

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WESTERN)
KENTUCKY GAS COMPANY FOR)
AN ADJUSTMENT OF RATES) CASE NO. 99-070

O R D E R

IT IS ORDERED that Western Kentucky Gas Company (Western) shall file with the Commission the original and 15 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than July 30, 1999. 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. Provide an organization chart for Atmos Energy Corporation (Atmos) as of June 1, 1999. The chart should show all regulated utility divisions and non-regulated businesses.

2. With the exception of Western, provide the following information for each of the regulated utility divisions:

- a. The state jurisdictions in which the division operates.
- b. The year of the division's last completed general rate case proceeding. If the division is currently involved in a general rate case, indicate when that proceeding is expected to be completed.
- c. The authorized rate of return on common equity awarded or authorized in the last completed general rate case proceeding. If the division is currently involved in a general rate case, indicate the rate of return on common equity requested by the division.

3. Western's last general rate case was Case No. 95-010.¹ In the August 10, 1995 Order in that case, the Commission expressed its concern about Western's practices of funding only a portion of its other post-retirement employee benefits (OPEBs) and of funding internally rather than using a protected fund administered by a third party. Describe Western's current practice with regard to these two issues. In addition, provide justification for Western's current level of OPEB funding.

4. In the October 20, 1995 Order, which adopted the October 9, 1995 Settlement Agreement, the Commission acknowledged Western's agreement to perform a new depreciation study no later than its next general rate application. However, the

¹ Case No. 95-010, An Adjustment of Rates of Western Kentucky Gas Company, Orders dated August 10, 1995 and October 20, 1995.

October 20, 1995 Order reminded Western that the Commission's concerns about its depreciation study, expressed in the August 10, 1995 Order, would remain pertinent for the review of the new depreciation study.

a. Explain in detail how the concerns expressed in the August 10, 1995 and October 20, 1995 Orders have been addressed by the September 30, 1997 depreciation study filed with Western's application.

b. Refer to the September 30, 1997 depreciation study filed with the application. Provide the calculations for the net salvage rates with details and supporting documentation which support the change, to a negative 150 percent, in the salvage rate for Account 380, Services.

5. Refer to the Application, Volume 1 of 10, Tab 1, Item 5. Provide the calculations that support Western's determination that it has experienced an \$800,000 decline in lost industrial margins and \$1,600,000 in lost margins due to energy conservation and declining customer usage. Include a detailed explanation as to how Western identified these specific causes.

6. Refer to the Application, Volume 2 of 10, Tab 1, the Testimony of Conrad E. Gruber. On pages 12 through 18 of the testimony is a discussion of Western's efficiency and productivity improvements. Explain in detail how the benefits of these efficiency and productivity improvements have been incorporated into Western's forecasted period. Include a dollar quantification of the improvements and identify where this quantification has been shown in the forecasted period.

7. Refer to the Application, Volume 2 of 10, Tab 4, the Testimony of Betty L. Adams. On page 5 of the testimony it is stated that Western's O&M budget was

converted into National Association of Regulatory Utility Commissioners (NARUC) accounts. Provide a detailed explanation as to why Western utilized the NARUC accounts rather than following the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

8. On page 10 of the Adams Testimony is a discussion of changes in Western's operational budget due to the implementation of the Shared Services approach. For each change listed on page 10, compare in dollar amounts the changes in Western's O&M budget with the changes in expenses from the Shared Services program. If the increase in Shared Services expense exceeded the reduction in Western's O&M budget for a particular change, explain in detail why it was cost effective to make the change.

9. Refer to the Application, Volume 2 of 10, Tab 5, the Testimony of David H. Doggette, concerning Western's capital budgets.

a. Is it correct that none of the capital budgets submitted in Western's application reflect Western's normal bottom up development approach?

b. Has Western prepared its capital budgets for FY2001 through FY2003, following the bottom up approach, utilizing the new Oracle accounting system? If yes, provide the FY 2001 through FY 2003 capital budgets, using the bottom up approach, in a format similar to that shown in Exhibit DHD-1.

c. Has Western performed any analysis or review to determine if using a FY 1999 baseline approach for its capital budgeting produces a similar result as the bottom up approach? If yes, provide copies of that analysis or review. If no, explain why such an analysis or review has not been performed.

d. Have the FY 2000 and FY 2001 capital budgets filed in this proceeding been entered into the Atmos Capital Budget Gathering System? If no, explain in detail why this has not occurred.

e. Provide copies of the approved FY 2000 and FY 2001 capital budgets within 10 days of their approval by Atmos's Board of Directors. Explain in detail all differences between the approved FY 2000 and FY 2001 capital budgets and those submitted with the application.

f. Provide the capital budgets for the Information Technology strategy and other Shared Services projects, for the FY 2000 through FY 2003 periods. This information should show the amounts for the total budget, as well as Western's forecasted investment, for each fiscal year. Explain in detail how Western's forecasted investment was determined.

