COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

RATE APPLICATION OF WESTERN KENTUCKY GAS COMPANY	) CASE NO. 95-010

O R D E R

IT IS ORDERED that Western Kentucky Gas ("Western") shall file the original and 12 copies of the following information with the Commission no later than April 5, 1995, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to the Summary of LVS Adjustments on WP 2-1 in Section 25 of the application which shows changes to industrial sales and transportation volumes for the test year.

a. The table on WP 2-1 shows a net decrease of 566,686 Mcf; however, the amounts identified in the footnotes reflect a net decrease of only 505,175 Mcf. The totals in Column (i) of the table for Annualized Industrial Expansion (4) and Customer Growth (5) match the amounts in the corresponding footnotes; however, none of the other amounts in Column (i) match the amounts in the corresponding footnotes. Provide a reconciliation, with a narrative explanation, of the amounts in the table and in the footnotes.

b. The footnote to Contract Reformation (7) in the table refers to a large industrial customer which took 587,000 Mcf in the test year and which has received FERC approval to bypass Western. Is it still taking service from Western? If yes, when does it plan to stop? If no, when did it stop?

2. Refer to WP 2-2 and WP 2-3 in Section 25 of the application which support the proposed weather normalization adjustment.

a. For WP 2-2, Pages 1 through 3, explain the derivation of the "X Coefficient" in Column (c) and the "Constant" in Column (e). Provide workpapers as necessary.

b. Explain the footnote on WP 2-3. Why are the National Oceanic and Atmospheric Administration ("NOAA") normal degree days only provided through June 1994? Identify the historical periods used by NOAA and Western to establish normal degree days.

3. Refer to Schedule 2 in Section 25 of the application, at Page 1, Line 53, which shows Additional Contract Reformation with a revenue impact of $(700,000) and a footnote indicating the amount is based on confidential information.

a. Provide a detailed description of the changes, in either volumes or rates, that cause this revenue reduction.

b. Explain why this information could not be reported on Page 2 of Schedule 2 under Special Contracts.

4. Refer to the Gas Cost Worksheet, on Sheet 3 of the workpapers to the Class Cost of Service Study, in Section 36 of the application, which shows gas costs at present and proposed rates.

a. Explain why demand costs are $1.6 million greater under proposed rates than under current rates.

b. Schedule 3 in Section 25 of the application shows Western's cost of gas at existing rates based on the proposed volume adjustments from Schedule 2 of Section 25. Provide a breakdown of Western's gas cost in a similar format at proposed rates, reflecting the proposed changes to the Gas Cost Adjustment ("GCA").

c. The Gas Cost Worksheet shows the High Load Factor demand charge of $5.8429 per Mcf and the High Load Factor commodity credit of $(0.8250) per Mcf. Explain the derivation of these amounts. Provide workpapers as necessary.

5. Refer to page 19 of the Class Cost of Service Study in Section 36 of the application which shows the calculation of revenues at proposed rates. Provide the derivation of the 105,000

Mcf subject to the High Load Factor demand charge and the 1,900,857 Mcf subject to the High Load Factor commodity credit.

6. Per the Class Cost of Service Study in Section 36 of the application, class rates of return under proposed rates are moving toward the proposed overall rate of return of 11.16 percent. Residential, at .86 percent, and commercial, at 2.49 percent, are the two classes below the overall rate of return at present rates. Explain the decision to increase the residential return from .86 percent to 11.01, while increasing the commercial return from 2.49 percent to 9.10 percent.

7. Refer to the response to Item 42 of the Commission's Order dated February 9, 1995 which shows that Western experienced an average annual increase in customers of 2,802 from 1989 to 1993; and, that for the proposed test year ended September 30, 1994, the average number of customers increased by 3,185 over calendar year 1993. With this recent history of sustained growth, explain why Western made no adjustment to revenues to reflect customer growth.

