COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC. FOR AN ADJUSTMENT OF RATES	)))	CASE NO. 2007-00008

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 seven copies of the following information, with a copy to all parties of record. The information requested herein is due on or before July 11, 2007. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

The AG shall make timely amendment to any prior responses if he obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any requests to which the AG fails or refuses to furnish all or part of the requested information, the AG shall provide a written explanation of the specific grounds for his failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the Direct Testimony of Robert J. Henkes ("Henkes Testimony"). Throughout his testimony, Mr. Henkes states the test year in this case ends September 30, 2007 and on page 3 states he was presenting the "appropriate forecasted test period" rate of return, rate base, operating income, and revenue requirement. Was Mr. Henkes aware this application was filed utilizing a historic test period, which ends on September 30, 2006?

2. Refer to the Henkes Testimony, pages 11 through 13.

a. Was Mr. Henkes aware that the capital structure proposed by Columbia Gas of Kentucky, Inc. ("Columbia") was initially based upon a hypothetical capital structure of 45 percent long-term debt and 55 percent common equity?

b. Does Mr. Henkes agree with Columbia that a hypothetical capital structure should be the basis for the capital ratios utilized in this case? Explain the response.

c. Was Mr. Henkes aware that the amount of short-term debt included in the proposed capital structure reflected Columbia's actual 13-month average of short-term debt?

d. Exclusive of his recommendation concerning the level of short-term debt that should be reflected in the capital structure, does Mr. Henkes agree with Columbia's proposal to utilize the actual 13-month average of short-term debt? Explain the response, and address the appropriateness of using a 13-month average in a case filed using a historic test period.

e. On page 12 Mr. Henkes states, "I believe this is a more reasonable (and certainly a more conservative) ratemaking approach then basing the operating income requirement on a reduced rate base level of $152 million." Explain why Mr. Henkes' proposal is more reasonable.

3. Refer to the Henkes Testimony, page 21.

a. Did Mr. Henkes consider using a 5-year average of the actual uncollectible accrual rates?

b. Provide the 5-year average of the actual uncollectible accrual rates for the period 2001 through 2005 and 2002 through the test period.

c. Explain why Mr. Henkes decided a 4-year average ratio was more appropriate than either a 5-year or 6-year average ratio.

d. Does Mr. Henkes believe it is appropriate to include the test-year accrual rate in the calculation of the average rate, since the test-year-end in this case is September 30, 2006? Explain the response.

4. Refer to the Henkes Testimony, pages 33 and 34, and Schedule RJH-12.

a. Provide all workpapers and assumptions utilized to develop the calculations shown on Schedule RJH-12.

b. Mr. Henkes notes that Columbia has stated its test-year professional services expense was higher than previous years due to engineering charges in excess of $7 million being incurred in conjunction with a 12-inch pipeline project. The engineering charges were spread over 2005 and 2006.

(1) Since the reason for the significant increase in expense has been identified, explain in detail why Mr. Henkes did not propose an adjustment to remove the test-year-level of engineering charges from the professional services expense.

(2) Explain in detail why the proposal to adjust the professional services expense to reflect a 5-year, inflation-adjusted average level of expense is reasonable, given the knowledge about the engineering charges.

(3) Does Mr. Henkes believe it is appropriate to expense engineering charges associated with a specific construction project, instead of capitalizing the charges as part of the total cost of the project? Explain the response.

5. Refer to the Henkes Testimony, pages 34 and 35.

a. Explain in detail why a 6-year average of moving expenses is reasonable. Include in this response a discussion of why the average was not adjusted for inflation, as Mr. Henkes proposed in his adjustment for professional services expense.

b. Provide the 5-year average of the total moving expenses for the period 2001 through 2005 and 2002 through the test period.

