

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED  
JUL 29 2005  
PUBLIC SERVICE  
COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE GAS)  
RATES OF THE UNION LIGHT, )  
HEAT AND POWER COMPANY)

CASE NO. 2005-00042

**REQUEST FOR INFORMATION BY THE ATTORNEY GENERAL  
CONCERNING THE REBUTTAL TESTIMONY OF  
THE UNION LIGHT, HEAT, AND POWER COMPANY**

The Attorney General, by and through his Office of Rate Intervention, submits this Request for Information Concerning the Rebuttal Testimony of the Union Light, Heat and Power Company to be answered in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Please identify the witness who will be prepared to answer questions concerning each request.
- (3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.
- (4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

GREGORY D. STUMBO  
ATTORNEY GENERAL OF KENTUCKY



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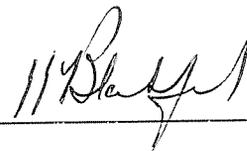
### CERTIFICATE OF SERVICE AND NOTICE OF FILING

I hereby give notice that this the 29th day of July, 2005, I have filed the original and seven copies of the foregoing Request for Information with the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 and certify that this same day I have served the parties by mailing a true copy of same, postage prepaid, to those listed below.

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**Request for Information by the Attorney General  
Concerning the Rebuttal Testimony of  
the Union Light, Heat, and Power Company  
Case No. 2005-00042**

The following interrogatories reference the rebuttal testimony of Dr. Roger A. Morin.

1. With reference to page 11, footnote 1, please provide a copy of the relevant material from the book.
2. With reference to page 12, lines 1-18, please provide a copy of the entire rate of return section of the referenced Indiana decision.
3. With reference to page 14, lines 1-5, please provide a copy of the relevant material from the book.
4. With reference to page 22, Table 4, please provide all workpapers and calculations used in constructing Table 4. Please include both a hard copy and an electronic copy in Microsoft Excel format with all data and formulas intact.
5. With reference to page 29, lines 18-22, please provide copies of all studies in the empirical finance literature that demonstrate internal growth is a poor explanatory variable in explaining market value and P/E ratios.
6. With reference to page 30, lines 8-24, please provide a copy of the relevant material from the book.
7. With reference to page 36, lines 1-3, please provide copies of studies that relate allowed returns to Q ratios.
8. With reference to page 46, lines 1-7, please provide the raw data and regression results as cited. Please include both a hard copy and an electronic copy in Microsoft Excel format with all data, formulas, and regression results intact.
9. With reference to page 64, lines 18-23, for Dr. Morin's group of gas companies, please provide the alternative expected growth rates in earnings as opposed to dividends, since Dr. Morin does not believe that they are expected to grow at the same rate in the future.

The following questions are addressed to Mr. Riddle

10. On pages 2-4 of Mr. Riddle's rebuttal testimony, he provides extensive testimony with respect to heating degree day calculations, including calculation of the Mean Percent Error (MPE) for various time periods. Please provide all calculations, assumptions and workpapers used to generate all of the MPE results that are presented in this testimony.
11. On page 6 of Mr. Riddle's rebuttal testimony, he states that the Attachments to AG-DR-01-130 were not the calculation of FT forecasted volumes as were requested, but "simply serve to indicate that FT sales have shown a historical decline in the past." If this is the case, then the Company's response to AG-DR-01-130 was not responsive and did not provide the calculations requested. Please try again to answer AG-DR-01-130, specifically provide all calculations, assumptions and workpapers that were used to forecast a 24% decrease in FT volumes.
12. Attachment JAR Rebuttal-2 contains calculations based on actual billed volumes. Please provide the same exhibit, but with the calculations based on weather normalized volumes instead of actual billed volumes.
13. Attachment JAR Rebuttal-3 contains calculations based on actual billed volumes. Please provide the same exhibit, but with the calculations based on weather normalized volumes instead of actual billed volumes.
14. Attachment JAR Rebuttal-4 contains calculations based on actual billed volumes. Please provide the same exhibit, but with the calculations based on weather normalized volumes instead of actual billed volumes.
15. Attachment JAR Rebuttal-5 contains calculations based on actual billed volumes. Please provide the same exhibit, but with the calculations based on weather normalized volumes instead of actual billed volumes.
16. Attachment JAR Rebuttal-7 contains calculations based on actual billed volumes. Please provide the same exhibit, but with the calculations based on weather normalized volumes instead of actual billed volumes.

The following questions are addressed to the rebuttal testimony of Mr. Torok.

