COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY FOR AN ADJUSTMENT OF GAS RATES	)))	CASE NO. 2005-00042

FIRST DATA REQUEST OF COMMISSION STAFF
TO THE ATTORNEY GENERAL

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested herein is due July 6, 2005. 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. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

Questions for Robert J. Henkes

1. Refer to the Direct Testimony of Robert J. Henkes ("Henkes Direct Testimony"), page 10. Given the testimony filed by Dr. J. Randall Woolridge on behalf of the AG, does Mr. Henkes still believe the overall rate of return as shown in his Schedule RJH-2 is preliminary and subject to change? Explain the response.

2. Refer to the Henkes Direct Testimony, pages 13 and 14.

a. Would Mr. Henkes agree that when determining the ratio of the gas jurisdictional rate base to the total company jurisdictional rate base, both rate bases should be determined in a consistent manner? Explain the response.

b. Would Mr. Henkes agree that a "slippage" factor adjustment to the electric jurisdictional rate base for The Union Light, Heat and Power Company ("ULH&P") could be necessary in order for the rate base ratio to be calculated on a comparable basis? Explain the response.

3. Refer to the Henkes Direct Testimony, page 19. Mr. Henkes states he calculated a slippage factor adjustment by applying the mathematic average non-Accelerated Main Replacement Program ("AMRP") slippage factor to the net plant in service growth from the end of the base period to the 13-month average for the forecasted period.

a. Would Mr. Henkes agree that a portion of the net plant in service growth includes plant associated with AMRP? Explain the response.

b. If the net plant in service growth includes plant associated with AMRP, explain why it would be appropriate to apply the non-AMRP slippage factor to determine the slippage factor adjustment.

4. Refer to the Henkes Direct Testimony, page 21. Describe what data Mr. Henkes believes would have to be available in order to calculate the possible impact of the slippage factor adjustment on the depreciation reserve and accumulated deferred income tax ("ADIT") balances.

5. Refer to the Henkes Direct Testimony, page 26. Explain how the response to the Commission Staff's First Data Request dated February 15, 2005, Item 30, confirms that ULH&P does not carry ADIT balances associated with unbilled electric revenues on its books.

6. Refer to the Henkes Direct Testimony, page 32. Concerning Mr. Henkes' proposed weather normalization adjustment,

a. Explain why a recalculation of the adjustment using the heating degree day level of 5,133 wasn't performed.

b. Explain in detail why the proportional calculation proposed by Mr. Henkes is a reasonable means to determine this adjustment.

7. Refer to the Henkes Direct Testimony, page 47. If the schedules filed by ULH&P to reflect the change in the Kentucky income tax rate reflect the use of the "average-rate assumption" method for the protected excess Kentucky deferred income taxes, would any further adjustments to operating income be required? Explain the response.

8. Refer to the Henkes Direct Testimony, Schedule RJH-1, line 6.

a. Was Mr. Henkes aware that the uncollectible accounts component in the gross revenue conversion factor reflects the average discount rate used since

February 2002 in the sale of ULH&P's accounts receivable rather than the percentage of uncollectible accounts?

b. Was Mr. Henkes aware that ULH&P has not recorded an uncollectible accounts expense since February 2002?

c. Does Mr. Henkes agree that the gross revenue conversion factor should reflect the average discount rate associated with the sale of ULH&P's accounts receivable? Explain the response.

9. Refer to the Henkes Direct Testimony, Schedule RJH-5. Explain why Mr. Henkes believes it is appropriate to calculate the slippage factor adjustment on depreciation expense using a composite depreciation rate rather than adjusting the specific plant accounts impacted by the slippage factor.

<u>Questions for Michael J. Majoros, Jr.</u>

10. Refer to the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Direct Testimony"), page 4 of 40 and Exhibit MJM-2.

a. Did Mr. Spanos' depreciation study workpapers show the separation of the proposed depreciation rates into a capital recovery component and a future cost of removal component? Explain the response.

b. If the separation of the depreciation rates shown on Exhibit MJM-2 were the result of Mr. Majoros's calculations, explain in detail the procedure used to determine the separation.

c. Provide all workpapers, assumptions, and other supporting documentation used to determine the amounts shown on Exhibit MJM-2. This information may be submitted in electronic form on a CD ROM.