6. Refer to the Henkes Testimony, pages 40 through 42, and Schedule RJH-14.

a. Refer to Schedule RJH-14. Explain in detail why Mr. Henkes has included depreciation expense on construction work in progress ("CWIP").

b. Was Mr. Henkes aware that in Case No. 2004-00067,[1] the Commission specifically rejected the inclusion of depreciation expense on test-year CWIP for rate-making purposes? Explain the response.

c. Explain in detail the basis for Mr. Henkes' rejection of the new depreciation study and proposed depreciation rates.

d. Mr. Henkes states on page 41, lines 4 through 7,

> No. Mr. Spanos' depreciation study and the resulting new depreciation rates proposed by the Company have not been reviewed by me as these issue areas are beyond the scope of my consulting contract in this case. I therefore am not in a position to express an opinion on the appropriateness of the Company's proposed new depreciation rates.

Since Mr. Henkes has not reviewed the depreciation study and the proposed new depreciation rates and is unable to express an opinion on the appropriateness of the proposed new rates, explain in detail how Mr. Henkes can recommend the rejection of the proposed depreciation rates.

e. Provide a revised Schedule RJH-1 that reflects the acceptance of the new depreciation rates proposed by Columbia. Include the corresponding adjustment to the rate base reflecting the additional depreciation expense.

[1] Case No. 2004-00067, Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates, final Order dated November 10, 2004 at 31.

7. Refer to the Henkes Testimony, page 43, and Schedule RJH-15. Explain in detail why Mr. Henkes calculated the federal income taxes using a 34 percent rate instead of a 35 percent rate, considering his testimony on pages 17 and 18.

8. Refer to the Henkes Testimony, pages 48 through 50.

a. When preparing his testimony and recommendations concerning Columbia's proposed Accelerated Mains Replacement Program ("AMRP"), did Mr. Henkes review and consider the provisions of KRS 278.509? Explain the response.

b. Concerning Mr. Henkes' proposal for an annual earnings test in conjunction with the Columbia AMRP:

(1) Did the Commission establish an annual earnings test when it approved the AMRP for Duke Energy Kentucky, Inc. ("Duke Kentucky")?[2]

(2) Explain in detail why the Commission should require Columbia to submit to an earnings test with its AMRP when a similar test was not required of Duke Kentucky.

c. Concerning Mr. Henkes' proposal for rate increase caps for the Columbia AMRP:

(1) Did the Commission establish rate increase caps in the Duke Kentucky AMRP?

(2) Explain in detail why the Commission should require the Columbia AMRP to be subject to rate increase caps when a similar provision was not required of Duke Kentucky.

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[2] At the time the AMRP was originally approved and renewed, Duke Kentucky was known as The Union Light, Heat and Power Company.

d. Would Mr. Henkes agree that the Duke Kentucky AMRP is a 10-year program?

e. Given that Columbia's AMRP is proposed to cover a 20-year period, would it be reasonable to authorize this AMRP for a 5-year period, and require the general rate case, provide for the roll-in of the AMRP to base rates, and require justification for the continuation of the AMRP at the end of that 5-year period? Explain the response.

9. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), pages 9 and 10. Explain why investors, as a result of the 2003 tax law change, would willingly give up that incremental increase in investment returns and give it to ratepayers vis-à-vis lower equity returns awarded to utilities.

10. Refer to the Woolridge Testimony, pages 12 and 13.

a. Does Dr. Woolridge agree with Columbia that a hypothetical capital structure should be the basis for the capital ratios utilized in this case? Explain the response.

b. Does Dr. Woolridge agree with the approach followed by Columbia in determining the 5.69 percent interest rate for long-term debt? Explain the response, and specifically address the reasonableness of applying the cost rate for a November 2006 debt issue to an additional $6.7 million Columbia included in its long-term debt.

11. Refer to the Woolridge Testimony, Exhibit JRW-2.

a. New Jersey Resources derives only 34 percent of its revenues from natural gas distribution and Atmos Energy, Laclede Group, and WGL Holdings derive less than 60 percent of their revenue from natural gas distribution. Explain why each of these companies is a reasonable candidate for inclusion in the proxy group.

b. Which, if any, of the companies in the proxy group are involved in current merger activity?