8. Refer to Page 20 of the Class Cost of Service Study in Section 36 of the application which shows the monthly customer costs upon which the proposed customer charges are based.

a. Explain the reasons for setting the residential customer charge at an amount equal to 75 percent of cost while setting the non-residential customer charge at an amount equal to only 62 percent of the cost for commercial customers and less than 20 percent of the cost for firm industrial customers.

b. The two interruptible customer classes have monthly customer costs ranging from $329 to $1,371. Why does Western propose to charge both classes only $150, rather than establishing separate customer charges that better reflect the monthly costs?

9. Refer to the Service Charge Cost Analysis included in Exhibit THP-2.

a. What is the basis for the assumption that the average travel speed for Western's service technicians is 35 miles per hour?

b. What is the present status of the budgeted 1995 salary increases that are built into the hourly cost calculations on pages 5 and 6 of the exhibit?

c. Benefits and payroll taxes are included, at 45 percent of base salary, based on their approximate level "in recent years." Provide the actual percentages, and the calculations thereof, for the test year and each of the preceding three calendar years.

d. Explain the rationale for using 25 percent to reflect overhead costs. How was this particular percentage chosen?

10. What is the cost to Western and its other customers of the 10 percent bank tolerance offered on proposed First Revised Sheet No. 35A, Rate T-2 General Transportation Service?

11. The proposed parking rate for Rate T-3, Carriage Service, is $.10 per Mcf per month. The analysis of parking costs in Exhibit THP-1 reflects a cost of $.1238 per Mcf. Explain the

rationale for setting the rate at less than cost for a service that is an optional, extra-cost accessory to Rate T-3 basic service.

12. Refer to the testimony of Jay Carnahan.

a. At pages 9-10 in Mr. Carnahan's discussion of Western's proposed "parking" balancing service, how is Western's use of interstate transportation, interstate pipeline no-notice, and interstate storage service relevant in determining the proposed rate?

b. Are costs related to Western's use of its own system storage and local production to meet its own supply needs more relevant in establishing a rate for the proposed parking service? If no, explain why not.

13. Sections 7 and 8, Special Provisions, of the proposed Rate T-2 and T-3 tariffs, respectively, refer to the installation of electronic flow measurement ("EFM") equipment.

a. Does this provision require the installation of such equipment as a condition for receiving service under Rates T-2 and T-3?

b. Under this provision will the customer be responsible for the cost of the EFM equipment and the related electric and communication equipment? If so, is this in violation of 807 KAR 5:022, Section 8(2)(e)?

c. How many customers will be affected by this provision?

d. Provide a list of the EFM equipment to be installed and the expected cost to Rate T-2 and T-3 transportation customers to comply with this requirement?

e. Why is this equipment necessary for every transportation customer?

f. Do all current transportation customers have this equipment? If so, who paid for it?

g. If daily balancing is necessary, why would historic daily usage available for T-2 and T-3 customers not meet Western's needs in lieu of EFM equipment?

h. With regard to existing measures implemented by Western to maintain balance in its system, how does Western handle unexpected fluctuations in usage by its sales customers? What are these measures, what do they cost, and how are these costs recovered?

i. With regard to LVS customers, how does Western maintain balance in its system when unexpected fluctuations in demand occur? How does Western monitor demand from these customers?

j. Can communication between Western and its T-2 and T-3 customers achieve daily balancing and allow Western to maintain balance in its system equivalent to the degree achievable with daily balancing through EFM equipment? Has Western considered implementing a system using operational flow orders to maintain its system's balance instead of the EFM equipment proposal?

14. Why are the costs to be recovered through the proposed transportation administration fee not recovered in the Base Charge?

15. For Rates T-2 and T-3, why is 9,000 Mcf per year more appropriate as a minimum volume requirement than zero?

a. How does a customer qualify for 9,000 Mcf per year?

b. Is there a daily or monthly volume implicit in the 9,000 Mcf per year requirement which a customer must meet to qualify for Rate T-2 or T-3?

16. What is the relationship between the 9,000 Mcf per year requirement in Rates T-2 and T-3 and the $45 per month transportation administration fee?