10. Refer to the Application, Volume 2 of 10, Tab 5, Exhibit DHD-1, page 2 of 6. Provide the workpapers and assumptions used to determine that the projected overhead rate should be 50 percent and the projected increase in maintenance and improvements should be 36.25 percent for the FY 2000 capital budget. Include an explanation as to how these determinations were made.

11. Refer to the Application, Volume 2 of 10, Tab 6, the Testimony of Donald P. Burman. On pages 6 and 7 of the testimony is a discussion of Western's accounting for pension expense.

a. Provide the balances of Western's pension assets and obligations shown on its balance sheet as of March 31, 1999, as well as for the base period and

forecasted period. Include the account numbers and titles used to record these assets and obligations.

b. Has Western included its pension assets and obligations in its calculation of its rate base? If so, provide the reference to the appropriate schedules and workpapers that disclose this inclusion.

12. Provide the actual capital ratios for Atmos as of June 30, 1999.

13. Refer to the Application, Volume 2 of 10, Tab 7, the Testimony of John P. Reddy. On page 4 of the testimony, it is stated that Atmos's objective is to maintain a capital structure comprised of approximately 50 percent equity and 50 percent debt. However, on page 6 of the Reddy Testimony, the summary of Atmos's five-year financial plan for FY 2001 through FY 2003 shows a capital structure comprised of equity ranging between 53 percent and 61.9 percent.

a. Explain why Atmos's five-year financial plan presents capital structures that are significantly different than Atmos's expressed capital structure objectives.

b. The equity portion of Atmos's capital structure as of March 31, 1999 was 44.19 percent. The equity portion shown on page 6 of the Reddy Testimony shows a forecasted equity component of 49.8 percent for FY 2000. Explain in detail why it is reasonable to expect such an improvement in the equity in less than a two-year time frame.

14. Refer to pages 6 and 7 of the Reddy Testimony. For each of the assumptions listed below, indicate how reasonable that assumption is for Atmos. Include any analyses, studies, or other documentation that support these assumptions.

- a. A return to normal long-term weather patterns for the other Atmos utility divisions beginning in FY 2000.
- b. The issuance of \$26 million of new equity in November 1999.
- c. Raising \$20 million of new equity annually through stock plans.
- d. No significant acquisitions. Explain how this assumption is not in conflict with the statements contained on page 5 of the 1998 Atmos Annual Report to shareholders.
- e. Cash flow from depreciation will fund ongoing capital spending requirements.
- f. No new long-term debt issues.

15. Refer to the Reddy Testimony, the attachment titled FR10(9)(h)11, Sheets 1 and 2 of 3. Explain why each of the assumptions listed on these schedules is reasonable. Include any analyses, studies, or other documentation that support these assumptions.

16. Refer to the Application, Volume 2 of 10, Tab 12, the Testimony of Michael Marks. On page 4 of the testimony it is stated Central to the program are two important provisions of the agreement between Western and the Commission. In the August 10, 1995 Order in Case No. 95-010, the Commission stated:

Thus, the Settlement merely establishes a framework for developing a program which will qualify for rate recovery under KRS 278.285. No specific programs or related cost recovery mechanism have been included. Therefore, the Commission makes no decision or findings of fact related to any portion of the DSM provisions included in the Settlement.²

² Case No. 95-010, August 10, 1995 Order, at 4.

In light of the Commission's statement in Case No. 95-010, explain in detail what agreement is being referenced in Mr. Marks Testimony on page 4.

17. Refer to the Marks Testimony, page 4. Concerning the Western Demand Side Management (DSM) Collaborative:

a. Identify the members of the Western DSM Collaborative at its inception and as of June 30, 1999.

b. Provide copies of the bylaws or other documents that govern the operation of the Western DSM Collaborative.

c. Identify the chairperson of the Western DSM Collaborative as of June 30, 1999.

18. Refer to the Marks Testimony, page 8. For each of the measures ultimately selected for inclusion in the WKG CARES program, provide the results of the following DSM benefit cost test:

a. Total Resource Cost (TRC).

b. Utility Cost Test (UCT).

c. Ratepayer Impact Measure (RIM).

d. Participant Test (PT).

19. Refer to the Marks Testimony, page 8. It is stated that the TRC test measures the costs and benefits of a conservation measure from the broadest perspective as it represents the net benefit to society. Isn't it correct that the TRC calculates the net impact on a utility and its customer base as a whole, instead of as a net benefit to society? If no, provide documentation to support the contention that the focus of the TRC is the net benefit to society.