17. With regard to page 2 of the rebuttal testimony of Mr. Torok, please provide the following information regarding the subject of property taxes:

- a. As stated in Mr. Torok's testimony, the Company's tentative valuation of its property in 2004 was \$400,551,451 while the final assessed value was approximately \$298,000,000. What were the corresponding tentative property valuations and final assessed values for the years 2003 and 2002?
  - b. Provide the basis, calculations and calculation components in support of the statement of Mr. Torok on page 2, lines 15-16, that Mr. Henkes asserts that the Company should expect to achieve a reduction in the 2005 tentative assessment of approximately 57% [Note: a reduction of 57% of the 2005 tentative assessment of \$543,548,261 would imply a final assessed value of \$233,725,752. How is this number derived and where is it reflected on page 2 of Mr. Torok's testimony or anywhere in Mr. Henkes' testimony?]
18. With regard to Mr. Torok's testimony pages 3 and 4 (through line 2), is Mr. Torok agreeing with Mr. Henkes that the ADIT associated with unbilled revenue should be removed for ratemaking purposes in this case? Please provide a definitive answer.
19. With regard to the excess deferred income taxes associated with the reduction in the Kentucky income tax rate to 7% discussed on page 4 of Mr. Torok's rebuttal testimony, please provide the following information:
- a. The response to AG-2-32 indicates that the reduction in the KY income tax rate created "protected" excess deferred income taxes for the Company's gas operations of \$1,451,437. Is this latter amount a deferred asset or a deferred liability? If a deferred asset, explain why this is a deferred asset rather than a deferred liability.
  - b. The response to AG-2-33 indicates that the reduction in the KY income tax rate from 8.25% to 7% has created "unprotected" excess deferred income taxes of \$526,919. The Company now asserts that this "excess" deferred income tax amount of \$526,919 represents a deferred asset, i.e., a prepaid ADIT balance. Please explain in detail why this is a deferred asset rather than a deferred liability given that we are dealing with an income tax reduction [i.e., the KY deferred taxes were previously accrued at a rate of 8.25% with the expectation that they would "reverse" at the same rate of 8.25%. However, these KY deferred taxes will now "reverse" at a rate of 7%. Why doesn't this create an excess deferred tax balance to be returned to the ratepayers rather than the Company's claim that

this has created a deferred tax shortfall to be charged to the ratepayers?]

The following question is addressed to the rebuttal testimony of Mr. Wathen.

20. On page 8 of Mr. Wathen's rebuttal testimony, he states that the Company has accepted Mr. Henkes' adjustment to remove the gas ADIT associated with unbilled revenues from this case. What amount of unbilled revenue related ADIT has the Company quantified for the forecasted period and removed from the filing as compared to the balance of \$3,498,304 estimated by Mr. Henkes on Schedule RJH-7, footnote (3)? If the Company's quantified ADIT amount is different than Mr. Henkes' estimated amount of \$3,498,304, please explain how the Company has derived its reflected ADIT amount.

The following questions are addressed to the rebuttal testimony of Mr. Spanos.

21. Please refer to page 2, lines 19-20 of Mr. Spanos' rebuttal testimony. Please cite to each instance where Mr. Majoros has stated that it is his goal to "return such monies to customers."
22. Please refer to page 2, line 7 and elsewhere throughout Mr. Spanos' rebuttal.
  - a. Please explain the "end result" criteria to which he refers.
  - b. Where is the "end result" test described in the NARUC Manual?
  - c. Is there a level more than the expense at existing rates which also fails Mr. Spanos' "end result" test? If yes, what is that level?
23. Please refer to page 2, line 20. Provide the calculation of the \$1,453,553 amount. Include all sources.
24. Please refer to page 3, line 4. Provide the calculation of the \$231,312 amount. Include all sources.
25. Please refer to page 3, lines 14-16 of Mr. Spanos' rebuttal.
  - a. Is it Mr. Spanos' belief that Mr. Majoros did not perform a depreciation study of ULH&P's plant?
  - b. Please explain fully how Mr. Majoros "did not properly consider the statistical analyses of ULH&P's data or the typical range of estimates used in the industry."