11. Throughout Mr. Majoros's testimony and exhibits are references to "SCE" and "SCE proposal." Identify SCE and explain why these references are contained in testimony on ULH&P's proposed depreciation rates.

12. Refer to the Majoros Direct Testimony, page 7 of 40. Beginning at line 12 is the statement, "ELG, is very sensitive to the Iowa Curve shape and results in a shorter remaining life calculation, ergo a higher depreciation rate than other alternative procedures which are typically used in Kentucky." Describe these "other alternative procedures" and identify the utilities that have used these procedures for the development of depreciation rates.

13. Refer to the Majoros Direct Testimony, pages 8 and 9 of 40. Since Mr. Majoros is accepting 23 of the 32 depreciation rates proposed by ULH&P, isn't he in effect accepting the equal life group procedure in this case? Explain the response.

14. Refer to the Majoros Direct Testimony, pages 8 through 10 of 40 and Exhibit MJM-5.

a. In pages 8 through 10 of 40, Mr. Majoros makes four references to Exhibit MJM-5. Provide the specific pages in Exhibit MJM-5 referenced in pages 8 through 10 of 40.

b. On page 10 of 40, Mr. Majoros states that his analysis indicates that the service life for this account is 83 years. However, on Exhibit MJM-5, page 9 of 9, the average service life is shown as 80.4 years. Explain the conclusion that the service life should be 83 years.

15. Refer to the Majoros Direct Testimony, pages 10 through 12 of 40 and Exhibit MJM-6.

a. In pages 10 through 12 of 40, Mr. Majoros makes four references to Exhibit MJM-6. Provide the specific pages in Exhibit MJM-6 referenced in pages 10 through 12 of 40.

b. On page 11 of 40, Mr. Majoros states that the “best fit” Iowa Curve for this account is 100 R0.5, but that the “best fit life” indication for the S1.5 curve is 59 years. Explain the difference between these results and why it is more reasonable to use the 59 years.

16. Refer to the Majoros Direct Testimony, pages 12 through 14 of 40 and Exhibit MJM-7. In pages 12 and 13 of 40, Mr. Majoros makes two references to Exhibit MJM-7. Provide the specific pages in Exhibit MJM-7 referenced in pages 12 and 13 of 40.

17. Refer to the Majoros Direct Testimony, page 14 of 40 and Exhibit MJM-8, page 1 of 4.

a. Provide the basis for the following statement, “Second, it is not even clear that the net salvage that Mr. Spanos studied for the services account even relates to these types of services.”

b. Refer to Exhibit MJM-8, page 1 of 4. Explain in detail why the apparent over-depreciation of Account 2801 should also be applied to Account 2761.

18. Refer to the Majoros Direct Testimony, pages 15 and 16 of 40 and Exhibit MJM-9.

a. On pages 15 and 16 of 40, Mr. Majoros makes two references to Exhibit MJM-9. Provide the specific pages in Exhibit MJM-9 referenced in pages 15 and 16 of 40.

b. Pages 7 and 8 of 8 of Exhibit MJM-9 appears to indicate a 70-year life for this account. However, the calculated average service life is 50.6 years. Explain why the 70 year life is more appropriate given the average service life of 50.6 years.

19. The analysis supplied in the Majoros Direct Testimony, Exhibits MJM-5 through MJM-7 indicates that the calculation of the remaining life was based upon the "broad group/vintage group life group procedures." The depreciation study submitted by ULH&P is based on the equal life group procedure, and Mr. Majoros has accepted 23 of the 32 proposed depreciation rates contained in ULH&P's depreciation study. Would the adoption of Mr. Majoros's proposed depreciation rates result in depreciation rates determined using multiple life group procedures? Is this a desirable approach to take when establishing depreciation rates? Explain the responses.

20. Refer to the Majoros Direct Testimony, page 23 of 40. Explain the basis for the conclusion contained in the following statements, "Notice that the liability increased by $3 million in one year. That is the amount that ULH&P collected from ratepayers, over and above its actual removal costs in 2004."

21. Refer to the Majoros Direct Testimony, page 31 of 40. Has Mr. Majoros conducted a study or reviewed studies discussing the likelihood of electric restructuring in Kentucky? Explain the response.