20. Concerning the process and impact evaluations of WKG CARES:
- a. Provide copies of the written process and impact evaluation reports. If no written report was provided, explain in detail why not.
 - b. Explain why the Applied Energy Group, Inc. (AEG) was retained to perform these evaluations, given Mr. Marks association with AEG.
 - c. Explain in detail why actual customer savings were not developed as part of the impact evaluation.
 - d. Explain how the impacts of the weather experienced during the evaluation period were taken into consideration when pre- and post-treatment consumption values were determined.
 - e. Provide the workpapers showing the calculation of the TRC, UCT, RIM, and PT values for the impact evaluation.
 - f. Explain why the Societal Test is referenced on page 13 of the Marks Testimony instead of the TRC.
 - g. Provide the calculations and assumptions used to determine the environmental externality adder reflected in the Societal Test. Include an explanation as to why it was believed an environmental externality adder should have been included in the analysis.
 - h. Did the calculation of the TRC during the impact evaluation include a determination of Western's lost revenues associated with WKG CARES? If no, explain why the exclusion of lost revenues would not skew the results of the TRC.
21. On page 13 of the Marks Testimony is the statement that Western is not attempting to recover the revenue erosion caused by WKG CARES. However,

throughout its application, Western has cited one of the reasons for the proposed revenue increase has been the impact of residential energy conservation efforts. Is it correct that Western is attempting to recover these lost revenues through its general rate increase, rather than through the DSM tariff? Explain the response.

22. On page 14 of the Marks Testimony is a discussion of the benefit to Western's uncollectible accounts as a result of WKG CARES. If the actual impact on uncollectible accounts was not determined as part of the impact evaluation, explain in detail the basis for the assumption that uncollectible accounts were impacted favorably by WKG CARES.

23. Provide copies of all program materials associated with WKG CARES, including the program parameters established regarding allowable program measures.

24. Provide the following information concerning WKG CARES:

a. Describe the specific changes in customers' consumption patterns that Western is attempting to influence through WKG CARES.

b. Indicate whether WKG CARES is consistent with Western's most recent long-range integrated resource plan (IRP). Include copies of Western's most recent IRP.

c. Does WKG CARES result in any unreasonable prejudice or disadvantage to any class of customers? Explain the response.

d. Describe the extent to which WKG CARES programs are available, affordable, and useful to all customers.

25. Given the provisions of KRS 278.285, explain in detail why Western waited until the filing of this rate proceeding to recover the costs for WKG CARES, which began in 1996.

26. On page 18 of the Marks Testimony is the statement that Western is seeking to recover the costs associated with the 3-year pilot program which was approved by the Commission in the October 20, 1995 Order in Case No. 95-010. The October 20, 1995 Order approving the October 9, 1995 Settlement in Case No. 95-010 specifically stated that:

In all other respects this proposal mirrors the July 18, 1995 Settlement. Those provisions not addressed herein which were previously addressed and accepted in the Commission's Order of August 10, 1995 are approved without discussion.³

The pilot DSM program is not discussed in the October 20, 1995 Order, and the Commission stated in the August 10, 1995 Order that it made no decision or findings of fact related to the DSM provisions included in the Settlement. Explain in detail how Western has concluded that the Commission approved the 3-year pilot program.

27. Provide the following information concerning the costs associated with WKG CARES:

a. A schedule of the costs incurred during the 3-year pilot. These amounts should be identified using Western's account numbers, with account titles. The amounts should be presented in total and fiscal year amounts.

³ Case No. 95-010, October 20, 1995 Order, at 3.

b. Were the pilot costs expensed or deferred by Western? If deferred, provide the Western detailed account numbers utilized and the basis for Western assuming deferral was appropriate.

c. A schedule of the costs proposed for the 1999 2002 period. These amounts should be identified using Western s account numbers, with account titles. The amounts should be presented in total and fiscal year amounts.

28. Provide an analysis that examines the completion percentage for capital budget projects. The analysis should be by individual capital project, by year, for fiscal years 1994 through 1998. The analysis should show the completion percentage (actual expenditure to budget amount) for each project in each fiscal year.

29. Refer to the Application, Volume 3 of 10, Tab 1, titled FR 10(9)(b), page 3 of 6, the forecasted test year capital budget.

a. Does Western assume that all the capital projects included on this schedule will be completed and included in rate base by the end of the forecasted test year?

b. If yes to part (a), explain in detail the basis for this assumption and why it is reasonable.

c. If no to part (a), provide a schedule showing the amounts from the capital budget that Western included in the rate base by the end of the forecasted test year.

