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

FIRST DATA REQUEST OF COMMISSION STAFF TO THE ATTORNEY GENERAL

The Attorney General's Office of Rate Intervention ("AG") 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 November 1, 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. Refer to the Direct Testimony of Robert J. Henkes, pages 9 and 10 and Schedule RJH-3.

a. When Mr. Henkes determined The Union Light, Heat and Power Company's ("ULH&P") jurisdictional gas capitalization, is it correct that he started with ULH&P's total company capitalization, added total company Job Development

Investment Tax Credits ("JDIC"), subtracted non-jurisdictional gas and electric operations capitalization, and multiplied the net capitalization amount by the gas rate base allocation percentage?

b. Was Mr. Henkes aware that the approach outlined in the Commission's August 31, 1993 Order in Case No. 92-346[1] started with ULH&P's total company capitalization, subtracted non-jurisdictional gas and electric operations capitalization, multiplied the net capitalization amount by the gas rate base allocation percentage, and then added the JDIC applicable to gas operations?

2. Refer to the Henkes Direct Testimony, pages 23 through 30 and Schedule RJH-4.

a. Concerning the exclusion from the gas jurisdictional rate base of the merger-related cost deferrals, is Mr. Henkes arguing that these items should be included in ULH&P's electric jurisdictional rate base? Explain the response.

b. If it is inappropriate for the merger-related cost deferrals to be included in the determination of either the electric or gas jurisdictional rate base, explain in detail why it is appropriate to include these items in the total company jurisdictional rate base when determining the rate base allocation ratio.

c. Would Mr. Henkes agree that if the merger-related cost deferrals were deducted from the electric jurisdictional rate base shown on Schedule RJH-4, the rate base would equal $147,351,324 and the resulting gas rate base allocation ratio would become 42.513 percent?

[1] Case No. 92-346, The Application of The Union Light, Heat and Power Company for An Adjustment of Rates, rehearing Order dated August 31, 1993, at 4-5.

d. If Mr. Henkes agrees with the statement in part (c) above, explain how he reached the conclusion stated in his direct testimony on page 25, lines 18 through 20.

e. Concerning prepayments, explain why Mr. Henkes removed the gas portion of the PSC Assessment from his calculations of rate base but retained the electric portion of the PSC Assessment.

f. Would Mr. Henkes agree that the PSC Assessment should be excluded from the prepayments included in the determination of both the electric and gas jurisdictional rate bases?

g. Was Mr. Henkes aware that in previous cases, the Commission determined the gas rate base allocation ratio using the test-year-end actual balances for gas and total company operations, excluding items like the PSC Assessment which were inappropriate for inclusion in either rate base determination?

h. Refer to Schedule RJH-4, line 8(e). Did Mr. Henkes conduct any examination to determine that the annualized depreciation for ULH&P's electric jurisdictional operations results in a reduction of $481,242? If yes, provide the supporting workpapers, calculations, and assumptions used in the examination.

3. Refer to the Henkes Direct Testimony, page 33. Mr. Henkes states that ULH&P used a different weather normalization method than it has traditionally used in its prior rate cases. Explain whether Mr. Henkes relied solely on ULH&P's past rate cases in making his recommendation for the weather normalization adjustment or if he reviewed cases involving other gas utilities under the Commission's jurisdiction.

4. Refer to the Henkes Direct Testimony and Schedule RJH-10.

a. State whether Mr. Henkes agrees that, subject to rounding, the revenue increase of $1,995,540 on line 1, Schedule RJH-10, is equal to, and represents the same increase as the $1,995,536 difference derived from ULH&P's Responses to Commission Staff's 2nd Data Request dated July 10, 2001, Item 71, page 1 of 46, when the base rate revenue of $31,789,968 shown under <u>Total Actual Volumes With Adjustments</u> is subtracted from the base rate revenues of $33,785,504 shown under <u>30 Year Normal Volumes (1961-1990) - With Adjustments</u>.

b. If Mr. Henkes agrees that the above-referenced increases reflect the same calculation, state whether he also agrees that the revenue increase based on <u>30 Year Normal Volumes (1970-1999) With Adjustments</u>, as shown in that same ULH&P response, would be $1,749,843 ($3,539,811 less $31,789,968).

5. On pages 32-33 of the Henkes Direct Testimony, he accepts ULH&P's proposed revenue decrease to reflect reduced operations of two industrial customers. However, he also proposes increasing revenues for purposes of the overall adjustment, reflecting two customers, one of which will generate only $6,000 in annual revenue.

a. Explain whether Mr. Henkes would consider further revenue decreases for lost customers or reduced customer usage on the magnitude of $6,000 in his adjustment.

b. State the cut-off point at which Mr. Henkes would cease making adjustments for either revenue increases or decreases as a result of loss of customers or changes in customer usage levels.

6. Refer to the Henkes Direct Testimony, page 36. Concerning the adjustment for the AMRP rider expenses:

a. Did Mr. Henkes review the invoices provided by ULH&P that supported the $320,428 reported as consultant expenses for the AMRP rider?

b. If a review of the consultant expenses was performed, explain how that review resulted in the 50 percent assumption concerning the AMRP rider expenses.

c. If a review was not performed, explain the basis for making the 50 percent assumption.

