provided on the following attachment pages to the response.

a. Attachment to 26(e)(1), page 112 of 112.

b. Attachment to 26(e)(2), page 5 of 5.

c. Attachment to 26(e)(3), page 11 of 11.

d. Attachment to 26(e)(4), page 5 of 5.

e. Attachment to 26(e)(5), page 7 of 7.

f. Attachment to 26(e)(6), page 2 of 2.

18. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 32.

a. Are the Accounts Receivable sale fees an interest expense? Explain the response.

b. Explain the reasoning behind ULH&P's statement "Since this [sale fees] is included in the Company's capitalization, it should be included in the interest synchronization calculation."

c. Provide copies of the information issued by FERC that ULH&P is referencing in this response.

19. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 34. Explain why these dues were allocated to gas operations.

Include in the explanation the benefits that ULH&P's gas operations receive from an Edison Electric Institute membership.

20. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 35(a)(3). The information provided did not clearly distinguish whether the costs of the Limited Early Retirement Program reflect an immediate cash outlay by ULH&P or require outlays over a number of years. Provide the originally requested information.

21. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 38(b)(1). ULH&P was asked to provide a description of each transaction shown on WPD-2.23c that explained the nature of the expense. ULH&P replied that the description of each transaction could be found on Schedule C-2.2. Schedule C-2.2 is a listing of FERC revenue and expense accounts, which contain no explanations of the transactions. Provide the originally requested information.

22. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 42. Explain why the expenses related to the Cinergy-East Company picnic should be included for rate-making purposes.

23. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 43.

a. Identify the FERC Uniform System of Account ("USoA") number used by ULH&P to record Marketing Operations – Gas.

b. Refer to Attachment to Item 43(a)(2).

(1) Describe what goods or services were provided by People Working Cooperatively.

(2) Describe what goods or services were provided by Northern Kentucky.

(3) Explain the entry on page 3 of 3 where vendor "N/A" shows a transaction amount of $55,544. Identify the vendor(s) and describe the goods and services provided.

c. Are the costs allocated from Cinergy Services for Marketing Operations – Gas essentially promotional in nature? Explain the response.

d. For each of the following vendors listed below, provide a description of the goods or services provided. All the following vendors appear in the Attachment to Item 43(a)(3).

(1) Experian, page 8 of 25.

(2) Greater Cincinnati, page 10 of 25.

(3) MRSI, page 17 of 25.

(4) Partnership for Greater Cincinnati, page 18 of 25.

(5) SAIC, page 20 of 25.

24. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 44. Explain why the expenses shown on Line 8, Community Relations, should be included for rate-making purposes.

25. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 46(c). Explain how ULH&P estimated the cost of the consultants if there were no estimates of hours worked, no hourly rates available, and no other form of payment yet agreed upon by the parties.

26. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 48. Concerning the inclusion of capital leases in ULH&P's long-term and short-term debt, identify any precedents supporting the inclusion, from either this Commission or from other state regulatory commissions.

27. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 49. Describe any changes ULH&P and CG&E have made concerning the utilization of their propane inventory and storage facilities.

28. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 55. For each of the accounts listed below, explain why the account balance changed between September 30, 2000 and September 30, 1999.

a. Account No. 487 – Late Payment Charge, page 13 of 18.

b. Account No. 495 – Other Gas Revenues, page 13 of 18.

c. Account No. 404 – Amortization General Gas Plant, page 14 of 18.

d. Account No. 410 – Income Taxes – Deferrals, page 14 of 18.

e. Account No. 411 – Income Taxes – Writebacks, page 14 of 18.

f. Account No. 717 – Liquid Petroleum Gas Expense, page 14 of 18.

g. Account No. 728 – Liquid Petroleum Gas, page 14 of 18.

h. Account No. 735 – Gas Miscellaneous Production Expense, page 14 of 18.

i. Account No. 801 – Natural Gas Field Line Purchase, page 15 of 18.

j. Account No. 806 – Exchange Gas, page 15 of 18.

k. Account No. 870 – Distribution Supervision & Engineering, page 15 of 18.

l. Account No. 875 – Measuring & Regulation Stations – General, page 15 of 18.

m. Account No. 876 – Measuring & Regulation Stations – Ind., page 15 of 18.

n. Account No. 878 – Meter and House Regulators, page 16 of 18.

o. Account No. 880 – Gas Distribution Other Expense, page 16 of 18.

p. Account No. 885 – Maintenance – Supervision & Engineering, page 16 of 18.

q. Account No. 887 – Maintenance of Mains, page 16 of 18.

r. Account No. 892 – Maintenance of Services, page 16 of 18.

s. Account No. 894 – Maintenance – Other Distribution Equipment, page 16 of 18.

t. Account No. 901 – Supervision Customer Billing & Collection, page 17 of 18.