30. Refer to the Application, Volume 3 of 10, Tab 7, titled FR 10(9)(h)2. Provide all the assumptions used by Western to determine the amounts shown for the

base year, the forecasted year, and the 2000 through 2003 fiscal years. Include an explanation as to why each assumption is reasonable.

31. Refer to the Application, Volume 3 of 10, Tab 7, titled FR 10(9)(h)4. Provide a revision of this schedule that fixes the forecasted required rate of return at 9.97 percent for each year shown.

32. Concerning Western Kentucky Gas Resources, Inc. (WKG Resources):

- a. Describe the nature of WKG Resources business operations.
- b. Indicate when WKG Resources was established.
- c. Indicate whether any of Western's assets, liabilities, capital, or personnel were transferred to WKG Resources.

33. Refer to the Application, Volume 3 of 10. Explain why the operating income amounts shown for the test year (January 2000 – December 2000) on the following schedules are not in agreement:

- a. Tab 3, titled FR 10(9)(d).
- b. Tab 7, titled FR 10(9)(h)1 and FR 10(10)(i)1.
- c. Tab 7, titled FR 10(9)(h)4.

34. Refer to the Application, Volume 9 of 10, Tab 2, titled FR 10(9)(u), Schedules 1 and 2. Provide the following information for Schedule 1 and Schedule 2:

- a. An explanation of how the amounts shown under the column titled WKG \$ were determined. Include any supporting workpapers, assumptions, and other documentation.

b. The determination of the percentages shown under the column titled WKG %. Include any supporting workpapers, assumptions, and other documentation.

c. For each Shared Service Unit listed on the schedule, an explanation of why the particular allocation methodology is reasonable for the allocation of the particular unit costs.

35. Refer to the Application, Volume 10 of 10, Tab 2, Schedule B-2.2.

a. For both the base and forecasted periods, provide a schedule that links the plant additions shown on Schedule B-2.2 with the capital budget projects shown in Volume 3 of 10, Tab 1, Exhibit DHD-1.

b. For the base period, provide the workpapers, analysis, assumptions, and other documentation that support the amounts shown for Retirements and Transfers/Reclassifications. Include a description for each retirement or transfer/reclassification shown on the schedule.

c. For the forecasted period, explain why Western assumed there would be no retirements. Include in the explanation a discussion of why such an assumption is reasonable.

36. Refer to the Application, Volume 10 of 10, Tab 2, Schedule B-2.3, for both the base and forecasted periods.

a. Identify the business unit of Atmos referred to in the schedule as Division 02 General Office.

b. Indicate whether the assignment of the Division 02 General Office plant is the result of a general allocation of plant by Atmos or whether Western contracted for these assets.

37. Refer to the Application, Volume 10 of 10, Tab 2, Schedule B-3, for both the base and forecasted periods. For each of the plant accounts listed below, provide a detailed explanation as to why the accumulated depreciation exceeds the plant investment. Also explain why accumulated depreciation in excess of plant investment should be included in the calculation of Western's rate base.

- a. Account No. 331.00 Production Gas Wells Equipment.
- b. Account No. 332.10 Field Lines.
- c. Account No. 332.20 Tributary Lines.
- d. Account No. 334.00 Field Meas. & Reg. Station Equipment.
- e. Account No. 351.20 Compression Station Equipment.
- f. Account No. 366.30 Other Structures (Transmission Plant).
- g. Account No. 375.10 Meas. & Reg. Station Equipment General.
- h. Account No. 399.00 Other Tangible Property (base period only).
- i. Account No. 399.89 Other Tangible Property System Software (forecasted period only).

38. Refer to the Application, Volume 10 of 10, Tab 2, Schedule B-3.2. Each of the accounts listed below is shown on Schedule B-3.2 as being fully depreciated. Explain why Western has included a 12-month depreciation expense for each of these accounts, and why it is reasonable to include depreciation expense for a plant account that is fully depreciated per the company's books.

- a. Account No. 331.00 Production Gas Wells Equipment (base period only).
- b. Account No. 332.10 Field Lines (base period only).
- c. Account No. 332.20 Tributary Lines (base period only).
- d. Account No. 334.00 Field Meas. & Reg. Station Equipment (base period only).
- e. Account No. 351.20 Compression Station Equipment (base and forecasted periods).
- f. Account No. 366.30 Other Structures (base and forecasted periods).
- g. Account No. 375.10 Meas. & Reg. Station Equipment General (base and forecasted periods).