26. Please refer to page 3, lines 16-18. Mr. Spanos alleges that "Mr. Majoros' proposal is designed to reduce rates for today's customers, but does so at the expense of tomorrow's customers."
- a. Please explain in general terms how net salvage is normally treated in Mr. Spanos' home state of Pennsylvania. Also, explain when this approach was adopted.
  - b. In your opinion, are Pennsylvania ratepayers being harmed as a result of the Pennsylvania Public Utility Commission's treatment of net salvage? If yes, please explain in detail how the Commission's depreciation policies harm Pennsylvania ratepayers.
  - c. Does Mr. Spanos ever appear on behalf of ratepayers or groups of ratepayers in Pennsylvania regulatory proceedings?
27. Please refer to page 4, lines 1-3 of Mr. Spanos' rebuttal.
- a. Is it the case that Mr. Spanos believes that the level of net salvage recovery he has proposed is the only "appropriate" level of future net salvage recovery?
  - b. Is Mr. Spanos claiming that his proposed level of recovery is not a subjective calculation, open to the analyst's interpretation?
  - c. Is it possible that a different depreciation analyst could come up with a different level of "appropriate" future net salvage recovery?
28. Please identify all Public Service Commissions for whom Mr. Spanos has conducted depreciation studies.
- a. Identify the utility whose depreciation rates were being considered by the Commission by which Mr. Spanos was employed.
  - b. Provide the year of the study.
  - c. Provide a copy of the study.
  - d. Provide Mr. Spanos' testimony – Direct and Rebuttal.
29. Does Mr. Spanos believe that ratemaking should be driven by the Uniform System of Accounts? If yes, please explain fully why.
30. Please refer to page 4, line 22 through page 5, line 2. Mr. Spanos asserts "The service value rendered by an asset, i.e., depreciation, must reflect both its original cost and its net salvage."
- a. In Mr. Spanos' opinion, does this statement hold true in Pennsylvania?
  - b. What is Mr. Spanos' understanding of the definition of "service value" used by Pennsylvania regulators?
  - c. What is Mr. Spanos' understanding of the definition of "service value" used by the IRS?

- d. What is Mr. Spanos' understanding of the definition of "service value" used by the Surface Transportation Board?
  - e. What is Mr. Spanos' understanding of the definition of "service value" under GAAP?
31. On page 7, lines 8-11, Mr. Spanos states, "While ULH&P does not have a legal obligation to remove plant, it does have an obligation to provide service. In order to provide service, ULH&P must continually renew its plant by adding new assets and retiring old assets."
- a. Would Mr. Spanos agree that ULH&P's obligation to provide service is tied to its status as a regulated public utility?
  - b. Is Mr. Spanos saying that ULH&P has an obligation to retire and remove old plant? If the response is anything other than an unequivocal no, please identify each and every source of that obligation.
  - c. Is Mr. Spanos saying that ULH&P has an obligation to retire and remove all old plant? If not, why in Mr. Spanos' opinion would the obligation not apply to all plant?
  - d. If Mr. Spanos believes that ULH&P has an obligation to remove old plant, please explain why this obligation does not fall under the scope of SFAS No. 143.
32. Please refer to page 7, lines 18-19 of Mr. Spanos' rebuttal, where he states, "Each year ULH&P spends significantly more on plant, both its installation and removal, than it recovers in depreciation expense."
- a. Is Mr. Spanos claiming that ULH&P spends more on removal than it collects in depreciation expense?
  - b. If yes, please provide quantitative support for this statement.
  - c. If Mr. Spanos is claiming that ULH&P spends more on installation and removal in combination than it collects in depreciation, does Mr. Spanos feel that the purpose of depreciation is to fund new plant installation?
  - d. If the answer is yes, please reconcile that to the definition of depreciation Mr. Spanos uses on page 4 of his rebuttal.
33. On page 8, lines 3-5, Mr. Spanos refers to "the overwhelming evidence in this proceeding." Please identify the specific evidence to which he is referring. Also, please explain why Mr. Spanos finds this evidence to be "overwhelming."

34. Does Mr. Spanos believe it is possible for a depreciation rate to be excessive? If yes, under what circumstances? If not, why not?
35. Please refer to page 10, line 10. Identify and explain the principles of customer equity that Mr. Majoros' recommendations violate.
36. On page 10, lines 18-19, Mr. Spanos states that "...net salvage is a capital cost to be recovered through depreciation accruals."
- Is it Mr. Spanos' understanding that net salvage is not capitalized under the Uniform System of Accounts?
  - If so, what is the basis for calling net salvage "a capital cost" in this rebuttal testimony?
  - Whose capital is reflected in accumulated depreciation - shareholders' or ratepayers'?
  - Reconcile this statement with the statement on page 6, lines 8-13.
37. Please refer to page 11, lines 8 to 23, where Mr. Spanos states that there is "no need" for the Kentucky Public Service Commission to recognize a regulatory liability stemming from SFAS No 143.
- Does Mr. Spanos object to a specific KPSC recognition of a regulatory liability relating to SFAS No. 143?
  - If the response is anything other than an unqualified no, please explain why and, in particular, what harm Mr. Spanos believes would result to either ratepayers or the utility were the KPSC to merely recognize a regulatory liability stemming from SFAS No. 143.
38. Please refer to page 14, line 19 through page 15, line 2, where Mr. Spanos states the following: "Past accruals were made pursuant to depreciation rates authorized by the KPSC and represent amounts recorded on ULH&P's books. They are not necessarily amounts collected from customers. Further, to the extent that such amounts represent collections, the revenue was received in accordance with the orders of this Commission and represents amounts paid for service received."
- Is it Mr. Spanos' belief that ULH&P has opted not to implement depreciation rates as authorized by the Commission for ratemaking purposes at any time in the past?
  - If so, please provide a full explanation of when this occurred, and why. Include a comparison of the depreciation rates authorized for ratemaking purposes and those actually booked by the Company.
  - If Mr. Spanos does not believe this to be true, please explain why he believes that the past accruals are not actually amounts collected from customers.

