

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

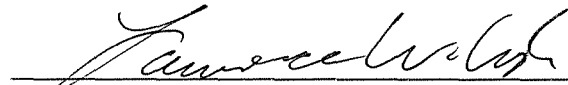
APPLICATION OF COLUMBIA GAS OF)
KENTUCKY, INC. FOR AN ADJUSTMENT) Case No. 2009-00141
OF RATES FOR GAS SERVICE)

ATTORNEY GENERAL'S RESPONSES TO DISCOVERY REQUESTS OF
COLUMBIA GAS OF KENTUCKY, INC.

Comes now the Attorney General of the Commonwealth of Kentucky, by
and through his Office of Rate Intervention, and states as follows for his
responses to the discovery requests of Columbia Gas of Kentucky, Inc.

Respectfully submitted,

JACK CONWAY
ATTORNEY GENERAL



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Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to:

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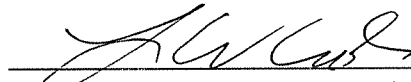
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this 24th day of August, 2009



Assistant Attorney General

**Attorney General's Responses to Columbia Gas of Kentucky's
Requests for Information to the Attorney General
Case No. 2009-00141**

Data Requests relating to the Testimony of Mr. Henkes:

WITNESS RESPONSIBLE:

Robert Henkes

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QUESTION 62. Regarding the Direct Testimony of Robert Henkes, page 15, lines 16-21. Please explain why Mr. Henkes added the Company's proposed Residential Late Payment Penalty revenue of \$265,020 to the pro forma test year operating revenue at the current rates instead of the operating revenue at the proposed rates as Mr. Watkins recommended in his testimony on page 23, line 7.

RESPONSE: Please refer to Mr. Henkes' Schedule RJH-6. Line 1 of Schedule RJH-6 shows the Company's proposed total pro forma revenues at current rates of \$164,560,706. As shown on Schedule M, page 2, the Company's proposed total pro forma revenues at current rates of \$164,560,706 include \$192,713 for Late Payment Penalty revenues at current rates.

Mr. Watkins has recommended pro forma Late Payment Penalty revenues at *proposed rates* of \$457,733 (see Schedule RJH-6, footnote (3)). Since line 1 of Schedule RJH-6 already includes \$192,713 of Late Payment Fees at current rates, Mr. Henkes has added \$265,020 to line 1 in order to reflect Mr. Watkins' recommended Late Payment Fees at proposed rates of \$457,733.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Robert Henkes

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QUESTION 63. Regarding the Direct Testimony of Robert Henkes, page 15, lines 16-21. Please explain why Mr. Henkes added one-half of the Company's proposed Reconnection Charge revenue of \$72,923 to the pro forma test year operating revenue at current rates instead of the operating revenue at proposed rates as Mr. Watkins recommended in his testimony on page 23, line 7.

RESPONSE: Please refer to Mr. Henkes' Schedule RJH-6. Line 1 of Schedule RJH-6 shows the Company's proposed total pro forma revenues at current rates of \$164,560,706. As shown on Schedule M, page 2, the Company's proposed total pro forma revenues at current rates of \$164,560,706 include \$147,314 for Miscellaneous Service revenues at current rates.

Mr. Watkins has recommended pro forma Miscellaneous Service revenues at *proposed rates* of \$220,159 (see Schedule RJH-6, footnote (4)). Since line 1 of Schedule RJH-6 already includes \$147,314 of Miscellaneous Service revenues at current rates, Mr. Henkes has added \$72,845 to line 1 in order to reflect Mr. Watkins' recommended Miscellaneous Service revenues at proposed rates of \$220,159.

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WITNESS RESPONSIBLE:

Robert Henkes

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QUESTION 64. Regarding the Direct Testimony of Robert Henkes, page 16, lines 1-17.
Please provide any analysis or study relied upon by Mr. Henkes which
indicates that a 25-year weather normalization period is a better predictor
of weather than a 20-year weather normalization period.

RESPONSE: Mr. Henkes has not performed such a study.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Robert Henkes

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QUESTION 65. Regarding the Direct Testimony of Robert Henkes, page 18, lines 2-8.

Mr. Henkes adjusts net margin revenues using a 25-year weather normalization period instead of the Company's 20 year-normalization period.

- a. Why weren't gas cost revenue and expenses also adjusted to reflect increased test year volumes?
- b. Why wasn't the uncollectible account expense also adjusted to reflect higher expense related to a higher margin and gas cost revenues?

RESPONSE:

- a. As discussed in Mr. Henkes' testimony, the recommended adjustment of \$197,963 represents the (Company-calculated) impact on net base revenue margins (revenues net of associated gas costs) from using a 25-year weather normalization approach as opposed to a 20-year weather normalization approach. It is Mr. Henkes' understanding that the impact on gas cost revenues would be exactly offset by the similar impact on gas cost expenses.
- b. It would be appropriate to reflect the uncollectible expense impact of Mr. Henkes' weather normalization adjustment. However, the appropriate impact of Mr. Henkes' weather normalization net margin adjustment on the Annualized Residential Revenues on Schedule RJH-9, line 1 was not available to Mr. Henkes. As a result, Mr. Henkes was not in a position to make this very minor uncollectible expense adjustment.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Robert Henkes

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QUESTION 66. Does Mr. Henkes contend that storage gas provides a source of funds in months in which the storage balance is negative? Please explain your response.