39. Refer to the Application, Volume 10 of 10, Tab 6, Schedule F-6. Provide the following information concerning the costs for the preparation of this case:

- a. A detailed schedule of costs incurred to date. Include the date of the transaction, check number or other document reference, the vendor, amount, a description of the services performed, and the account number in which the expenditure was recorded. Indicate any costs incurred for this case during the base year. Include copies of invoices received from the vendors.
- b. A detailed explanation of how the estimate shown on Schedule F-6 was determined, with all supporting workpapers and calculations.
- c. Monthly updates of the actual costs incurred during the course of this proceeding, in the manner prescribed above. Updates will be due on September 3,

1999 (Western's due date for responses to additional data requests), November 1, 1999 (due date for requests to Intervenor), and 30 days after the date of the public hearing or the due date for final briefs, whichever date is later.

40. Refer to the Application, Volume 10 of 10, Tab 8, Schedule H.

a. Explain how the Uncollectible Accounts Expense percentage was determined. Include all supporting workpapers, assumptions, and calculations.

b. Provide a schedule showing Western's actual Uncollectible Accounts Expense percentage for the base period and the five previous fiscal years. Include all supporting workpapers, assumptions, and calculations.

c. Explain how the PSC Fees percentage was determined. Include all supporting workpapers, assumptions, and calculations.

41. Refer to the Application, Volume 10 of 10, Tab 8, Schedule I-1. In light of the revenue increase requested by Western, explain why Schedule I-1 shows Western is forecasted to experience net losses beginning in fiscal year 2001.

42. Refer to the Application, Volume 10 of 10, Tab 15, Summary of Factors schedule, referenced as WP Factors. Concerning the calculation of the Residual Factor:

a. Explain why the Residual Factor is based on calendar year 1998 data.

b. Provide the Residual Factors for all other Atmos utility and non-utility business divisions.

c. Explain why it is reasonable to base the Residual Factor on the Western to Atmos ratios for Gross Direct PP&E, Average Number of Customers, and Total O&M Expense.

d. Explain the reference to the Gray Book.

43. Refer to the Application, Volume 10 of 10, Tab 15, WP B-2, base period for Division 09, pages 3 and 4 of 4. For each of the column headings listed below, identify the source of information for the items contained in the column and provide the cross-reference to where that item can be found in the Application. If the item has not been provided in the Application, provide the source of information for the item in question.

- a. WKG Direct Additions FY 99.
- b. service prog. WKG adds April 1999.
- c. WKG OH 98 carryover.
- d. WKG OH FY 99.
- e. 02 OH FY 99.

44. Refer to the Application, Volume 10 of 10, Tab 15, WP B-2, forecasted period for Division 09, pages 3 and 4 of 4. For each of the column headings listed below, identify the source of information for the items contained in the column and provide the cross-reference to where that item can be found in the Application. If the item has not been provided in the Application, provide the source of information for the item in question.

- a. WKG Direct Additions FY2000.
- b. WKG OH FY2000.

- c. 02 OH FY2000.
- d. WKG Additions FY2001.

45. Refer to the Application, Volume 10 of 10, Tab 15, WP B-3.2, for both the base and forecasted periods, Division 09.

a. For the base period, explain the reason for the columns titled Total Company Adjusted Jurisdiction Reserve and Reserve Computation.

b. For the forecasted period, explain the reason for the columns titled Division 09 13 Month Avg. Reserve and Reserve Computation.

c. For both periods, explain why the 12 Month Expense column includes a reference to 95.45 percent.

d. Provide the calculations used to determine the 95.45 percent.

e. For the forecasted period, explain the reference to ELG in the annual accrual rate column.

46. Refer to the Application, Volume 10 of 10, Tab 15, WP B-4.1, Working Capital Components, for both base and forecasted periods. Provide a breakdown showing all accounts and subaccounts contained in the Prepayments for each period. This breakdown should use the same accounting system as was used to show the detail for Materials and Supplies.

47. Refer to the Application, Volume 2 of 10, Tab 10, the Testimony of Thomas H. Petersen and Volume 9 of 10, Tab 3, the class cost-of-service study.

a. Provide the name of the model used for the cost-of-service study and specify whether this is an industry model or an in-house model. Provide a narrative description of the study and written operating procedures for running the model.

b. Do any of Western's affiliates use this model? If so, identify any concerns that have been expressed or modifications that have been made by other state regulatory commissions in cases in which this model has been presented in support of those affiliates' revenue allocation or rate design proposals.

c. Identify any other models that were considered by Western prior to selecting this model and whether the other models provided similar results and guidance. If other models were reviewed, why was this model considered superior? If no other models were reviewed, how can the Commission be assured that the guidance represented by this model is the most reasonable?

d. Class load factor is defined by Mr. Petersen as the average daily use divided by design day use or maximum daily contract level. Expand on this definition and explain how this factor is used in the model.