17. With regard to Rate T-2, paragraph 10, "Miscellaneous - GF Provision," does this waiver provision expire if Western's transportation tariffs proposed in this case are accepted by the Commission?

18. Western is proposing to modify its GCA tariff to include recovery of working gas inventory carrying costs, stating that the traditional rate base approach does not timely recognize the effects of gas cost volatility, regulatory lag, and significant industry change.

a. Explain whether "significant industry change" related to FERC Order 636 is the only one of these factors that is materially different from the conditions existing at the time of Western's last general rate case.

b. Provide the calculation which shows the derivation of the proposed pre-tax rate of return of 15.78 percent.

c. How can current working gas inventory carrying costs properly be classified as gas costs for recovery through the GCA?

19. What is the effect on the gas cost to firm industrial customers of redesigning the firm industrial rate through the proposed firm high load factor demand charge? Calculate an example showing billing under current and proposed firm industrial rates.

20. Western is requesting a deviation from 807 KAR 5:022, Section 9(17)(a)2, to take over ownership of yard lines. The proposed tariff states that the customer may be responsible for the cost of the yard line (1) in excess of the first 100 feet, or (2) where the service is temporary or uneconomic.

a. The testimony of Mr. Carnahan appears to make a distinction between replacement of existing lines and installation of lines for new customers regarding footage. Does the 100 feet limitation apply to all lines, as per the tariff, or only to new installations, as per the testimony?

b. Describe the conditions under which service might be provided on a temporary basis.

c. Describe the type of economic analysis Western intends to use to determine when service will be "uneconomic." Provide an example.

d. At pages 13-14 in Mr. Carnahan's testimony, he states that Western proposes to assume responsibility for operation and maintenance of residential and commercial yard lines currently in operation.

(1) Explain the actions Western plans to perform as part of operation and maintenance.

(2) How do the operation and maintenance proposed differ from Western's current responsibilities under Commission regulations?

(3) When an existing customer's yard line needs to be replaced, is there a maximum length of yard line Western will replace without cost to the customer?

e. For new customers, Mr. Carnahan states that up to 100 feet of yard line will be provided without cost. Explain the manner in which Western will determine whether the customer is responsible for any costs related to footage in excess of 100 feet.

21. Refer to Volume 3, Item 36, sheet 1 of 10.

a. Explain columns (h)-(j).

b. Explain the rationale for using the percentages on line 2 to allocate the amounts in columns (h)-(j) on line 3.

c. Explain the rationale for using the percentages on line 2 to allocate the amounts in columns (h)-(j) on line 11.

d. Explain the rationale for using the percentages on line 2 to allocate the amounts in columns (h)-(j) on line 21.

e. Explain the basis for the allocations on lines 25 and 27.

22. Refer to Volume 3, Item 36, page 3 of 21. Explain the basis and derivations of the allocation percentages used in footnotes 6 and 7.

23. Refer to Volume 3, Item 36, sheet 2 of 10.

a. Explain why Accounts 380.0, 381.0, and 382.0 are allocated strictly to the Customer category. Are not some of the expenses included in these categories Demand related? Explain.

b. Provide the worksheets used to derive the Gas Cost and Storage percentages found in the Rate Base Classification Table or specify where in the filing they have been provided? Explain the derivation of each percentage allocator.

24. Refer to Volume 3, Item 36, pages 4 and 5 of 21.

a. Explain how the allocated Distribution amounts on page 4 are divided into the Distribution subcategory amounts found on page 5.

b. Explain why the Direct Distribution amount on pages 4 and 5 are less than the amount found on line 19, sheet 2 of 10.

25. Refer to Volume 3, Item 36, page 5 of 21. Explain why the A&P allocator is used only for the Transmission and Production categories.

26. Refer to Volume 3, Item 36, page 7 of 21. Justify the use of each allocation factor in column (a).

27. Refer to Volume 3, Item 36, page 9 of 21. Justify the use of each allocation factor in column (a).

28. Refer to Volume 3, Item 36, page 10 of 21.

a. Explain the basis for the percentage for categories found on lines 3, 5, and 9, noting that the balance of these accounts are found on page 12 of 21.

b. Explain the basis for footnote 4. Show all calculations.