- a. Does Mr. Henkes agree that gas can remain in storage in months during which the storage balance may be negative?

RESPONSE: Mr. Henkes does not contend that storage gas provides a source of funds in months in which the storage balance is negative, and Mr. Henkes agrees that gas can remain in storage in months during which the storage balance may be negative.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Robert Henkes

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QUESTION 67. Regarding the Direct Testimony of Robert Henkes, page 38, lines 21-22, page 39, lines 1-5. Please explain how the corrections identified in AG-1-60(2) and AG-1-60(5), incorporated into Mr. Henkes' adjustment to Columbia's test year depreciation expense, are reflected in Mr. Henkes' Schedule RJH-13.

RESPONSE: In an email dated July 16, 2009, Mr. Henkes requested Mr. Majoros to reflect the depreciation expense corrections noted in the responses to AG-1-60(2) and (5) in his determination of the AG-recommended annualized plant depreciation expense. It is Mr. Henkes' understanding that these depreciation expense corrections are reflected in Mr. Majoros' recommended annualized plant depreciation expense number of \$5,081,896.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Robert Henkes

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QUESTION 68. Regarding the Direct Testimony of Robert Henkes, page 50, lines 2-13.
Please provide a copy of any analysis or studies relied upon by Mr. Henkes in reaching his conclusion that "the use of reconcilable surcharges or adjustment clauses to provide a utility with extraordinary rate relief have been limited to costs of service that have a significant financial impact such as fuel adjustment clauses and gas cost recovery clauses."

RESPONSE: This statement in Mr. Henkes' testimony is based on his 35-year experience as an expert in utility regulation.

**Attorney General's Responses to Columbia Gas of Kentucky's
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Data Requests relating to the Testimony of Mr. Watkins:

WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 69. Please provide a description of Mr. Watkins' natural gas distribution system operations, maintenance, and engineering experience.

RESPONSE: Mr. Watkins is an economist specializing in public utility rate making and policy. Mr. Watkins has not worked directly in natural gas operations, maintenance or design engineering.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 70. Please provide copies of Mr. Watkins' testimony in the last five general rate case proceedings in which Mr. Watkins supported Allocated Cost of Service Studies.

- a. Of the last two Allocated Cost of Service Studies Mr. Watkins supported in a general rate case proceeding, please provide all exhibits, schedules, and data in Microsoft Excel format.

RESPONSE: Avista

PNG

CPG

Pike Natural

Pike Electric

- a. Virtually every class cost of service engagement requires the executing of confidentiality or protective agreements. Mr. Watkins' cost or service models in prior cases often include confidential information subject to protective agreements or orders. As such, prior case models are not provided. However, the programming techniques approach, and structure of Mr. Watkins' class cost of service study models are all the same.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 71. Regarding the Direct Testimony of Glenn A. Watkins, page 14, lines 3-14. Please provide a list of jurisdictions of which Mr. Watkins is aware where the peak and average peak methodology has been accepted as the basis for revenue allocation.

RESPONSE: Pennsylvania, Washington State.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 72. Regarding the Direct Testimony of Glenn A. Watkins, page 14, lines 14-17. Please provide any public utility precedent of which Mr. Watkins is aware for allocating Mains costs using the Peak and Average method in which equal weight is given to annual throughput and design day peak demand, and which the class contributions to peak demand exclude interruptible load.

RESPONSE: Mr. Watkins has not attempted to research or determine any legal precedents relating to the above request.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 73. Regarding the Direct Testimony of Glenn A. Watkins, page 16, lines 8-20. Please provide all analyses, studies, memoranda, and other material supporting that Meter Reading expense (Account 902) and Records and Collections expense (Account 903) for IUS, DS-ML/SC, or DS/IS customer is weighed 30 times (365/12) more than the cost of GS-Res or GS-Other customer?

RESPONSE: None, other than the discussion in Mr. Watkins' direct testimony in this case.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 74. Regarding the Direct Testimony of Glenn A. Watkins, Schedule GAW 5. Please explain why Mr. Watkins did not include in the Determination of Customer Costs in Schedule GAW 5 the Customer Account numbers 901, 905, and 921, Customer Service and Information Account numbers 907, 908, 909, 910, 920, 921, 931, and 935, and Sales Account numbers 911, 913, 916, and 921, which Mr. Watkins allocated to the rate classes on the customer ratio in Schedule GAW 2.

RESPONSE: These expenses are not appropriately included in a direct customer cost analysis. Please refer to Mr. Watkins testimony, Page 34, Line 23 through Page 35, Line 3.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 75. Regarding the Direct Testimony of Glenn A. Watkins, Schedule GAW
5. Please explain why Mr. Watkins added \$820,368 of Telemetrying plan
to the total Gross Plant of \$88,030,020.