e. On page 3 of his testimony Mr. Petersen states that the rate classes selected use available data that captures the class differences in load characteristics. Can the available data be readily subdivided into groupings other than the five rate classes used in the study?

f. Mr. Petersen also states that the study was performed using fiscal year 1998 data and that results using the forecasted test period would follow a pattern similar to that of the historic cost-of-service analysis. Provide the results for the forecasted period and the appropriate workpapers in the same form as provided in the original filing (i.e., nineteen pages of model results and nine pages of supporting workpapers).

g. What are the results of the model for the historic test period normalized for weather using the proposed rates and the resulting revenue levels? What are the results of the model using the forecasted test year with the proposed rates and resulting revenue levels? Provide these results and the appropriate workpapers in the same form as provided in the original filing.

h. An adjustment for customer accounts was incorporated into the model. Explain why this was the only adjustment other than the adjustment to normalize weather incorporated into the model.

i. Notes are included in many pages of the study describing rules, actions or assumptions applied to the particular worksheet. Provide a narrative description of these rules and actions and the source of the assumptions.

48. Refer to Volume 1 of 10 of the Application, Tab 6, Proposed Tariffs, at Rate G-1 and G-2. Why is there no page reference for: (1) the Weather Normalization Adjustment; (2) the Gas Cost Adjustment Rider; and (3) the Margin Loss Recovery Rider? Does Western agree that including page references for each of these items would enable the tariff reader to better follow the tariffs without being required to constantly refer to the tariff index?

49. Refer to Volume 1 of 10 of the Application, Tab 6, Proposed Tariffs, at Sheet No. 26, Weather Normalization Adjustment Rider (WNA).

a. The tariff shows an effective date of July 24, 1999, while page 37 of the Testimony of Gary L. Smith indicates the WNA would go into effect November 1, 2000. What is the correct effective date for the WNA?

b. The tariff states Base loads and heating sensitivity factors will be determined by class and computed annually. Provide a detailed description of how base loads and heating sensitivity factors will be determined. Include example calculations if necessary.

c. Page 38 of the Testimony of Gary L. Smith sets out a proposed schedule for filing periodic reports with the Commission. Should the schedule and a description of these reports be included in the tariff? Why or why not?

d. At page 37 of the Testimony of Gary L. Smith he states that the proposed WNA mirrors that of Western's affiliate, United Cities Gas Company. Provide for the last three years (fiscal or calendar), a comparison of United Cities residential revenues both with and without the impacts of its WNA.

50. Refer to Volume 1 of 10 of the Application, Tab 6, Proposed Tariffs, at Sheet No. 27, Gas Cost Adjustment Rider (GCA).

a. Since the proposed GCA is zero-based, is it still necessary that Western file its GCA on a monthly basis?

b. Explain in detail why quarterly GCA filings, as submitted by Kentucky's other major LDCs, would not be sufficient to meet Western's gas cost recovery needs.

51. Refer to Volume 1 of 10 of the Application, Tab 6, Proposed Tariffs, at Sheet No. 27I, the Margin Loss Recovery Rider (MLR).

a. The tariff does not specify this, but the Testimony of Gary L. Smith, at page 29, indicates that the proposal will shift lost revenues to sales customers. Why

is the proposed shift to sales customers only? Explain how the proposed 90 percent / 10 percent sharing between customers and the company was developed.

b. The MLR tariff does not specify the rate schedules to which it would be applied. Was this an oversight or was it done intentionally? Explain why an Applicable provision designating the appropriate rate schedules should not be included in the tariff.

c. How was it determined that the MLR should be adjusted on a semi-annual basis, as opposed to monthly, quarterly, or annually?

52. Refer to Volume 1 of 10 of the Application, Tab 6, Proposed Tariffs, at Sheet No. 30d, Gas Research Institute (GRI) R & D Rider.

a. The unit charge in the tariff is proposed to be billed according to the transition schedule outlined in the pipeline s tariffs. Provide the transition schedules for each of the pipelines serving Western.

b. What was Western s level of contribution per Mcf as of December 31, 1998?

c. Why is the proposed tariff rider to be applicable to all gas transported by the Company other than Rate T-3 and T-4 Carriage Service ?

d. Does all gas transported mean sales and transportation volumes or transportation volumes only? Explain why it should be one or the other.

e. Identify any other methods of GRI cost recovery that Western considered and explain why those methods were not selected.

f. Identify the benefits that accrue to Western s ratepayers from Western s funding of GRI s R & D activities.

53. Refer to Volume 1 of 10 of the Application, Tab 6, Proposed Tariffs, at Sheet No. 49, Alternative Receipt Point Service. Provide cost support for the proposed distribution charge of \$.10 per Mcf.