29. Refer to Volume 3, Item 36, page 11 of 21. Justify the use of each allocation factor in column (a).

30. Refer to Volume 3, Item 36, page 13 of 21. Justify the use of each allocation factor in column (a).

31. Refer to Volume 3, Item 36, page 15 of 21. Justify the use of each allocation factor in column (a).

32. Refer to Volume 3, Item 36, pages 16 of 21.

a. For the Rate 1 Commercial class, explain the difference between Regular Sales and Sales & Stand-by.

b. For footnote 3, explain and show all calculations used to estimate design day use for all other customers.

c. Explain and show all calculations used to derive each set of customer weights found on lines 24-37.

d. Explain and show all calculations used to derive the Average and Peak allocator.

e. Explain and show all calculations used to derive the Average and Peak/Gas allocator.

f. Provide all load data used to calculate system and customer class load factors, the Winter Mcf allocator, and that used to support design day calculations.

33. Refer to Volume 3, Item 36, page 17 of 21.

a. Where are the amounts in columns (c)-(g) derived or found?

b. Explain the derivation of each allocation factor in columns (c)-(g).

34. Refer to Volume 3, Item 36, sheet 4 of 10. Explain the labor adjustment in column (b). Show all calculations.

35. Explain how the test year capitalization rate was determined. If differing rates were used for specific expenses (i.e., payroll, transportation clearing accounts, depreciation, etc.), indicate the rate and how it was determined. Indicate all proposed changes to the test-year capitalization rate and how they were determined.

36. Refer to Western's proposed adjustment to overtime as shown on WP 4-3 of Item 25 of the application. Provide the following:

a. A breakdown of the overtime hours for each of the 3 years used in arriving at average overtime hours.

b. An explanation of why a 3 year average of overtime hours was used.

37. Provide a schedule, by taxing district, comparing the ad valorem taxes booked in the fiscal year with those actually paid in calendar year 1994.

38. Refer to WP 4-1 of the application. Why should the payroll tax adjustment be based on total payroll which includes payroll that Western capitalizes?

39. Western is proposing to reduce depreciation expense by $204,981 reflecting amortization of the acquisition adjustment. In

Case Number 90-013[1] Western was ordered to reduce its expenses by $280,204 reflecting the amortization of the same acquisition adjustment. Reconcile these two numbers.

40. Refer to Item 25, Schedule 7, of the application. Explain why Western has not proposed to remove the deferred tax impact of the acquisition adjustment from the deferred taxes that are deducted from rate base.

41. Refer to Item 25, Schedule 7, of the application. Western is proposing to include Working Gas in Storage in rate base. However, in Mary Lovell's testimony, recovery of working gas inventory carrying cost is proposed to occur through the monthly Gas Cost Adjustment ("GCA"). Explain why Western has not proposed to remove working gas in storage from rate base to recognize its proposed recovery through the GCA.

42. Refer to Western's response to Item 3(a), Schedule 2, of the Commission's February 9, 1995 Order. Has Western considered refinancing its outstanding $18,000,000 note bearing interest at 11.2 percent? If so, provide any analysis the company relied upon in its consideration and if it has not considered such action, state why it has not.

43. Refer to Western's response to Item 18(a) of the Commission's February 9, 1995 Order. Provide an explanation for

---

[1] Case No. 90-013, Rate Adjustment of Western Kentucky Gas Company, Rehearing Order dated May 29, 1991.

the change in account activity reported in the two time periods shown for each of the following:

a. Account No. 735, Miscellaneous Production Expenses.

b. Account No. 752, Gas Well Expenses.

c. Account No. 756, Field Measures-Reg Sta Expenses.

d. Account No. 766, Maint Measures-Reg Sta Equipment.

e. Account No. 798, Other Exploration.

f. Account No. 807, Purchased Gas Expenses.