22. Refer to the Majoros Direct Testimony, pages 34 through 36 of 40.

a. Refer to page 34 of 40. On line 26 is the statement, "Experience indicates that it is highly unlikely that these amounts will be spent for cost of removal in the magnitude that they have been collected." Provide the basis for this statement, including any analysis Mr. Majoros has performed using ULH&P-specific data.

b. Refer to page 35 of 40. On line 1 is the statement, "[I]t is fair and reasonable for the Kentucky PSC to specifically recognize the ratepayers' security interest in these monies until they are actually spent on their intended purpose." Explain the basis for the statement that ratepayers have a "security interest" in cost of removal incorporated into depreciation rates.

c. Refer to page 36 of 40. On line 4 is the statement, "However, in recognition of prior KPSC Orders, I recommend that the regulatory liability be specifically identified as a refundable component of accumulated depreciation." Specifically identify the Commission Orders referenced in this statement.

Questions for Dr. J. Randall Woolridge

23. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Direct Testimony"), page 3. Dr. Woolridge states that the benchmark for long-term capital costs is the rate on 10-year Treasury Bonds. Explain why the benchmark is 10-year bonds rather than 20-year bonds.

24. Refer to the Woolridge Direct Testimony, page 5. Provide a copy of Jeremy J. Siegel's article referenced in footnote 1.

25. Refer to the Woolridge Direct Testimony, page 6. Provide a copy of the Alan Greenspan speech referenced in footnote 2.

26. Refer to the Woolridge Direct Testimony, page 8 and Exhibit JRW-3.

a. Provide copies of the pages from the *Value Line Investment Survey* and *C. A. Turner Utility Reports* used to develop JRW-3.

b. Explain why companies such as Atmos Energy Corp., Keyspan Corp., NICOR, Inc., Peoples Energy Corp. and WGL Holdings, Inc, all with operating revenues in excess of $1.8 billion and net plant in excess of $1.9 billion, are good proxy companies for ULH&P.

c. Explain why companies were not excluded if involved in merger activity.

27. Provide a list of the companies represented in the Dow Jones Utilities Index and provide the percentage of total revenues provided by gas utility revenues.

28. Refer to the Woolridge Direct Testimony, page 3 and Exhibit JRW-5.

a. Provide a table with the Market to Book and the Return on Equity ("ROE") values used to produce the graph in the exhibit.

b. Provide further explanation of how the graph supports the statements on lines 5-6 and lines 9-11 on page 12 of the testimony.

29. Refer to the Woolridge Direct Testimony, Exhibit JRW-5, page 3 of 3. Provide a table that contains the Market to Book and ROE values for the 11 companies in Dr. Woolridge's proxy group. Use the same format as in the table provided in response to the preceding question regarding the Dow Jones Utilities graph in the Exhibit.

30. Refer to the Woolridge Direct Testimony, pages 15 and 16. Provide a detailed explanation of why a risk premium study, of which the Capital Asset Pricing Model is one form, provides less reliable estimates of ROE than other types of studies.

31. Refer to the Woolridge Direct Testimony, page 21, lines 5-6 and lines 16-17. Provide documentation and any official guidelines used by analysts that direct and instruct how to adjust dividend yields.

32. Refer to the Woolridge Direct Testimony, page 24.

a. Identify the companies that represent outliers in the data sets.

b. Explain why each of the outliers should not be eliminated from the proxy group.

c. Explain how averaging the median value with the mean eliminates the effect of outliers in the data.

33. Refer to the Woolridge Direct Testimony, Exhibit JRW-7.

a. Provide an explanation of "Earnings," "Dividends," and "Book Value" included in Panel A on page 3 of 4 on Exhibit JRW-7. Include in the explanation a detailed description of how each component is generated, what each component means, how each component relates to the other (both computationally and behaviorally), and a graph of each component using quarterly data for the last 10 years.

b. Provide the derivation of the 3 percent "Average of Mean and Median Figures" on Panel A and explain what this average actually measures.

c. Explain further why one half of the Discounted Cash Flow ("DCF") Growth Rate is used to adjust the dividend yield.

d. Explain in detail what factors analysts producing these forecasts consider in projecting growth rates Earnings per Share ("EPS"), Dividends per Share ("DPS"), and Book Value per Share ("BVPS") included in Panel B.