54. Refer to Volume 1 of 10 of the Application, Tab 6, Proposed Tariffs, at Sheet No. 51, Special Charges.

a. Even though rate schedules G-1, G-2, LVS-1, LVS-2, T-3, and T-4 all include sections headed Late Payment Charge, Sheet No. 51 and the Testimony of Gary L. Smith, indicate the proposed Late Payment Charge of 5 percent will be applied only to Rate G-1 sales service. Explain the reasoning for applying the 5 percent charge to only one rate schedule.

b. What other local gas distribution companies is Western aware of that have a late payment charge which is applicable to only one of several rate schedules?

c. What is the purpose of the Late Payment Charge section in the tariffs, other than Rate G-1, identified in part (a) above?

d. Provide the amount of annual revenue that Western expects the Late Payment Charge to generate. Include supporting calculations and sufficient narrative explanation to explain the calculations.

55. Refer to Volume 1 of 10 of the Application, Tab 6, Proposed Tariffs, at Sheet No. 30a, Demand-Side Management Cost Recovery Mechanism, and the Testimony of Gary L. Smith and Michael Marks on the same subject.

a. Explain why the WKG CARES program is proposed for another three years, as opposed to one or two years, or on a permanent basis.

b. What consideration, if any, was given to implementing the program on a permanent basis?

c. Are the non-permanent nature of the proposed three-year program and the proposal to recover costs for the three-year pilot program the only reasons for proposing a surcharge mechanism rather than including the prospective costs for recovery through base rates? If there are other reasons for using a surcharge mechanism, explain them in detail.

d. The tariff itself does not specifically mention the annual filing with the Commission discussed in the Testimony of Michael Marks. Was this an oversight or intentional? Provide any reasons why Western would be opposed to including a statement in the tariff identifying and describing the annual filings proposed by Mr. Marks.

56. Refer to Volume 1 of 10 of the Application, Tab 6, Proposed Tariffs, at Sheet No. 67, Rules and Regulations, Part (I), Premises charge and the Testimony of Daniel Ives.

a. The proposed Premises Charge is only for the residential customer class and Mr. Ives discusses this on page 11 of his testimony. Even though 84 percent of customer growth is in the residential class, explain why Western would choose not to address the same problem of incremental versus embedded costs for the remaining one-sixth of its customer growth occurring in other customer classes.

b. On page 10 of his testimony Mr. Ives discusses the proposed fifteen-year recovery period for the Premises Charge. Explain why a shorter life, based

on the Internal Revenue Service's MACRS system, is appropriate for per books accounting by a regulated entity.

c. Provide support for Mr. Ives statement that a fifteen-year recovery period is consistent with what is being used elsewhere in the industry.

57. Refer to Volume 2 of 10 of the Application, the Testimony of David H. Doggette, pages 12-14, and Exhibit DHD-2.

a. Some of the service charge studies discussed by Mr. Doggette and included in Exhibit DHD-2 covered Western's fiscal year 1998. Identify any studies, other than the April 1999 survey of banks, that cover a period other than fiscal year 1998.

b. Does the summary analysis on Exhibit DHD-2, page 1 of 8, at Column 3, represent the actual number of orders charged for fiscal year 1998, or does it represent the actual number of orders for any period? Explain what Column 3 represents.

c. Explain why Exhibit DHD-2, page 1 of 8, does not include all the special charges included in Western's proposed tariffs at Sheet No. 51.

d. What impact, if any, do the proposed revenues in Exhibit DHD-2, page 1 of 8, Column 15, or the increase in revenues in Column 16 have on the increase in Other Revenues derived from comparing Exhibits GLS-7 and GLS-1 of the Testimony of Gary L. Smith?

58. Refer to Volume 2 of 10 of the Application, Tab 11, the Testimony of Gary L. Smith at pages 4-12.

a. Provide the historical data for the three-year period referred to by Mr. Smith on page 6 of his testimony including: (1) the number of customers by customer class; (2) sales volumes, by customer class, adjusted for normal weather; (3) annual changes in volumes for industrial sales and transportation deliveries; and (4) the level of volume migration from sales to transportation volumes.

b. Provide detailed calculations showing the derivation of the adjustment for industrial sales and transportation deliveries referred to by Mr. Smith on page 8, lines 25-28 of his testimony.

c. On page 7, lines 5-6 of his testimony, Mr. Smith refers to historical growth rates averaging slightly less than 2,000 for the three prior years. To what three years does Mr. Smith refer? How does this statement reconcile with the table on page 12 of his testimony that reflects an average of at least 2,156 for any three-year period included therein?

d. For each year in the five-year period covered in the table on page 12 of Mr. Smith's testimony, provide a breakdown of growth in residential customers between new construction and on-main conversions.