g. Account No. 812, Gas Used for Other Utility Operations.

h. Account No. 816, Well Expenses.

i. Account No. 817, Line Expenses.

j. Account No. 818, Comp Station Expenses.

k. Account No. 831, Maint Structures-Improvements.

l. Account No. 832, Maint of Wells.

m. Account No. 833, Maint of Lines.

n. Account No. 834, Maint of Comp Station Equip.

o. Account No. 860, Rents.

p. Account No. 880, Other Expenses.

q. Account No. 881, Rents.

r. Account No. 887, Mains.

s. Account No. 911, Informational Advertising.

t. Account No. 916, Demonstration and Selling Expense.

u. Account No. 917, Advertising Expense.

v. Account No. 923, Outside Services Employed.

w. Account No. 925, Injuries and Damages.

44. Refer to Western's response to Item 19 of the Commission's February 9, 1995 Order. Explain what constitutes an Executive, Exempt or Operating employee.

45. Refer to Western's response to Item 25(a), page 2 of 2, of the Commission's February 9, 1995 Order. State which expenses of the total $5,412.55 in charges to Account No. 913 are included for rate-making purposes and why.

46. Refer to Western's response to Item 25(b) of the Commission's February 9, 1995 Order. For each of the following direct expenses of Western, state whether the expense has been included for rate-making purposes and if so why.

a. Page No. 1, Cost of Research and Experiment.

b. Numerous pages, Economic Development organizations.

c. Page 12, Industry Inc.

d. Numerous pages, Home Builders Association.

47. Refer to Western's response to Item 25(b) of the Commission's February 9, 1995 Order. For each of the following Atmos general office expenses, state how much has been allocated to Western and the purpose of the expense. Furthermore, state whether the expense has been included for rate-making purposes and if so why.

a. Page 7, Million Air.

b. Page 10, Imaging Presentations.

c. Page 11, Excel Incentive & Group Travel.

d. Pages 12, 22, 49, 63, Presentation Arts.

e. Page 13, "Name is not found," $4,844.78.

f. Pages 14, 24, 34, 52, Corporate Communications Center.

g. Pages 14, 25, Sullivan Perkins.

h. Pages 19, 27, 29, 30, 34, Morrow & Co.

i. Page 19, Depository Trust Company.

j. Page 19, River Park Center.

k. Page 20, Donnelley Receivables, Inc.

l. Page 21, Canteen Service Co Inc.

m. Pages 25, 56, 62, Anderson Fischel Thompson.

n. Page 26, Challenger Freight Systems Inc.

o. Page 33, Imagematrix, Inc.

p. Page 34, Standard & Poor's Corporation.

q. Page 35, City Club of Lafayette.

r. Pages 36, 54, National Assoc. of Investors Corp.

s. Pages 45, 55, Just Imagine.

t. Page 45, Technimetrics, Inc.

u. Page 48, Alpine Express.

v. Page 48, Crested Butte Mountain Resort.

w. Page 49, Totally Chocolate.

x. Page 49, Resource Ad Group.

y. Page 51, Union League of Philadelphia.

z. Page 53, Financial World.

aa. Page 53, Research Magazine.

ab. Page 55, Dow Jones & Company, Inc.

ac. Page 56, New York Society of Security Analysts.

ad. Page 56, Plaza Communications, Inc.

ae. Page 57, Design Products.

af. Page 57, Canadian Shareowner Magazine.

ag. Page 58, Equitities Magazine.

ah. Page 59, National Data Services.

ai. Page 59, Kiplinger's Personal Finance.

aj. Page 60, The Investment Reporter.

ak. Page 60, Buyside.

al. Page 62, Cost of Research and Experiment.

am. Page 67, RHR International, Inc.

48. Refer to Western's response to Item 25(b) of the Commission's February 9, 1995 Order. State the total dues incurred by, or allocated to, Western, for each of the following organizations:

a. American Gas Association.

b. Southern Gas Association.

c. Kentucky Gas Association.

d. Kentucky Oil and Gas Association.

e. Institute of Gas Technology.

