

Attorney General First Set Data Requests
ULH&P Case No. 2005-00042
Date Received: July 29, 2005
Response Due Date: August 9, 2005

AG-DR-03-020

REQUEST:

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.

RESPONSE:

The Company does not budget Unbilled Revenue or Unbilled Revenue-Fuel. As a result, there was no deferred tax activity reflected in its Standard Filing Requirements. The amount of ADIT associated with Unbilled Revenue-Fuel in the Company's original filing for the forecasted period is the same as the balance as of December 31, 2004, which is \$3,454,064. If this amount were reduced for the impact of the Kentucky income tax reduction to 7% (and the related federal effect), the balance would be \$3,384,533.

WITNESS RESPONSIBLE: William Don Wathen, Jr.

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Date Received: July 29, 2005
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AG-DR-03-021

REQUEST:

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."

RESPONSE:

The discussion of page 2, lines 19-20 of Mr. Spanos' rebuttal testimony relates to Mr. Majoros' testimony on excessive depreciation. This topic is part of all of Mr. Majoros' testimony.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-022

REQUEST:

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?

RESPONSE:

- a. The "end result" criteria referred to on page 2, line 7 of Mr. Spanos' rebuttal testimony is the overall net salvage amount accrued through rates based on Mr. Majoros' testimony or net salvage.
- b. There is no "end result" test described in the NARUC manual, however, each utility has the right to recover complete service value of its assets.
- c. There is no "end result" test that Mr. Spanos is aware of; however, the bottom line for utilities is the full recovery of its investment, including net salvage.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-023

REQUEST:

23. Please refer to page 2, line 20. Provide the calculation of the \$1,453,553 amount. Include all sources.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

**Attorney General First Set Data Requests
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Date Received: July 29, 2005
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AG-DR-03-024

REQUEST:

24. Please refer to page 3, line 4. Provide the calculation of the \$231,312 amount. Include all sources.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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Date Received: July 29, 2005
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AG-DR-03-025

REQUEST:

25. Please refer to page 3, lines 14-16 of Mr. Spanos' rebuttal. Is it Mr. Spanos' belief that Mr. Majoros did not perform a depreciation study of ULH&P's plant? 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."

RESPONSE:

Mr. Spanos does not believe that Mr. Majoros did not perform a depreciation study for ULHP's plant. Conducting a depreciation study includes a combination of statistical analyses and the typical range of estimates used in the industry. Mr. Majoros' life estimates are considerably longer than the industry range for some accounts. Additionally, Mr. Majoros' interpretation of the statistics does not produce reasonable average or maximum service lives of the asset classes.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-026

REQUEST:

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?
 - d. If Pennsylvania ratepayers are being harmed by the Pennsylvania Public Utility Commission's treatment of net salvage, what in Mr. Spanos' opinion, would be the appropriate cure?

RESPONSE:

- a. In general, net salvage in Pennsylvania is recovered for 5 years after the cost has been expended which is often when the asset is out of service. The recovery is evenly spread over the 5 successive years immediately after the retirement. This approach has been adopted since a 1962 court order.
- b. In my opinion, some Pennsylvania ratepayers are paying too much and some are paying too little. Pennsylvania ratepayers do not always pay for the complete service value of the assets in service during the time each customer is a ratepayer. For example, if an asset is put into service in 1950 and retired in 2000, then the net salvage is recovered in the years 2001 through 2005. Therefore, a new customer in 2002 is required to pay 80% of the net salvage of an asset that is not in service during the time this customer is a ratepayer. This is not fair to this new customer or others that did not benefit from the service value of the assets they are paying for during 2001 through 2005.

- c. All of Mr. Spanos' expert testimony has been on behalf of his clients which have been electric, gas, water and pipeline utilities. However, these proceedings are not to be considered to be against ratepayers.

- d. In Mr. Spanos' opinion, recovery of service value includes the cost of net salvage and these costs should be part of the annual depreciation expense. Therefore, the development of annual depreciation rates that include a component of net salvage is reasonable and fair to all utilities and ratepayers.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-027

REQUEST:

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 "set in stone", meaning it 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?
 - d. Does Mr. Spanos have any particular insight into the future?

RESPONSE:

- a. No, it is not Mr. Spanos' belief that his proposed level of net salvage recovery is the only "appropriate" level of future net salvage. However, it is Mr. Spanos' belief that his proposed level and methodology of determining future net salvage is more appropriate than Mr. Majoros' methods.
- b. No, Mr. Spanos is not claiming his proposed level of recovery is "set in stone". He is claiming that with the total information available today and with the expectations of the future, then his interpretation is the most reasonable.
- c. It is possible that another depreciation analyst could establish a different level of future net salvage recovery, however, Mr. Spanos believes that Mr. Majoros' development of net salvage is not an appropriate option.
- d. Mr. Spanos bases his insight on future expectations of past occurrences, discussions with personnel knowledgeable on the assets and expectations of others within the same industry.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-028

REQUEST:

28. Please identify all Public Service Commissions for whom Mr. Spanos has conducted depreciation studies.
 - a. Identify the utility.
 - b. Provide the year of the study.
 - c. Provide a copy of the study.
 - d. Provide Mr. Spanos' testimony -- Direct and Rebuttal.