u. Account No. 904 – Customer Accounting Uncollectible Accounts Provision, page 17 of 18.

v. Account No. 907 – Marketing Customer Assistance, page 17 of 18.

w. Account No. 908 – Customer Assistance, page 17 of 18.

x. Account No. 909 – Community Affairs, page 17 of 18.

y. Account No. 911 – Marketing Operations, page 17 of 18.

z. Account No. 921 – Administrative & General Office Supplies & Expenses, page 18 of 18.

aa. Account No. 923 – Special Services, page 18 of 18 bb. Account No. 924 – Property Insurance, page 18 of 18.

cc. Account No. 925 – Injuries & Damages, page 18 of 18.

dd. Account No. 928 – State Regulatory Commission Proceedings, page 18 of 18.

ee. Account No. 930 – Miscellaneous General Expense, page 18 of 18.

29. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 56. Explain why the expenses associated with the Midwest Energy Association should be included for rate-making purposes.

30. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 57. For each of the vendors listed below, provide a detailed explanation as to how these expenses are related to ULH&P's Kentucky jurisdictional gas operations.

a. Item q. – Electric Power Research Institute.

b. Item s. – Four Seasons Country Club.

c. Item w. – Hoosier Safety Council.

d. Item y. – Indiana Energy Conference.

e. Item nn. – Repeal PUHCA Now Coalition.

f. Item pp. – State of Ohio Treasurer.

31. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Items 62 and 63.

a. Have the results of the two most recent actuarial studies been reflected in ULH&P's proposed expense adjustments?

b. If yes to part (a), provide a schedule showing how the results of each study have been translated into proposed expense adjustments.

c. If no to part (a), explain why ULH&P did not reflect the latest actuarial studies in this rate case.

32. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 64.

a. For each of the vendors listed below, provide a schedule tracing the amount of the total invoice for the vendor to the net cost shown on pages 1 through 5 of 69 in the response to Item 64(d).

(1) Asplundh Construction Corp. ("Asplundh"), pages 9, 18, 20, 22, and 24 of 69.

(2) The Brewer Company, pages 14, 16, 64, 66, and 68 of 69.

(3) Cooperheat – MQS, Inc., pages 28, 36, 38, and 48 of 69.

(4) S. K. J. Construction, Inc. ("SKJ"), pages 50, 52, 54, 56, 58, 60, and 62 of 69.

b. The job locations listed on the invoices from Asplundh and SKJ do not appear to be related to the location of the Lafarge Corporation ("Lafarge") project. Identify any invoices pertaining to job work not associated with the Lafarge project, and explain why any cost from those invoices was included in the amount booked for the Lafarge project.

c. Refer to the response to Item 64(f), page 1 of 1.

(1) Explain how Vestar/Cinergy Business Solutions ("CBS") was able to make $101,788 in conjunction with the Lafarge project.

(2) Explain why $534,440 in expenses were transferred from Vestar/CBS to Cinergy Solutions/EPCOM.

(3) Explain how Cinergy Solutions/EPCOM was able to make $71,540 in conjunction with the Lafarge project.

d. The accounting entries provided in the response to Item 64(c) did not include the recording of the $498,001 into specific utility plant in service accounts. Provide these additional accounting entries.

33. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 64.

a. The response to Item 64(a) states the original purchase order between Lafarge and CBS was for an 8-inch pipeline. What was the originally estimated cost of the total project and the amount that would have been recorded by ULH&P?

b. What was the size of the pipeline as actually built? If the size was greater that the originally planned 8 inch, explain in detail why the pipeline was enlarged.

c. If the pipeline as built was different from the original 8 inch, indicate the parties responsible for the financing and for the construction of the difference.

d. In Case No. 2000-039,[5] there is documentation of modifications to the pipeline project relating to requirements of Trigen-Cinergy. Describe the interest that Trigen-Cinergy had in the pipeline project.

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

e. Did ULH&P incur any additional construction costs for the pipeline due to the requirements of Trigen-Cinergy? Explain the response.

f. Provide copies of all contracts, agreements, letters of understanding, and other documentation between ULH&P, Lafarge, CBS, Cinergy, and any other Cinergy affiliate related to the construction and ownership of the Lafarge pipeline.

g. Does the $498,001 recorded by ULH&P for the Lafarge project in service represent 50 percent of the total cost of the pipeline? If not, provide the percentage of the total project cost reflected by the $498,001 and explain why ULH&P has booked an investment reflecting an amount different from its ownership share.

34. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 90. The responses to the following questions should be based on the requirements contained within the FERC USoA, and should not assume what regulatory treatment the Commission may permit.

a. Does the FERC USoA permit a utility to continue accruing Allowance for Funds Used During Construction ("AFUDC") after the asset under construction has been placed in service? If yes, provide copies of the applicable sections of the FERC USoA.

b. Does the FERC USoA permit a utility to defer depreciation expense on an asset once it has been placed in service? If yes, provide copies of the applicable sections of the FERC USoA.

35. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 92(a). In this response, ULH&P has stated, "The 30 days that the

Company suggested for Staff's review took into consideration that the projects that will be completed were previously approved as a part of the prior year review process, and were constructed through a competitive bid process."

a. Indicate where in ULH&P's proposal is the provision for Staff or Commission review and approval of the line replacement projects.

b. Explain what ULH&P means by the reference to "prior year review process."

36. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 93(a). On pages 29 and 30 of 35 in this response, the stipulation in the Atlanta Gas Light Company ("Atlanta Gas") case included in its definition of capital costs "net plant additions and improvements less the accumulated depreciation on the net property additions, accumulated deferred income taxes, and any other items normally associated with the rate base calculation as determined by the Commission in the Company's last revenue requirement determination." ULH&P has proposed to include the original cost of the plant in service minus accumulated depreciation.

a. Explain in detail why ULH&P did not use an approach similar to that used in the Atlanta Gas stipulation.

b. Would ULH&P agree that, at a minimum, the calculation of its return on investment included in the Rider Accelerated Main Replacement Program ("AMRP") should include accumulated deferred income taxes associated with both the replaced and new lines? Explain the response.

37. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 96. When considering alternatives to filing pancaked rate cases due

to the financial pressures resulting from the AMRP, did ULH&P give any consideration to filing forecasted test period rate cases? Explain the response.

38. ULH&P has proposed that the Rider AMRP be determined annually, and that it be allowed to continue accruing AFUDC on completed construction and defer depreciation on new completed construction until Rider AMRP is reset. As an alternative, would it be reasonable to reset Rider AMRP every 6 months and not have the AFUDC accrual or depreciation deferral as proposed by ULH&P? Explain the response.

39. Refer to the response to the Commission Staff's 2^{nd} Data Request dated July 10, 2001, Item 65(c). Explain the rationale for providing electric generator customers a choice of tariffs.

40. Refer to the response to the Commission Staff's 2^{nd} Data Request dated July 10, 2001, Item 103(d), page 3. Provide a comparison between calculating the O & M expense savings for the AMRP rider using the test period amounts and using the previous year's expense level.

41. Refer to the response to the Commission Staff's Second 2^{nd} Data Request dated July 10, 2001, Item 71.

a. The response questions what conclusions may be drawn from the information provided since it reflects only the revenue changes that would occur as a result of normalizing sales volumes in a manner different than that proposed by ULH&P. The response refers to changes to both revenue requirements and cost of service. Identify the non-gas expense items and volume-driven revenue items that would be impacted by changing test period volumes and explain specifically how the changes in volumes would likely impact each item.

b. Certain costs are allocated in ULH&P's cost of service based on sales volumes, either in total or in part. Identify the non-gas costs for which the allocation would be impacted by changing test period volumes and explain specifically how the changes in volumes would likely impact each of those costs.

42. Refer to the response to the Commission Staff's Second 2nd Data Request dated July 10, 2001, Item 74.

a. Certain portions of ULH&P's demand-side management ("DSM") revenues are based on actual expenditures. However, the decoupler calculation is not based on expenditures and is intended to offset revenue reductions resulting from implementing DSM programs. Given this intent, these revenues may be considered a substitute revenue stream in lieu of the base rate revenues that would have been realized absent the DSM programs. Because of this, and given that customers being charged the DSM surcharges are also being charged ULH&P's base rates, explain in detail why the revenues associated with the decoupler should be treated as independent within this rate proceeding.

b. The response indicates the results during the test year, with revenues of $2.6 million and expenses of only $24,000 were nonrecurring. However, the results for the 12 months ended June 30, 2001 reflect revenues of $3.1 million and expenses of only $12,000. Provide a detailed explanation for why the expense levels in both periods are substantially less than the amounts budgeted for DSM by ULH&P and its DSM collaborative.

c. Provide a breakdown, by revenue component, including decoupler-related revenues, reconciliation revenues, and actual DSM cost recovery revenues, of ULH&P's gas DSM revenues for calendar years 1997, 1998, 1999, and 2000 and the test year.

d. Provide a monthly breakdown, by revenue component, including decoupler-related revenues, reconciliation revenues, and actual DSM cost recovery revenues, of ULH&P's gas DSM revenues for the test year up through the most current month since the end of the test year. This should be considered a continuing request in order to update this information for each subsequent month for which the information becomes available prior to the scheduled hearing in this case.

