

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY)
CORPORATION FOR AN ADJUSTMENT)
OF RATES) CASE NO. 2006-00464

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 7 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before June 1, 2007. Each copy of the data requested should be placed in a bound volume with each item tabbed. Responses to requests for information shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6, and shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be under oath or, for representatives of a public or private corporation, a partnership, an 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 response if it obtains information upon the basis of which it knows that the response was incorrect when

made or, though correct when made, is now incorrect in any material respect. For any request to which the AG fails to furnish all or part of the requested information, the AG shall provide a written explanation of the specific grounds for his failure to furnish.

Careful attention shall be given to copied material to ensure its legibility. 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 provided for total company operations and jurisdictional operations, separately.

1. Refer to the Direct Testimony of Robert J. Henkes (“Henkes Testimony”), page 8, and Schedule RJH-1. Concerning the inclusion of the late payment fees as a component of the gross revenue conversion factor:

a. Is Mr. Henkes aware of any previous natural gas case decided by the Commission that included the late payment fees as a component of the gross revenue conversion factor? If yes, identify the case.

b. Refer to Schedule RJH-1. Recalculate the AG’s recommended revenue deficiency utilizing a gross revenue conversion factor that does not include a component for the late payment fees. Indicate the dollar difference between the two revenue deficiencies.

c. In Atmos Energy Corporation’s (“Atmos”) response to the AG’s Second Data Request dated March 30, 2007 (“AG Second Request”), Item 22, Atmos determined that the increase in the late payment fees corresponding with the proposed increase in base rate revenues was \$80,502. Explain in detail why it would be more appropriate to reflect the late payment fees as a component of the gross conversion

revenue factor rather than recognizing the additional \$80,502 in late payment fees in the determination of the overall net operating income found reasonable.

2. Refer to the Henkes Testimony, pages 11 and 12. Explain why Mr. Henkes did not propose a slippage adjustment to the utility plant in service and construction work in progress balances.

3. Refer to the Henkes Testimony, pages 17 and 18 and Schedule RJH-7.

a. Does Mr. Henkes agree that property taxes are billed to a utility once a year, rather than billed monthly?

b. Explain why Mr. Henkes is proposing that the projected 3 percent increase in property taxes effective in November 2007 only be reflected in his adjustment for 8 months rather than for a full year.

4. Refer to the Henkes Testimony, page 19. Would Mr. Henkes agree that the most current PSC Assessment rate should be reflected in the determination of revenue requirements in this case?

5. Refer to the Henkes Testimony, page 20. Starting on line 5, Mr. Henkes states, "It has been Commission practice to allow rate recognition for all prudently incurred rate case expenses actually incurred as of the close of record in utility base rate proceedings."

a. Would Mr. Henkes agree that the practice he describes in this quote relates to how rate case expenses have been treated in historic test-period cases?

b. Would Mr. Henkes agree that in Case No. 2005-00042¹ the forecasted rate case expense was included in the determination of revenue requirements? Explain the response.

6. Refer to the Henkes Testimony, pages 28 and 29, and Schedule RJH-12. Mr. Henkes recommends the removal of \$178,809 in public relations and community relations expenses and cites Atmos's response to the AG Second Request, Item 32. Based on the responses to Item 32(b), explain why Mr. Henkes believes the examples cited by Atmos should be excluded for rate-making purposes.

7. Refer to the Henkes Testimony, pages 33 and 34, and Schedule RJH-14. Concerning his proposed adjustment to the American Gas Association ("AGA") dues, Mr. Henkes recommends the exclusion of 23.29 percent of the dues based on the AGA 2007 budget for public affairs. Did Mr. Henkes consider excluding for rate-making purposes any other components listed in the AGA 2007 budget? Explain the response.

8. Refer to the Henkes Testimony, pages 35 through 38, regarding the proposed recovery of gas cost uncollectibles through the Gas Cost Adjustment ("GCA"). In jurisdictions where Mr. Henkes has submitted testimony concerning the recovery of gas cost uncollectibles through the GCA, what was Mr. Henkes' recommendation on the proposal? If testimony was submitted by Mr. Henkes, cite the case(s) and state the final decision on the proposed recovery.