Additionally, provide any reports or audits of the above entities that identify the uses of member dues.

49. Provide a breakdown of the outside services incurred by Western for each of the last 5 fiscal years in a format similar to that provided in Western's response to Item 26 of the Commission's February 9, 1995 Order.

50. Provide an analysis of the cost incurred to date for the purchase of the Greeley Gas Company. This analysis should include:

a. The total charges for professional services.

b. The allocation factor used to allocate these charges to Western.

c. The charges reflected in the test year.

d. State why these charges should be included for rate-making purposes.

51. Refer to Western's response to Item 30 of the Commission's February 9, 1995 Order. Explain the change in activity over the last 5 years for each of the following:

a. Current Year Provision, increase of approximately 106 percent.

b. Reserve Account write-offs, increase of approximately 91 percent.

52. Refer to Western's response to Item 30 of the Commission's February 9, 1995 Order. Explain why the reserve account balance has remained virtually unchanged over the past 5 years while revenues and write-offs have increased.

53. Refer to Western's response to Item 30 of the Commission's February 9, 1995 Order. Explain how Western determines the annual reserve requirement.

54. Refer to Western's response to Item 32 of the Commission's February 9, 1995 Order. Explain the purpose and intended use of the two employee houses.

55. Refer to Western's response to Item 40 of the Commission's February 9, 1995 Order.

a. Explain why bonuses totalling $519,300 should be recovered from the ratepayers.

b. Provide any written material(s) describing the details of the bonus program.

c. Explain why retiree severance and vacation payment totalling $77,650 should be recovered from the ratepayers.

56. Refer to Western's response to Item 40 of the Commission's February 9, 1995 Order. Provide complete details and any written material(s) for each of the following:

a. Car Allowance;

b. Financial Planning;

c. Mini-Med;

d. Director Fees; and

e. Relocation Costs.

Include with each response an explanation of why each should be included for rate-making purposes.

57. Refer to Western's response to Item 44 of the Commission's February 9, 1995 Order. Provide a listing of benefits provided to the executive officers. How much different is this package from that offered to Western's other employees?

58. Refer to Western's response to Item 44 of the Commission's February 9, 1995 Order. State whether Western's FICA taxes reflect the impact of any life insurance coverage that exceeds $50,000 per employee. If not, compute Western's FICA tax liability for the coverage provided above the $50,000 limit. Include with this response all supporting workpapers, calculations

and assumptions for the additional tax liability on a per employee basis.

59. Refer to Western's response to Item 44, page 13, of the Commission's February 9, 1995 Order. Provide the costs of the "Retiree Fringe Benefits" and explain why they should be included for rate-making purposes.

60. Refer to Western's response to Item 44, page 21, of the Commission's February 9, 1995 Order. Provide the cost of the "Service Awards" and explain why it should be included for rate-making purposes.

61. Refer to Thomas H. Petersen's testimony in the application. Explain why the rate case expense adjustment is based on a two year amortization of the estimated expenses.

62. To what extent have the results of Western's activities to implement the 1989 Schumaker & Company management audit been reflected in the test year? Provide specific information where possible.

63. Provide a breakdown of the test-year-end Construction Work In Progress ("CWIP") balance by project. In addition identify the projects for which Accumulated Funds Used During Construction ("AFUDC") have been booked or which are available for AFUDC treatment.

64. Explain how AFUDC is reflected in the test-year operating statement. Include any analysis reflecting the tax treatment accorded AFUDC.

65. Refer to Western's response to Item 36 of the February 9, 1995 Order. Provide the rate or rates used to capitalize interest during construction for the test year and the 3 preceding calendar years as originally requested.

66. Refer to the Income Statement provided in Item 38 of the application. Provide detailed workpapers and all supporting documentation for the federal and state income taxes recorded for the test year column, for the adjustment column, and for the proposed revenue increase column. Reconcile any tax differences between the stand-alone taxes as shown in Item 38 with the consolidated taxes provided in Western's response to Item 21 of the February 9, 1995 Order.

