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John J. Finnigan, Jr.
Senior Counsel

VIA OVERNIGHT MAIL

August 10, 2005

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of an Adjustment of Gas Rates of The Union Light, Heat and Power Company
Case No. 2005-00042

Dear Ms. O'Donnell:

Enclosed please find an original and ten copies of ULH&P's supplemental responses to numbers 37, 40, 41, 43, 47, 49 and 50 of the Attorney General's Third Set of data requests in the above-referenced case. With this supplemental filing, ULH&P's responses are complete.

Please note a small error in the previous two filings of ULH&P's responses to these data requests. The caption in the upper right hand corner is in error. Each data request is titled "Attorney General First Set of Data Requests," but as the volume cover label states, the responses are to the Attorney General's Third Set of Data Requests.

Finally, I have also enclosed the original and ten copies of ULH&P's Certificate of Notice to the Public of Change in Tariff Which Results in Increased Rates.

Please file-stamp and return the two extra copies of this letter and the Certificate of Notice in the enclosed over-night envelope.

If you have any questions, please call me at (513) 287-3601.

Sincerely,

John Finnigan

John J. Finnigan, Jr.
Senior Counsel

JJF/sew
cc: Hon. Elizabeth Blackford (via overnight mail with encl.)

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COMMISSION

AG-DR-03-037-Supplemental

REQUEST:

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

RESPONSE:

The reference on page 10, line 10, is to the principles of customer equity that would be violated if ULH&P's depreciation rates for ratemaking purposes complied with the standards for financial reporting as set forth in Financial Accounting Standard No. 143, a statement addressed to a significant extent in the testimony of Mr. Majoros. It does not refer to the recommendations of Mr. Majoros.

WITNESS RESPONSIBLE: John J. Spanos

Attorney General Third Set Data Requests
ULH&P Case No. 2005-00042
Date Received: July 29, 2005
Response Due Date: August 11, 2005

AG-DR-03-040-Supplemental

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:

a. – c. Mr. Spanos believes that ULH&P has implemented depreciation rates as authorized by the Commission for ratemaking purposes.

d. As stated in his testimony, cost of removal is an end of life cost that must be accrued for during the life of the asset. Therefore, collections from customers and past accruals are not always the same each year, plus when using average lives, a specific year can be high or low as compared to the average.

e. Future represents the period of time after the present, thus, post test year.

f. Mr. Spanos believes estimating cost of removal is not an exact science; however, there are quite a few indicators that allow depreciation experts to project future expectations more accurately. There is some judgment in estimates of future cost of removal.

g. & h. Mr. Spanos' claim is supported in theory by all Commission staffs.

i. The theory of depreciation is established to insure full recovery of service value through depreciation accruals, therefore, the accumulated depreciation amounts represent the level actually booked, it is not related to service rendered. Thus, the two concepts are not the same.

j. Past collections should not need to be a discussion when utilizing the remaining life method.

k. Any adjustments or over/under accrued situations are corrected in rates when utilizing the remaining life method.

WITNESS RESPONSIBLE: John J. Spanos

AG-DR-03-041-Supplemental

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:

a. This statement is supported by the concept of averages and the fact that labor costs will continue to rise over time. Mr. Spanos has analyzed the data to determine that the average age of retirements data have been less than the average service life his is recommending. Therefore, future retirements will be more than the average service life. Therefore, the cost to remove percentage will continue to increase as a percentage of the plant dollars retired. Consequently, the net salvage component will increase in the future and cause my current accruals to be less than the actual costs incurred.

b. The overall cost of removal is a true labor expenditure so the costs must be recovered in rates, on way or another. The allocation of time associated to mains and services is the only factor controlled by ULH&P not the total amount of costs.

WITNESS RESPONSIBLE: John J. Spanos

AG-DR-03-043-Supplemental

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:

a. – d. Mr. Spanos does not agree with Mr. Majoros' SFAS 143 Fair Value Approach as stated in Mr. Spanos' testimony due to the inappropriate regulatory issue. Eliminating components of a depreciation rate to support an approach to recover is not reasonable. Therefore, attempting to compare components has not been done by Mr. Spanos as it violates his development of a depreciation rate.

WITNESS RESPONSIBLE: John J. Spanos

Attorney General Third Set Data Requests
ULH&P Case No. 2005-00042
Date Received: July 29, 2005
Response Due Date: August 11, 2005

AG-DR-03-047-Supplemental

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:

Mr. Spanos' rationalizations about service life and net salvage for the accounts discussed on pages 30-37 of his rebuttal testimony relate to his years of experience and the information obtained while doing depreciation studies. Specific information in his rebuttal testimony related to each account would be part of field trip notes, management outlook **[Response AG, Set 1, Nos. 3 & 4]**, and general knowledge when conducting studies. Mr. Spanos' rationalizations about Mr. Majoros' estimates can be found when analyzing Mr. Majoros' exhibits.

WITNESS RESPONSIBLE: John J. Spanos

Attorney General Third Set Data Requests
ULH&P Case No. 2005-00042
Date Received: July 29, 2005
Response Due Date: August 11, 2005

AG-DR-03-049-Supplemental

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:

a. & b. Mr. Spanos does not object to the establishment of separate depreciation rates and accumulated depreciation amounts for capital recovery and net salvage. However, Mr. Spanos does not feel that this is necessary because there are factors in the remaining life composite rate for which the combined rate is not always equal to the separated rates. Additionally, the past book reserve has been accumulated based on a combined rate, therefore, separation of the book reserve for each component is critical in moving forward, if the rate is separated to accurately record future depreciation expense.

c. & d.The Company will not be harmed if the depreciation rate is separated, however, record keeping of future cost of removal and gross salvage will have to change to properly match the accrual component with the incurred amount.

WITNESS RESPONSIBLE: John J. Spanos

AG-DR-03-050-Supplemental

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:

Mr. Majoros is trying to establish financial accounting concepts with regulatory issues, and thus, not directly addressing the concept of ratemaking depreciation when discussing financial accounting issues. In Mr. Spanos' opinion, this is coming through the back door.

WITNESS RESPONSIBLE: John J. Spanos