- d. Please explain fully the second sentence of the above quote. Does Mr. Spanos believe that collections for future cost of removal represent payment for services already rendered?
  - e. Please provide Mr. Spanos' definition of the word "future."
  - f. Does Mr. Spanos believe that estimating future cost of removal requirements is an exact science? If not, does he agree that there is a good deal of judgment and subjectivity involved in the process?
  - g. Please provide all orders by the KPSC known to Mr. Spanos that support his claim that past collections represent "amounts paid for service received."
  - h. Please provide any orders from any other jurisdictions known to Mr. Spanos supporting this claim.
  - i. Please reconcile the concept that past collections are "amounts paid for service received" with the discussion on the role of accumulation depreciation in setting depreciation rates, as found on page 13-14 of Mr. Spanos' testimony.
  - j. Is Mr. Spanos implying that because past collections were authorized by the Commission through the ordered depreciation rates, the resulting amounts, whether over or under the actual amount needed by the Company, are no longer open for discussion?
  - k. Please reconcile the Question at page 14, lines 17-18, with the statement at page 13, lines 16-17.
39. Please refer to page 18, lines 17 through 19.
- a. Please provide all information Mr. Spanos has available supporting his statement that his net salvage estimates "will almost certainly result in the recovery of less, not more, net salvage than the actual costs incurred."
  - b. Does Mr. Spanos agree that ULH&P controls the amount of cost of removal associated with mains and services replacements by virtue of the fact that cost of removal is an allocated number? If the answer is anything other than an unqualified yes, please explain in detail and identify the actual test year cost of removal amounts over which ULH&P has no control.
40. Please provide the net present value of Mr. Spanos' net salvage estimates for the mains and services accounts. Use the same discount factor that ULH&P used for SFAS No. 143 purposes.
41. On page 22, lines 7-13, Mr. Spanos discusses Mr. Majoros' SFAS No. 143 Fair Value Approach.

- a. Does Mr. Spanos agree that, setting aside cost of removal, the pattern of recovery for depreciation would be straight line? If not, please explain.
  - b. Does Mr. Spanos agree that the "pattern of recovery" to which he refers relates solely to future cost of removal? If not, please explain why not.
  - c. Provide in both hard copy and electronic format, with all formulae intact, a comparative ratemaking example demonstrating the straight line versus sinking fund relating to future cost of removal. Please be sure to include any rate base effects for each method, and to explain all assumptions.
  - d. Does Mr. Spanos agree that straight-line depreciation results in a front-loaded revenue requirement?
42. Please refer to page 22, lines 17-19. Please provide all available proof for the statement on those lines.
43. Please refer to page 25, lines 11-14. Please explain why Mr. Majoros' recommendations are inconsistent with the treatment described in that answer.
44. Please refer to page 29, lines 1-10. Please explain if and why Mr. Majoros' recommendations are inconsistent with the KPSC statement quoted on that page.
45. Please refer to pages 30-37. For each account discussed, please identify the specific workpapers provided by Mr. Spanos which support these rationalizations. Also, identify each data response which supports these rationalizations.
46. Please refer to page 37, lines 5-7. Please provide support for the statement that "the costs previously allocated as the cost of retiring services is now considered the cost of retiring mains." If this was addressed in a discovery response, please provide the number of the response and cite to the portion of the answer that supports this statement.
47. Please refer to page 38, lines 9-14.
- a. Does Mr. Spanos object to the establishment of separate depreciation rates and accumulated depreciation amounts for capital recovery and net salvage?
  - b. If yes, please explain fully why.

- c. Does Mr. Spanos believe the Company will be harmed by the use of separate depreciation rates and accumulated depreciation amounts?
- d. If the answer is yes, please provide a full explanation of how ULH&P will be harmed.