67. Refer to Schedule 8 of the application. Western computed its pro-forma total income tax liability on a stand-alone basis. Recalculate this liability on a consolidated basis.

68. Refer to the response to question 48 of the Commission's Order of February 9, 1995.

a. Is Western requesting recovery of $1,535,800 in other postretirement employee benefits ("OPEB") for the test year? If not, provide the amount requested and break the amount down into the various components (e.g. service cost, interest cost, transition obligation amortization, etc.).

b. Was the pay-as-you-go amount for the test year $541,700? If not, what was it?

c. Was a medical trend rate of 10.5 percent used to calculate the test year OPEB expense? If not, provide the trend rate used.

69. Provide the percentage of OPEBs treated as an expense and the percentage capitalized in the test period.

70. Is Western fully funding its OPEB costs? If not, explain why not and state the percentage it is funding.

71. Refer to WP 4-2 of the application.

a. Provide a detailed breakdown of Account 926.

b. Explain why a 4-year average of benefits was used to determine the level of benefits requested.

72. Explain the effect that OPEBs have on deferred taxes.

73. Provide the actual percentage increase in medical claims costs for the each year 1989-1994.

74. Recalculate OPEB expense and the transition obligation using an 8 percent medical trend rate in year 1 and decreasing to 5 percent by year 7.

75. Why was the prime rate less .25 percent used for the cost of short-term debt? Has Western's actual short-term debt cost reflected this rate? Show the relationship between Western's actual short-term debt cost and prime rate for 1993 and 1994.

76. What was Western's average short-term debt cost for the test year?

77. Refer to WP9-2 of Volume 1, Section 25, Schedule 9. Why were "current maturities" of long-term debt not removed from the

9.75 percent and 11.2 percent John Hancock Note debt issuances in the Computation of Pro-forma Interest Rate?

78. Is outstanding long-term debt reduced to reflect current maturities in December of each year? Did this occur in 1994?

79. Provide the calculations resulting in the average equity and debt capital amounts ($152,283,236 and $131,927,118, respectively) as well as the short-term debt amount of $4,126,667 in Volume 1, Section 25, Schedule 9, WP9-1.

80. What was the capital structure on September 30, 1994, using the actual balances of the capital components on that date?

81. What was the capital structure on February 1, 1995?

82. Show in comparative form Western's cost of gas for the last 5 years, along with the gas cost of each of the other Atmos subsidiaries.

83. Does Western arrange for its own gas supply or does Atmos acquire gas for its subsidiaries as a group?

84. Describe current and future efforts to achieve the lowest possible delivered rate to Western's customers that is consistent with security of supply.

85. Refer to Filing Requirements Volume 2 of 8, tab no. 7, testimony of John Hack. At page 5, Mr. Hack states that Western seeks to minimize demand costs by releasing unused capacity. For the test year, provide a list by month of the amount of firm pipeline capacity Western had on Texas Gas and Tennessee Gas pipelines and the amount released.

86. Has Western encountered any insurmountable difficulty in arranging its gas supply? Is it still able effectively to supply gas to its customers in the post-636 era? Explain.

87. Should ratepayers and shareholders regard Western as a low-risk supplier of natural gas service? Explain.

88. Is Western finding capital attraction difficult? Explain.

89. What are the benefits to Western of a division relationship with Atmos? Is a ready source of financing one of the benefits? Would Western be a less risky investment if it were solely responsible for its own financing arrangements?

90. What return on equity was most recently allowed for each of the other Atmos subsidiaries and what was the date of the Order which authorized it?

91. Under what circumstances should expected dividend growth be considered in calculating return on equity?

92. During periods of unstable dividend payout ratios, will investors completely discount available information concerning expected dividends? Will the expectation of future dividend streams play no part in the investor's evaluation?

93. Has Atmos experienced a fairly constant dividend growth trend?

94. Recalculate K1 through KA for RW Schedules 4 and 5 using a) projected growth in dividends instead of earnings, and b) a 50-50 weighting of projected dividends and earnings growth.