43. Refer to the response to the Commission Staff's Second 2nd Data Request dated July 10, 2001, Item 78.

a. The second paragraph of the response indicates ULH&P is viewing a Weather Normalization Adjustment ("WNA"), or weather tracker, strictly in the context of the impact it would have on the company if weather is milder as, on average, it was during the period 1990 through 1999, which it proposes be used to normalize its sales volumes. Explain whether ULH&P has overlooked the impact a WNA can have on customers' bills during more severe heating seasons such as that experienced this past winter and that such impact is an equally important consideration in the evaluation of whether to implement a WNA.

b. The response indicates that approval of the 1990 through 1999 weather results for normalization purposes will make a weather tracker less of an issue than if the 1961 through 1990 weather results are used. Explain whether this response means that ULH&P would favor implementation of a WNA in the event the 1990 through 1999 weather results are not approved for normalization purposes.

44. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Items 115 and 121. Since the Commission has a subscription to *Value Line*, provide the exact citations in *Value Line* for the information originally requested by Staff.

45. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 109. ULH&P's last equity issue, in 1992, was used for both gas and electric operations. Explain whether or not ULH&P's current electric return on equity ("ROE") includes an adjustment for flotation costs.

46. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 122. In that response, Dr. Morin supplied a copy of an order issued by the Ohio Public Utility Commission. That order discusses Dr. Morin's concern about CG&E's capital structure and its effect on ROE. Explain how Dr. Morin views ULH&P's capital structure and whether or not it affected his ROE recommendation.

47. Explain how ULH&P's capital structure compares with the gas companies used in the analysis.

48. The Commission recently approved a pilot hedging program for ULH&P for its winter gas purchases. Explain the impact, if any, on ULH&P's ROE.

49. The Commission has also recently issued its order in Administrative Case No. 384[6] which allowed local distribution companies ("LDC"), among other things, to request recovery of carrying charges for gas cost under-recoveries. Explain the impact, if any, on ULH&P's ROE.

50. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 119. Dr. Morin responded to this item by referring to his response to the AG's 1st Data Request dated July 10, 2001, Item 118(a). The AG had requested information on the comparability between the natural gas industry and the electric industry. Dr. Morin states that natural gas distribution companies are similar to electric utilities because, among other reasons,

> The gas industry is far ahead on the road to restructuring, and hence its market data is more representative of the market data likely to prevail in the future for the restructured electric utility industry. The natural gas industry market data are more reliable and stable than those of the electric utility industry.

a. Would Dr. Morin agree that the gas industry is more stable than the electric industry?

b. That response also indicates that the P/E ratio and the average common equity ratio for generation divestiture electric utilities suggested a stronger capital structure for gas companies and a superior market valuation for gas companies. Explain how the more stable and stronger companies in the gas industry as opposed to

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[6] Administrative Case No. 384, An Investigation of Increasing Wholesale Natural Gas Prices and the Impact of Such Increases on the Retail Customers Served by Kentucky Jurisdictional Natural Gas Distribution Companies, final Order dated July 17, 2001.

the electric industry support the use of electric market data in determining ULH&P's gas ROE.

c. Another difference between the gas industry and the electric is a gas LDC's ability to store its commodity. Explain whether this ability would have any effect on a gas company's riskiness.

51. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Items 106 and 109. The response for Item 109 was unresponsive.

a. Provide a detailed list of all equity issuances made by Cinergy (the parent holding company) in the last 10 years, the date of each issuance, the purpose(s) of each issuance, which corporate entities received capital from each issuance (making a distinction between gas and electric operations where possible), whether each entity is regulated or not and by whom, each type of cost (flotation or otherwise) incurred for each issuance, and how these costs were actually allocated to each corporate entity, regulated or not, at the time of issuance.

b. Has ULH&P's parent ever issued equity for which ULH&P's gas operations did not receive any of the capital proceeds? Explain. If yes, then can it be demonstrated that ULH&P was never allocated any of the costs of such an equity issuance? Explain.

c. If not already answered above, in those instances where ULH&P received capital from an equity issuance, explain for each instance whether its gas or its electric operations received the capital proceeds.

52. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 107.

a. Since ULH&P is not going to request recovery of expenses associated with the Newport, Kentucky flooding from ratepayers, doesn't that imply that shareholders are willing to take on the additional burden of recovering those expenses from whatever other sources are available, i.e. insurance, city of Newport, etc.? Explain.

b. If the situation begins to look like ULH&P will be unable to recover its flood-related expenses, does it plan to then come back to the Commission to seek relief?

53. Refer to the response to the Commission Staff's 2nd Data Request dated July 10, 2001, Item 120. The response states that "*Value Line* is more bullish on the long-term growth prospects of energy utilities relative to the consensus analysts forecast." Is ULH&P aware of any studies that examine the accuracy of *Value Line's* projections, as compared to what actually occurred? Is *Value Line* bullish on any other projections?

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DATED September 4, 2001

cc: All Parties