12. Refer to the Woolridge Testimony, Exhibit JRW-3. Explain why Vectren Corp. appears in the two tables.

13. Refer to the Woolridge Testimony, pages 33 through 35 and Exhibit JRW-6, pages 3 through 5 of 5.

a. Explain why blending the mean and median values of 10 and 5 year averages produces a meaningful estimate of growth rates.

b. Explain how blending projected estimates of earnings, dividends, and book value growth rates into a single number provides a meaningful estimate of growth rates.

14. Refer to the Woolridge Testimony, Exhibit JRW-7, page 1 of 5. Should the footnotes for the Table reference Exhibit JRW-7, rather than Exhibit JRW-8? If not, explain how the latter Exhibit provides the information contained in the Table.

15. Refer to the Woolridge Testimony, pages 56 through 58, and Exhibit JRW-7, page 3 of 5. The Exhibit references a large number of studies. It is not clear that the purpose and results of the studies were intended to be directly comparable to one another or to be used as they have been in the context of a regulated utility rate case.

a. The McKinsey & Company reference is from autumn 2002. Provide a copy of the McKinsey study and an update to reflect what risk premium this particular consulting firm is using currently.

b. Under the Exhibit heading "Puzzle Research," there is wide disparity between the various risk premium entries. Explain "Puzzle Research" and each of the studies under this heading.

c. Provide a copy of the March 2007 CFO – Duke University CFO survey report from which the Exhibit entry is taken.

d. If the Ibbotson SBBI Yearbook 2007 contains any discussion of estimating and using the ex ante approaches and/or a discussion comparing the ex ante and historical approached to calculating risk premiums, then provide those discussions.

e. Provide the historical data from the Ibbotson SBBI Yearbook 2007 which is used to derive the historical entries 6.50 percent and 5.00 percent.

f. The Exhibit does not contain references for all of the entries. Provide the missing references.

g. Presumably all the Exhibit entries, other than the Ibbotson SBBI Yearbook historical entry, are based upon a forecast or an expectation of a forward looking risk premium. For each entry, other than the Ibbotson Yearbook historic entry, provide each entry's corresponding forward looking period.

h. For each Exhibit entry, explain how each risk premium was derived including which specific variables were used to make the calculations and the time period for the study.

i. Explain whether any of the Exhibit entries have been adjusted for inflation in any way. If so, further explain which entries and how the adjustment was performed.

j. A few of the Exhibit entries are almost 6 years old, which means that the actual work may have been conducted more than 6 years ago. For those Exhibit entries that were published prior to 2006, explain why they are still valid for use in current risk premium analysis.

16. Refer to the Woolridge Testimony, Exhibit JRW-7, page 5 of 5. Explain the purpose of this Exhibit page and how is it used by Dr. Woolridge.

17. Refer to the Direct Testimony of Charles W. King ("King Testimony"), page 13. Mr. King discusses Columbia's proposed calculation of the revenue collected from its charge for the 1st Mcf of usage. Columbia's 1st Mcf charge operates as a minimum bill, charging the customer for 1 Mcf regardless of the usage between 0 and 1. Since all customers consuming 1 Mcf or less are charged as if they use 1 Mcf, the proper revenue calculation is number of customers at the 1st Mcf charge. Does this allay Mr. King's concerns regarding the presentation of the revenue from this charge?

18. Refer to the King Testimony, page 19. Mr. King recommends increasing the reconnection charge by the same percentage as Columbia's proposed increase in the bad check charge. Does Mr. King's recommendation mean that he agrees with the increase that Columbia has proposed in its bad check charge?

19. Refer to the King Testimony, pages 19 through 22.

a. While preparing his testimony, did Mr. King review and consider the provisions of KRS 278.509? Explain the response.

b. While preparing his testimony, did Mr. King review the Commission's decisions concerning the Duke Kentucky AMRP? Explain the response.

20. Refer to the King Testimony, page 22. Mr. King suggests a recovery method for the AMRP that would recover half of the cost through a per customer charge and half through a volumetric charge. Since the volumetric charge will vary with the weather and therefore may either over- or under-recover the costs that the AMRP is trying to recover, would Mr. King also suggest a true-up calculation as part of the mechanism?

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DATED June 26, 2007

cc: All Parties