7. Refer to the Henkes Direct Testimony, page 38. Concerning the overtime labor expense proposal, explain in detail why Mr. Henkes believes the average ratio approach is more appropriate than using a mathematical average of the annual overtime expense data.

8. Refer to the Henkes Direct Testimony, page 43. Concerning the Year 2000 expense adjustment:

a. Would Mr. Henkes agree that ULH&P and its ratepayers should benefit from the software and hardware modifications undertaken during the Year 2000 preparations in years subsequent to the beginning of calendar year 2000? Explain the response.

b. If there are post-calendar Year 2000 benefits from these computer system modifications, explain why it would not be appropriate for rate-making purposes to amortize all Year 2000 expenses, even if the expenses were incurred in years prior to 2000.

c. Is it correct that by including the test-year actual Year 2000 expenses without amortization, Mr. Henkes has included $3,634 annually for an expense that will no longer be incurred by ULH&P? Explain the response.

9. Refer to the Henkes Direct Testimony, Schedules RJH-1 through RJH-19.

a. The revenue conversion factor shown on Schedule RJH-1 uses the PSC Assessment rate in effect at test-year end. Would Mr. Henkes agree that it is appropriate to use the most current PSC Assessment rate when determining the revenue conversion factor? Explain the response.

b. Throughout these schedules, a state income tax rate of 5.15 percent has been used. Explain in detail why Mr. Henkes has used the 5.15 percent rate rather than the stated tax rate of 8.25 percent.

c. Does Mr. Henkes believe that ULH&P's going forward effective state income tax rate will continue to be 5.15 percent? Explain the response.

d. The interest synchronization adjustment shown on Schedule RJH-18 includes an adjustment for the fees related to the sale of accounts receivable. Explain in detail why Mr. Henkes believes these fees, which are recorded on ULH&P's book as a "below the line" item, should be included in the determination of the interest synchronization adjustment.

e. In ULH&P's response to the AG's 2nd Data Request dated August 31, 2001, Item 8(1), ULH&P stated that the accounts receivable sale fees were included in the short-term debt cost rate of 6.80 percent. Assuming ULH&P made the same inclusion when it provided the AG with the updated short-term debt cost rate, would Mr. Henkes agree that his determination of the interest synchronization adjustment on Schedule RJH-18 in effect double counts the accounts receivable sale fees? Explain the response.

10. Refer to the Testimony of Dr. Carl G. K. Weaver, page 8. Dr. Weaver used a 10-year period in determining the risk premium for the bond-risk-premium method.

a. Explain why a 10-year period is appropriate.

b. Explain why it is appropriate to estimate the risk premium on the five selected companies rather than on the market.

11. Refer to the Weaver testimony, page 9. As a result of Dr. Morin's use of Value Line's Investment Survey for Windows and Dr. Weaver's use of the hard copy publication, two companies included by Dr. Weaver in his analysis were not included by Dr. Morin.

a. In Dr. Weaver's opinion, would the inclusion of the additional companies have affected Dr. Morin's results?

b. If yes, provide an estimate of the effect.

12. Refer to the Weaver testimony, pages 26 and 41-2.

a. Explain whether or not the differences between the Value Line and Standard & Poor ("S&P") betas are always so large and the circumstances where it is appropriate to use S&P betas in CAPM calculations.

b. Dr. Weaver states that he uses the Value Line beta because the S&P beta average of .09 appears too unrealistic. Explain the basis for determining that the S&P beta was not realistic.

c. Provide the range using the S&P beta.

13. Refer to the Weaver testimony, page 32. Dr. Weaver states that the purpose of using historical growth rates is to emulate those investors who use the DCF model with a historical growth rate when making buy and sell investment decisions.

a. Describe the type of investor that Dr. Weaver believes uses this type of analysis, i.e. pension fund manager, mutual fund manager, individual investor.

b. Describe the type of investor that Dr. Weaver believes uses the other types of analysis he has proposed.

14. Refer to the Weaver testimony, page 33.

a. Explain whether or not consistent real growth in GDP is needed for a period to be appropriate for developing a historical growth rate.

b. Explain the effect of using a longer term period.

c. Explain the effect of using a time period that includes a period of contraction in the economy.

15. Refer to the Weaver testimony, page 37. Dr. Weaver excludes the Forecasted Value Line EPS growth rate results because he believes that the result lies outside of a realistic range. Explain the basis for determining a realistic range and what the upper boundary of this range would be in ULH&P's case.

16. Refer to the Weaver testimony, page 39-41 and Schedule 29. Dr. Weaver states that he is performing a two-stage DCF calculation, but the explanation and the calculations look more like a three-stage calculation. Explain the difference between Dr. Weaver's two-stage DCF calculations and a three-stage DCF calculation.

17. Refer to the Weaver testimony, page 41.

a. Dr. Weaver explains the types of data used in the CAPM model. Explain why the use of various T-Bill short-term rates is valid in this model.

b. If the response above refers to analysis behavior that might be exhibited by an "average investor," explain the nature and characteristics of the average investor.

c. Perform the calculations using 20 year and 30 year rates. Discuss why rates longer than 10 years should not also be used by an average investor.

18. Refer to Dr. Weaver's Schedule 34. It appears that the one-year risk premiums for Piedmont Natural Gas have not been completed. Complete this Schedule and recalculate Schedule 35. Discuss whether the new results affect any further calculations, conclusions or recommendations.

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DATED October 18, 2001

cc: All Parties