RESPONSE: The \$820,368 of gross telemetrying plant (account 387.45) assigned to
GS-Res is assumed to be associated with investment in telemetrying or
automatic meter reading (AMR) equipment, and therefore was included as
investment appropriate for the determination of direct customer costs; i.e.,
similar to the treatment of "Meters" gross investment of \$7,222,237

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Glenn Watkins

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QUESTION 76. Regarding the Direct Testimony of Glenn A. Watkins, page 19, lines 10-18. Please provide all analyses, studies, memoranda, and other materials supporting the percentage increases to all classes except for the GS-Res class.

RESPONSE: See attached file: Revdist.xls

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 77. Regarding the Direct Testimony of Glenn A. Watkins, page 22, lines 14-16. Please explain and provide all analyses, studies, memoranda and other materials supporting the ten percentage point increase to all classes except GS-Res if the SFV rate design is accepted.

RESPONSE: Please refer to Mr. Watkins direct testimony, page 21, line 11 through page 23, line 9.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 78. Regarding the Direct Testimony of Glenn A. Watkins, page 25, lines 1-11. Please provide a table showing the portion of revenue for each company used in Schedule GAW 3, in each year, collected on a per unit volumetric rate.

RESPONSE: No such analyses has been conducted.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 79. Regarding the Direct Testimony of Glenn A. Watkins, page 25, lines 17-18. Please provide all analyses, studies, memoranda, or other material supporting Mr. Watkins' conclusion that high earnings were largely a result of cost savings from technological advances, economies of scale due to mergers, and customer growth.

RESPONSE: This statement is based on Mr. Watkins' experience in natural gas rate making and merger cases throughout the United States including NiSource's representations before Commissions seeking approval of the acquisition of the Columbia systems as well as requests for the inclusion of "IBM contract costs and affiliate transactions in various cases. It is also based on representations from natural gas LDC's (Columbia Gas of Virginia and Virginia Natural Gas) as to reasons for high earning levels above those authorized by the Virginia State Corporation Commission, and analyses of LDC costs over time.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 80. Regarding the Direct Testimony of Glenn A. Watkins, page 26, footnote 7. Please provide a copy of the page 141 of James C. Bonbright, *et al.*, Principles of Public Utility Rates (2d ed. 1998).

RESPONSE: See attached.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 81. Regarding the Direct Testimony of Glenn A. Watkins, page 26, lines 11-13. Please provide the source and a copy of the source supporting Mr. Watkins' statement, "Economic theory tells us that efficient price signals result when prices are equal to long-run marginal costs. It is well known that in the long-run all costs are variable and, hence, efficient pricing results from the incremental variability of costs even though a firm's short-run cost structure may include a high level of sunk or 'fixed' costs or be reflective of excess capacity."

RESPONSE: The referenced statement is based on fundamental principle of Micro-economic theory taught in any Principles of Economics undergraduate course. See attached as an example.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 82. Regarding the Direct Testimony of Glenn A. Watkins, page 27, lines 5-6. Please provide the source and a copy of the source supporting Mr. Watkins' statement, "it is generally agreed that payments for a good or service should be in accordance with the benefits received."

RESPONSE: This is common knowledge, as illustrated by the pricing of goods and services generally within the United States.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 83. Regarding the Direct Testimony of Glenn A. Watkins, page 27, lines 11-12. Please provide the source and a copy of the source supporting Mr. Watkins' statement, "The above philosophy is, and has been, the belief of economists, regulators, and the marketplace for many years."

RESPONSE: See response to Question 82.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 84. Regarding the Direct Testimony of Glenn A. Watkins, page 27, lines 12-18. Please provide the source and a copy of the source supporting Mr. Watkins' illustration regarding the history of utility industry pricing.

RESPONSE: This statement is based on Mr. Watkins knowledge of the economic history of public utilities and regulation.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 85. Regarding the Direct Testimony of Glenn A. Watkins, page 27, lines 21-23. Please provide the source and a copy of the source supporting Mr. Watkins' statement concerning the volumetric rates of the previously regulated industries.

RESPONSE: None.

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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 86. Regarding the Direct Testimony of Glenn A. Watkins, page 31, lines 1-2. Please provide all analyses, studies, memoranda, or other material supporting the statement that customers' price of incremental consumption is de minimis.

RESPONSE: None.

**Attorney General's Responses to Columbia Gas of Kentucky's
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WITNESS RESPONSIBLE:

Glenn Watkins

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QUESTION 87. Regarding the Direct Testimony of Glenn A. Watkins, page 41, lines 18-21. Please provide all analyses, studies, memoranda or other materials that support his conclusion that "Annual reviews by commission staffs frankly do not receive the level of critical scrutiny received under a general rate case and often become rubber stamp rates."

RESPONSE: None. This statement is based on Mr. Watkins 29 years experience in the public utility ratemaking arena.