9. Refer to the Henkes Testimony, pages 39 through 53, regarding the customer rate stabilization ("CRS") mechanism.

¹ Case No. 2005-00042, An Adjustment of the Gas Rates of The Union Light, Heat and Power Company.

a. In jurisdictions where Mr. Henkes has submitted testimony concerning a CRS mechanism, what was Mr. Henkes' recommendation on the proposal? If testimony was submitted by Mr. Henkes, cite the case(s) and state the final decision on the proposed CRS mechanism.

b. Would Mr. Henkes find Atmos's proposed CRS mechanism objectionable if it did not provide for a revenue adjustment for any projected rate base investments, revenues, and costs for the Rate Effective Period?

c. Would Mr. Henkes find Atmos's proposed CRS mechanism objectionable if it did not provide for a revenue adjustment for any projected rate base investments, revenues, and costs for the Rate Effective Period but included incentives designed to promote energy efficiency?

d. If Atmos was allowed to implement some form of CRS mechanism would Mr. Henkes agree that the rate of return on equity should be reduced to recognize the fact that Atmos would face less risk?

10. Refer to the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Testimony"), pages 7 and 11 of 25. Mr. Majoros proposes to include cost of removal factors in Atmos's depreciation rates that are based on the average of the most recent 5 years of Atmos's actual cost of removal experience. The Staff notes that in Case No. 2005-00042 Mr. Majoros opposed the use of the most recent 5-year average salvage data.² In that case, the Commission found that it was more reasonable to base the net salvage factor for Plant Account No. 276 on all the historic salvage data available.³

² Case No. 2005-00042, Majoros Direct Testimony at 17 through 19 of 40.

³ Case No. 2005-00042, December 22, 2005 Order at 35.

a. Identify and explain in detail the reasons why Mr. Majoros opposed the use of the most recent 5-year average salvage data in Case No. 2005-00042 but advocates the current 5-year average approach in this case.

b. On page 11 of 25 Mr. Majoros states that Atmos maintains its actual expenditures for cost of removal. Did Mr. Majoros review all the historic actual cost of removal data when preparing his testimony? Explain the response.

c. Explain in detail why the cost of removal factors incorporated into the depreciation rates for Atmos should not reflect all available historic cost of removal data.

d. Recalculate Exhibits MJM-3 and MJM-4 reflecting the use of cost of removal factors based on all available historic actual cost of removal data. Include any additional workpapers, schedules, or assumptions used to prepare the recalculations.

11. Refer to the Majoros Testimony, page 12 of 25.

a. To the extent he can determine, does Mr. Majoros believe that Atmos is in compliance with the requirements of Statement of Financial Accounting Standard ("SFAS") No. 143 for accounting pursuant to generally accepted accounting principles?

b. To the extent he can determine, does Mr. Majoros believe that Atmos is in compliance with the Federal Energy Regulatory Commission's ("FERC") Order No. 631, paragraph 38, concerning the accounting records to be maintained for non-legal asset retirement obligations ("ARO")?

c. Does either SFAS No. 143 or FERC Order No. 631 prescribe the rate-making treatment that this Commission must follow concerning non-legal AROs?

12. Refer to the Majoros Testimony, page 13 of 25. Mr. Majoros states, "The regulatory liability for the KY jurisdiction increased by the amount that Atmos collected from KY ratepayers, over and above its actual removal costs for each period."

a. Explain in detail how Mr. Majoros determined that the increase in the regulatory liability was a result of amounts over and above the actual removal costs.

b. Has Mr. Majoros prepared an analysis of plant retirements or removals that compares the estimated costs included in depreciation rates with the corresponding actual costs of removal?

(1) If yes, provide the analysis. Include all supporting workpapers, schedules, and assumptions.

(2) If no, explain why such an analysis has not been performed.

13. Refer to the Majoros Testimony, page 21 of 25. Mr. Majoros states, "All that is necessary to create a legal obligation is for Atmos to promise the Commission and the public at large that it will do the work, incur the cost, and spend the money it collects for that cost on that cost." SFAS No. 143, Paragraph B23 states,

This Statement applies to legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. As used in this Statement, a legal obligation is an obligation that a party is required to settle as a result of existing or enacted law, statute, ordinance, written or oral contract or by legal construction under the doctrine of promissory estoppel.

a. Explain how Mr. Majoros determined the requirements to create his referenced "legal obligation."

b. Would Mr. Majoros agree that his definition of what is required to create a legal obligation does not conform to the definition of legal obligation as used in SFAS No. 143, Paragraph B23? Explain the response.