95. What return on equity was most recently allowed for each of the ten comparable firms in RW Schedule 6, page 2 of 2? What was the date of each Order?

96. Refer to page 22 of Richard L. Wallace's testimony. Given the emphasis on "k" being the return expected by investors and the questionable predictive value ascribed to historical data when evaluating the natural gas industry, why are current and historical yields equally weighted with projected yield in calculating "k" in RW Schedules 5 and 6?

97. Provide the risk factors for Atmos as they are shown for the ten comparable companies in RW Schedule 8.

98. Is there provision for the coverage of debt and other expenses for any of the unregulated firms in RW Schedule 9 that is similar to the provision of revenue requirements for regulated utilities?

99. Refer to Filing Requirements Volume 2 of 8, tab no. 3, David Bickerstaff's testimony.

a. At page 10, it is stated the "(R)easons for changes in the depreciated rates are not certain because the previous depreciation study was not available for review." Why not?

b. Prior to the most recent depreciation study, when was the last study completed and by whom? What was the reason for the lapse of time between the two studies?

c. For Accounts 376, 380, and 392, when were the existing depreciation rates established and how were they determined?

d. Deloitte and Touche recommends that the depreciation rates developed in its study be implemented "at such time as their effect can be incorporated into service rates." Yet, according to Mr. Bickerstaff's testimony, the annual depreciation accrual was adjusted to reflect the new rates for the entire fiscal year ended September 30, 1994. Explain.

100. Refer to Filing Requirements Volume 3 of 8, tab no. 32, the Deloitte and Touche depreciation study on Western's plant.

a. The recommended depreciation rates for Accounts 376, 380, and 392 result in a net annual increase in depreciation provisions of $378,391. At page 2, it is stated this is "due, we believe, to more negative net salvage."

(1) Are the mortality characteristics reflected in the existing rates known? If no, explain.

(2) To what extent has the period of time between the establishment of the existing depreciation rates and the recommended rates contributed to the new annual increase of $325,391?

b. At page 10, it is stated "(T)he retirements of Mains and Services are young relative to average service life." Clarify which types of mains and services have been retired early and the reasons retirements were necessary.

c. It appears that the effect of increasing the depreciation rates for Accounts 376 and 380 is to accelerate the recovery of negative salvage costs. Justify the rate of acceleration proposed.

d. With regard to the determination of average service lives, it is stated at page 7 that the past 6 years "is the full extent of available history" of retirement experience analyzed.

(1) Why is only 6 years of retirement experience available for Accounts 367, 376, and 380?

(2) For Accounts 367, 376, and 380, what percent of all the groups in each account was analyzed by the Actuarial Method? Were all remaining groups in each account analyzed using the Simulated Plant Record Method?

e. With regard to the salvage and cost of removal analysis, why was the period 1987 through 1992 selected as the basis for determining net salvage factors? For which depreciable property groups in which accounts were separate salvage and cost of removal factors not selected?

101. Refer to Filing Requirements, Volume 4 of 8, tab no. 43, Capital Construction Budget.

a. Explain the nature of the work relating to Account Nos. 36910 and 36920, M&R Station Equipment.

b. At page 2, explain the difference between Account No. 37610, Mains - System Improvements, and Account No. 37620, Mains - Public Improvements. Does the amount budgeted for either account refer to construction of new facilities to expand Western's system into new service areas?

c. At page 3, describe the work to be performed under Account No. 38010, Services - System Improvements.

d. At page 4, explain the difference between Account Nos. 38510 and 38520, Industrial M&R Station Equipment. Will these expenses be incurred in the future if Western's proposal for EFM equipment in Rate T-3 is accepted by the Commission?

e. At page 7, explain the nature of Account No. 98100, Main Extensions Forfeitures, and the reasons why forfeitures occur.

Done at Frankfort, Kentucky, this 23rd day of March, 1995.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Don Mills

Executive Director