RESPONSE:

Mr. Spanos has been involved in conducting depreciation studies since 1986. The total number of studies is quite large. An attached list of cases in which Mr. Spanos has submitted testimony over the last six or seven years is attached. Each proceeding was a public rate case, so the study and testimony are public documents.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-029

REQUEST:

29. Does Mr. Spanos believe that ratemaking should be driven by the Uniform System of Accounts? If yes, please explain fully why.

RESPONSE:

Ratemaking is not driven by the Uniform System of Accounts. However, the rules and regulations in effect that were established during the development of the Uniform System of Accounts is a major component of ratemaking.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-030

REQUEST:

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?

RESPONSE:

- a. In Mr. Spanos' opinion, the depreciation accrual does not properly recover full service value during the life of the asset in Pennsylvania regulations.
- b. The definition of service value to Pennsylvania regulators is the same, however, the manner of recovery is quite different.
- c. & d. Mr. Spanos does not regularly work with the IRS or the Surface Transportation Board to give an opinion on their definition of "service value".
- e. Mr. Spanos' opinion of GAAP's definition of "service value" is the same as what Mr. Spanos has defined in his exhibit and testimony.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-031

REQUEST:

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.

RESPONSE:

- a. Yes.
- b. There is no obligation to retire and remove plant.
- c. There are assets that are retired in place and ULH&P is not obligated to remove the assets.
- d. SFAS 143 does not apply to this or any other regulatory proceeding.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-032

REQUEST:

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.

RESPONSE:

- a. & b. No. The statement refers to installation and removal on an annual basis compared to depreciation expense.
- c. & d. Mr. Spanos does not make the claim that the purpose of depreciation is to fund new plant installations.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-033

REQUEST:

33. Please refer again to Mr. Spanos' discussion of cash flow on page 7 (lines 13-19). Provide the following information for each calendar year for the last 10 years. If not available for that period, please provide the information going back as many years as is available.
- a. Chairman of the Board's total annual compensation.
 - b. President's total annual compensation.
 - c. Total amount and percent of annual management compensation increases including all bonuses.
 - d. Annual expenditures on unregulated activities.
 - e. Total amount of annual dividends.
 - f. Total amount and percent of annual non-management compensation increases.
 - g. Total annual depreciation expense.

RESPONSE:

- a. – f. The amounts requested are not information obtained by Mr. Spanos during the course of his study.
- g. Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-034

REQUEST:

34. 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.”

RESPONSE:

The evidence that Mr. Spanos is referring to is his exhibit and testimony that supports his proposed depreciation rates and methodologies. Based on Mr. Spanos’ opinion, the evidence in this case, and others that he has been up against Mr. Majoros relating to depreciation, continually supports his reasonable and equitable practice of recovering service value for utilities and ratepayers.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-035

REQUEST:

35. On pages 8-9 Mr. Spanos discusses “excessive depreciation.” Has Mr. Spanos ever presented testimony that asserts that a proposed depreciation rate is too high, and that a reduced rate should be adopted?

RESPONSE:

All of Mr. Spanos’ proposed rates are considered to be at a level most appropriate and reasonable for the recovery of plant in service. In many cases Mr. Spanos has proposed depreciation rates that are an increase from the current rates and in many cases Mr. Spanos has proposed depreciation rates that are a reduction in current rates.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-036

REQUEST:

36. Does Mr. Spanos believe it is possible for a depreciation rate to be excessive? If yes, under what circumstances? If not, why not?

RESPONSE:

Mr. Spanos does not believe a depreciation rate can be excessive at the time it is proposed or that any of his rates would produce over-recovery. However, it is possible to look back in time to see that some depreciation rates turned out to be high and some turned out to be low. This is all a component of estimation and changes in the utility business.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-037

REQUEST:

37. Please refer to page 10, line 10. Identify and explain the principles of customer equity that Mr. Majoros' recommendations violate.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-038

REQUEST:

38. On page 10, lines 18-19, Mr. Spanos states that "...net salvage is a capital cost to be recovered through depreciation accruals."
- a. Is it Mr. Spanos' understanding that net salvage is not capitalized under the Uniform System of Accounts?
 - b. If so, what is the basis for calling net salvage "a capital cost" in your testimony here?
 - c. Whose capital is reflected in accumulated depreciation – shareholders' or ratepayers'?
 - d. Reconcile this statement with the statement on page 6, lines 8-13.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos



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AG-DR-03-039

REQUEST:

39. 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.
- a. Does Mr. Spanos object to a specific KPSC recognition of a regulatory liability relating to SFAS No. 143?
 - b. 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.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-040

REQUEST:

40. 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."
- a. 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?
 - b. 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.
 - c. 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.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-041

REQUEST:

41. 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.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos



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AG-DR-03-042

REQUEST:

42. 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.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-043

REQUEST:

43. 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?

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos



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AG-DR-03-044

REQUEST:

44. Please refer to page 22, lines 17-19. Please provide all available proof for the statement on those lines.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-045

REQUEST:

45. Please refer to page 25, lines 11-14. Please explain why Mr. Majoros' recommendations are inconsistent with the treatment described in that answer.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-046

REQUEST:

46. 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.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-047

REQUEST:

47. 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.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-048

REQUEST:

48. 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.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-049

REQUEST:

49. 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.

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos

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AG-DR-03-050

REQUEST:

50. Please refer to page 39, lines 2-3. Please explain exactly what Mr. Spanos means by the statement "Mr. Majoros' attempt to impose his concepts of depreciation as influenced by financial accounting standards through the back door..."

RESPONSE:

Will supplement.

WITNESS RESPONSIBLE: John J. Spanos