14. Refer to the Direct Testimony of Dr. J. Randall Woolridge (“Woolridge Testimony”), pages 9, 10, and 61. Provide an explanation of why investors, as a result of the 2003 tax law change, should be forced to give up that incremental increase in investment returns and to give it to ratepayers.

15. Refer to the Woolridge Testimony, pages 12 through 14. Page 9 of the Direct Testimony of Laurie M. Sherwood includes the following statement, “Although the Company does not believe that it is appropriate to include short-term debt in the Company’s capital structure herein, should the Commission find to the contrary, then I recommend that the Commission adopt the Company’s projected cost of short-term debt at June 30, 2008.” Schedule J-1.2 of the Application presented a 13-month average capital structure for the base and forecasted test periods that included short-term debt. In its response to the AG’s First Data Request dated February 20, 2007, Item 1, Atmos presented a corrected version of Schedule J-1.2.

a. Was Dr. Woolridge aware of the statement quoted from Ms. Sherwood’s direct testimony?

b. Did Dr. Woolridge review the corrected version of Schedule J-1.2 that was submitted as part of Atmos’s response to Item 1? Explain the response.

c. Would Dr. Woolridge agree that his proposed capital structure and debt cost rates shown on page 14 of his direct testimony agree with the capital structure

and debt cost rates shown for the forecasted test period in the corrected version of Schedule J-1.2?

16. Refer to the Woolridge Testimony, pages 32 through 34, and Exhibit JRW-6, pages 3 and 4 of 5.

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

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

17. Refer to the Woolridge Testimony, page 39. Explain why the 20-year treasury bonds would not be preferable to the 10-year treasury bonds as the risk free rate.

18. 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 whether the purpose and results of the studies were intended to be directly comparable to one another or to be used in the present context.

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. Provide an explanation of "Puzzle Research" and each of the studies under this heading.

c. Provide a copy of the March 2007 Duke University "CFO Magazine Survey of CFOs" 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 approach to calculating risk premiums, provide those discussions.

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

f. Exhibit JRW-7, page 3 of 5, does not contain references for all of the entries. Provide the references for the omitted entries.

g. Presumably all of 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. State whether any of the exhibit entries have been adjusted for inflation in any way. If so, state which entries and explain 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.

19. 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.

20. Refer to the Direct Testimony of Charles W. King ("King Testimony"), page 9. Mr. King states that one problem with Atmos's proposal is that the review of the CRS mechanism would be done with no public record. Wouldn't the application and discovery documents be public record?

21. Refer to the King Testimony, pages 4 through 12, regarding the CRS mechanism.

a. In jurisdictions where Mr. King has submitted testimony concerning a CRS mechanism, what was Mr. King's recommendation on the proposal? If testimony was submitted by Mr. King, cite the case(s) and state the final decision on the proposed CRS mechanism.

b. Would Mr. King find Atmos's proposed CRS mechanism objectionable if it did not provide for a revenue adjustment for any projected rate base investments, revenues, and costs for the Rate Effective Period?

c. Would Mr. King find Atmos's proposed CRS mechanism objectionable if it did not provide for a revenue adjustment for any projected rate base investments, revenues, and costs for the Rate Effective Period but included incentives designed to promote energy efficiency?

d. If Atmos was allowed to implement some form of CRS mechanism, would Mr. King agree that the rate of return on equity should be reduced to recognize the fact that Atmos would face less risk?

22. Refer to the King Testimony, page 15, where Mr. King discusses why Atmos's proposed rate reduction in the volumetric charge for those customers using

between 0 and 300 Mcf is rewarding commercial and industrial customers whose usage is close to the 300 Mcf threshold.

a. For clarification, is Mr. King arguing that the customer charge has more of an effect on the residential customer bill than the volumetric charge?

b. Provide a discussion of how a colder than normal winter would affect a residential customer's bill under Atmos's proposed rates and Mr. King's proposed rates.



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DATED MAY 18, 2007

cc: All Parties

Case No. 2006-00464