

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF)
COLUMBIA GAS OF KENTUCKY, INC.) CASE NO. 10201

O R D E R

IT IS ORDERED that Columbia Gas of Kentucky, Inc. ("Columbia"), shall file an original and 10 copies of the following information with the Commission with a copy to all parties of record no later than June 23, 1988. If the information cannot be provided by this date, Columbia should submit a motion for an extension of time stating the reason a delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission. Columbia shall furnish with each response the name of the witness who will be available at the public hearing for responding to questions concerning each item of information requested.

1. With reference to Item No. 15(b) of the Commission's Information Request No. 2, provide the following information:

a. Explain why Columbia expended a greater amount for wages and salaries than it incurred during the years 1983-1987.

b. Provide the wages and salaries capitalized/total wages and salaries ratio for the years 1983-1987.

2. With reference to the response to Item No. 16, Sheet 5 of the Commission's Information Request No. 2, provide the following information:

a. State the title of each subaccount used in this adjustment and explain the items accounted for in each account.

b. Explain why each subaccount has been used in arriving at this adjustment.

3. With reference to Item No. 17 of the Commission's Information Request No. 2, provide the following information:

a. Is it correct that the use of the net charge of method that was used in Case No. 9003, Columbia Gas of Kentucky's Intent to File a Rate Case, is acceptable to Columbia in this case? If not, explain why it is not.

4. With reference to Item No. 19 of the Commission's Information Request No. 2, provide the following information:

a. State whether the wages and salaries of those employees of Columbia Gas System who are involved in processing this case were considered in establishing Columbia Gas System's wholesale gas rate in its latest proceeding before FERC.

b. Of the \$7,857 amount for employee expenses and labor, state the amount that is projected to be for travel and the amount for overtime wages. Also, explain the basis for these projections.

c. State why outside legal counsel is necessary. Also, explain why the services to be provided by outside counsel cannot be obtained from Columbia's internal legal staff.

d. In the response to Item 19(d), Columbia states that rate case services cannot be obtained from Columbia's internal staff because "For rate of return purposes, Columbia System debt equity ratio are used for Columbia Gas of Kentucky." Explain the relationship between rate case expense and debt equity ratio.

5. With reference to Item No. 21 of the Commission's Information Request No. 2, provide the following information:

a. With reference to Item No. 21(b), provide a breakdown showing the individual cost items that comprise the \$42,279 expenditure for CDC cost, the \$386,044 expenditure for system service cost, and the \$285,839 expenditure for consultation services.

b. With reference to Item No. 21(d), explain how Columbia was able to operate the CIS System during 1987 at no cost.

c. With reference to Item No. 21(e), reference the portion of Columbia's calculation that recognizes the cost savings that will be derived from this more efficient information system. Also, state the total cost savings that will be realized and state the amount of cost savings that are recognized in Columbia's adjustment.

d. With reference to Item No. 21(g), provide copies of the references Columbia relied upon in determining that cost recovery of this type is 3 to 5 years for rate-making purposes.

6. With reference to Item No. 22 of the Commission's Information Request No. 2, provide the following information:

a. With reference to Item No. 22(a)(3), cite the Item No. and Page No. to which Columbia is referring.

b. With reference to Item No. 22(a)(5), state and explain the basis for Columbia's projection that employee pension and benefits will increase by 1.1 percent.

c. In its response to Item No. 16 of the Commission's Information Request No. 1, Columbia did not respond to that portion requesting "a complete detailed narrative explanation of each adjustment including the reason why each adjustment is required," nor to the portion requesting that Columbia "explain in detail all components used in each calculation including the methodology employed and all assumptions applied in the derivation of each adjustment." Item No. 22 of the Commission's Information Request No. 2 again requested this information and Columbia again failed to provide the requested information. Thus the information has not been furnished. Please provide this information or explain why Columbia believes it should not be required to provide it.

7. With reference to Item No. 23 of the Commission's Information Request No. 2, provide the following information:

a. State the number of customers that had RCS audits during the test year.

b. State and explain the basis for Columbia's projection that 250 customers will have RCS audits during 1988.

c. Provide a breakdown showing the costs which comprise the \$75 average cost per audit.

8. With reference to Item No. 28 of the Commission's Information Request No. 2, provide the following information:

a. With reference to Item No. 28(a), state whether Columbia considers the expense items to be recurring. Also, explain why Columbia chose to expense, rather than capitalize, those costs.

b. With reference to Item No. 28(b), provide copies of advertisements used to promote the single-family and multi-family programs. Also, provide copies of advertisements used to promote high efficient space heating equipment advertising.

c. With reference to Item No. 28(i), provide a breakdown showing the individual cost items associated with investigating the possible company ownership of customer service lines. Also, state whether Columbia believes these costs will recur. If yes, explain why Columbia believes these costs will recur.

d. With reference to Item No. 28(k), state whether all or a portion of the \$49,000 cost associated with the DIS System is also included in the \$664,161 amount related to the DIS System that Columbia proposes to amortize. Also, explain why this cost item was not deferred and state whether Columbia considers this cost to be recurring in nature.