34. Refer to the Woolridge Direct Testimony, page 25. Provide a detailed explanation of the role the internal growth figure played in determining the expected growth rate range of 4.0-4.5 percent.

35. Refer to the Woolridge Direct Testimony, Exhibit JRW-7, page 4 of 4. Provide the time period for each of the projections and demonstrate that they correspond to those provided by *Value Line*.

36. Refer to the Woolridge Direct Testimony, page 25. Provide a more detailed explanation of the derivation of the expected growth range of 4.0-4.5 percent.

37. Explain and document the advantages and disadvantages of using EPS, DPS and BVPS individually as a basis for estimating a company's cost of equity.

38. Explain why it is meaningful to blend together projected growth rates EPS, DPS, BVPS for use in the DCF model and why this is an acceptable measure of the projected growth rate of dividend yield.

39. Refer to the Woolridge Direct Testimony, page 47 and Exhibit JRW-3.

a. For each of the companies listed in Exhibit JRW-3, provide the regulated and non-regulated net incomes.

b. Provide the date of the latest rate case and the latest awarded ROE for gas operations for each of the companies.

40. Refer to the Woolridge Direct Testimony, Exhibit JRW-8, page 5 of 5. Explain why an inflation measure designed to measure price changes of the weighted goods and services consumed by an average family is appropriate to use as a deflator of the average nominal EPS realized by companies that make up the S&P 500 index.

41. Refer to the Woolridge Direct Testimony, Exhibit JRW-4, page 1 of 2. The AG's recommended cost rate for long-term debt of 5.926 percent does not appear in ULH&P's response to the Commission Staff's Second Data Request dated April 5, 2005, Item 21, page 39 of 40. Provide the source of the proposed cost rate.

Questions for David H. Brown Kinloch

42. Refer to the Testimony of David H. Brown Kinloch ("Kinloch Testimony"), pages 6, 10, and 11 and Exhibits DHBK-6 through DHBK-9.

a. Explain why Mr. Kinloch proposes a growth rate based on just 2 years to project volumes for the Firm Transportation ("FT") class when, in developing weather normalized sales volumes, he states that "use of a short period … creates unnecessary problems."

b. If, as stated on page 10 of the Kinloch Testimony, prior changes in FT volumes indicate that the FT class has simply responded to economic conditions, is it appropriate to make an adjustment based solely on increases in volumes experienced since the end of the recession to which Mr. Kinloch refers? Explain the response.

43. Refer to the Kinloch Testimony, page 14. Mr. Kinloch proposes using revenues to allocate the proposed revenue increase among rate classes. Provide the rationale for using revenues rather than capitalization, which is proposed by ULH&P.

44. Refer to the Kinloch Testimony, page 15. Provide the calculations of the percentages in the column headed "AG Recommendation."

45. Refer to the Kinloch Testimony, page 17. Provide the specific language (and the citation) on uncollectibles contained in the National Association of Regulatory Utility Commissioners Gas Rate Design Manual.

46. Refer to the Kinloch Testimony, pages 21 and 22.

a. Mr. Kinloch states, "The larger the Reconnection fee, the more difficult it is for families to reconnect." Provide any evidence, studies, etc. that show the percentage of families who reconnect after being disconnected in ULH&P's service territory.

b. Mr. Kinloch states that larger reconnection fees can increase uncollectibles. Provide any evidence, studies, etc. that show the relationship between reconnection fees and uncollectibles.

c. Explain whether the AG takes exception to ULH&P's cost support for the proposed Reconnection fee.

47. Refer to the Kinloch Testimony, pages 22 through 25.

a. Is Mr. Kinloch familiar with or has he reviewed the three annual AMRP Rider applications submitted by ULH&P since 2002?

b. Based upon his reading of House Bill 440, would Mr. Kinloch agree that there is nothing in the language of that bill that would prohibit ULH&P from seeking recovery of AMRP costs in 2007 outside of a general rate case? Explain the response.

c. Provide the basis for the following statement, "It is clear that HB 440 does not authorize the type of tariff rider that ULH&P has requested in its proposal for future use of the AMRP."

48. Does the AG have any position concerning ULH&P's proposal to take over customer service lines? Explain the response.

Robert A. Amato for

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DATED June 22, 2005

cc: All Parties