9. With reference to Item No. 33 of the Commission's second request, provide the following information:

a. Provide an analysis of Accounts Payable to Associated Companies which includes all end-of-month balances in excess of \$50,000 owed to a single supplier for each month from December 1986 through December 1987. For each amount in excess of \$50,000 provide the debit side of the entry, the name of the entity to be paid, the date when the indebtedness was incurred,

and a description of the assets or services grouped with analogous information as described above. The total balance for each month should reconcile with the monthly balances for payables to Associated Companies as reported in Columbia's response to Item No. 9 of the Commission's Order dated April 11, 1988. The response should be formatted in the same manner as the response to Item No. 3 of the Commission's Order dated July 17, 1984 in Case No. 9003.

b. Explain why Columbia believes the "delay in recovery of costs from the ratepayer (Accounts Receivable)" should be considered in determining the adjustment to reduce prepaid nominated gas balances for amounts identifiable in cost-free accounts payable.

10. With reference to the response to Item No. 36 of the Commission's second request, provide the following information:

a. With reference to items (a) - (d) and (f), provide Columbia's best estimate of the information requested in these items.

b. If Columbia is unable to provide the information requested in (a) above, state Columbia's position regarding the appropriateness of adjustments being made to recognize savings and benefits in the amounts set forth in the December 1986 Management Audit.

c. If Columbia disagrees with the appropriateness of the methodology described in (b) above, state and describe the method that Columbia believes most appropriate to identify and

recognize the savings that will be realized as the recommendations of the management audit are implemented and savings are realized.

11. In response to Question 41 of the Commission Order dated May 26, 1988, Columbia addressed questions regarding its proposed rate schedule transfers. Provide the following information as follow-up to those questions:

a. In part (f), Columbia stated no GS interruptible customer could save money by switching to either Rate Schedule FI or IS under current rates. For those customers identified by Account Nos. 4176, 2200, 4190, and 4030 in Item 16 of the response to the Commission's Order of April 11, 1988 provide, for test-year tariff sales, a comparison of annual bills at current rates under Rate Schedule GS and either FI or IS as applicable.

b. In part (h) of the response, Columbia states that the three customers with no transportation during the test period will switch to transportation and that their decisions to transport were not based on the proposed rates. Given that the decision to transport was not based on proposed rates and that current transportation rates are the same for Rate Schedules GS and FI, explain whether the proposed transfer to FI is based on the proposed increase in the GS interruptible transportation rate. For what reason, other than approval of the proposed transportation rate, would these transfers take place?

12. In response to Question 38 of the May 26, 1988 Order, Columbia discussed its DS flex rates and revenues. Provide the following information as follow-up:

a. Per calculations from the summary sheet included in the response, flex rates for customers A, B, and C averaged \$.20, \$.10 and \$.56, respectively, in the test year. Provide the rationale for using the flex rates at a single point in time (at the time the revenues were being developed) for the purposes of determining revenue requirements and setting rates.

b. In its Order on Rehearing in Case No. 9003, the Commission advised Columbia that it must document and fully support the necessity of flexing its rates or Columbia's stockholders, not its ratepayers, would bear the amount of the difference between fixed and flex rate revenues. Provide for the record in this proceeding full documentation and support for the need to flex rates as was done during the test year. Explain why flex revenues should not be imputed, for rate-making purposes, at \$.3712.

13. In response to Question 42 of the May 26, 1988 Order, and in Item 58 of the response to the Attorney General, Columbia provided an explanation and calculations in support of its weather normalization adjustment. Provide the following information as backup for those responses:

a. For heat accounts, explain in detail the derivation of the base load usage per customer as shown in Section 2.

b. Explain why base load usage per customer varies from month to month for heat accounts but remains constant for incidental accounts.

c. Provide supporting documentation for the normal degree days for 1951-1980 as published by NOAA.

d. Explain what consideration was given to updating the 1951-1980 base period to reflect a more current figure for normal degree days.

e. Provide actual degree days, on a monthly basis, per year, for the years 1981-1987.

14. In response to Question 43 of the May 26, 1988 Order, Columbia discussed revenue allocation. Provide the following information as follow-up:

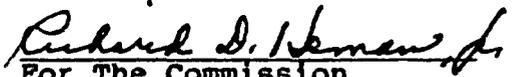
a. Once it was determined that the proposed increase would be apportioned to rate schedules on the basis of the markup above gas costs, how was the allocation within rate schedules, between fixed charges and commodity charges, determined?

b. Under the proposed rates, each rate class would get the same approximate increase of 25 percent, exclusive of gas costs. Why does the settlement agreement from Case No. 9554, Adjustment of Rates of Columbia Gas of Kentucky, Inc., restrict the allocation of the increase within the various rate classes?

15. Are LPG and NG cost and expenses added together? If yes, why?

Done at Frankfort, Kentucky this 16th day of June, 1988.

PUBLIC SERVICE COMMISSION


For The Commission

ATTEST:

Executive Director