59. Refer to Volume 2 of 10 of the Application, Tab 11, the Testimony of Gary L. Smith, and Exhibits GLS-1 through GLS-7.

a. Exhibit GLS-3 summarizes the impact of industrial contract adjustments and volume changes. Provide supporting workpapers and narrative descriptions of these changes, by customer (the actual identity of the customers may be omitted and reference made by numbers and/or letters, i.e., customer 1a).

b. Exhibit GLS-6 summarizes the volume adjustment for declining customer usage. Provide supporting workpapers and narrative descriptions of the calculations made to derive the adjustment.

c. Exhibit GLS-1 shows revenues at current rates reflecting all adjustments to derive test year volumes while Exhibit GLS-7 shows revenues at proposed rates reflecting the same adjustments. Are there any differences in the two exhibits other than: (1) different rates / margins; (2) Alternative Receipt Point volumes and revenues; (3) the amounts shown for Additional Contract Reformation; and (4) the amounts shown for Other Revenue? If yes, identify and explain those differences.

60. Refer to Volume 2 of 10 of the Application, Tab 8, the Testimony of Dr. Donald A. Murry.

a. Page 6, lines 20 through 22, indicates that the Commission should make allowances for the added risk of the inclusion of short-term debt in the capital structure. In what way should the Commission make such an allowance?

b. Page 5, beginning on line 17, indicates that Atmos raises capital for Western's operations. Is this beneficial to Western? If so, should the Commission make allowances for Western's ability to access this capital source? Would it be more risky for Western if it had to raise capital itself for its operations?

c. Provide an explanation of why each company in the group of comparative companies is considered to be a viable comparison to Atmos.

d. Provide the most recently approved return on equity for each of the comparable companies, along with the date each was approved.

e. Do any of the comparable companies use a weather normalization adjustment, a premises charge, or a margin loss recovery mechanism to stabilize their earnings? If so, which ones?

f. What effect would the implementation of a weather normalization adjustment have on Western's financial risk?

g. What effect would the implementation of a premises charge have on Western's financial risk?

h. What effect would a margin loss recovery mechanism have on Western's financial risk?

61. Refer to Volume 10 of 10 of the Application, Tab 4, Summary of Jurisdictional Adjustments by Major Accounts, Schedule D-1, Sheet 1 of 4 and Schedule D-2.1, Sheets 1 and 2.

a. Provide supporting workpapers for the revenue and gas purchases adjustments on these schedules, or reference where provided if already included in the application or in response to other requests contained in this Order.

b. Provide narrative descriptions of the workpapers provided in response to part (a) above.

c. Explain in detail the reasons for the proposed reductions to Service Revenues and Other Gas Service Revenues.

62. Refer to Volume 2 of 10 of the Application, Tab 1, the Testimony of Conrad E. Gruber, specifically, the table on page 11 which denotes Western's operating and maintenance cost efficiencies in comparison to industry averages.

a. Provide copies of the A.G. Edwards study cited and a detailed schedule of Western's operating and maintenance expenses, identified by fiscal year (FY), used to determine Western's Costs per Meter as shown in the table.

b. Provide a detailed schedule of Western's gas utility employees by job classification for the period used to determine Western's number of employees per 1,000 customers as shown in the table.

c. Provide documentation used for external reporting purposes to substantiate the number of meters in service and thousands of customers served for the period represented by the table.

63. Refer to Volume 2 of 10 of the Application, Tab 1, the Testimony of Conrad E. Gruber, specifically page 16, which indicates that installation of the Oracle system was expected to be completed by July 1999, and refers to the series of IT projects that are essential for Y2K readiness.

a. Has the Oracle system been implemented and tested for Y2K readiness?

b. Provide a description of the other projects scheduled for completion prior to the end of 1999 to assure Western's customers of Y2K readiness.

c. Identify any costs associated with Western's Y2K readiness that are included in the base year or the forecasted year.

64. Refer to Volume 2 of 10 of the Application, Tab 6, the Testimony of Donald P. Burman, and Volume 4 of 10, Tab 4, Filing Requirement 10(9)(m).

a. Explain whether FR 10(9)(m) is a complete conversion table to NARUC accounts as presented for operating revenue and expenses in Volume 10 of 10, FR 10(10)(c), Schedule C-2.1 and Schedule C-2.2.

b. Are the references in the detail sections of this exhibit to NARUC accounts the same as the accounts used to file the annual FERC Form No. 2 with the Commission?

65. Refer to Volume 2 of 10 of the Application, Tab 4, the Testimony of Betty L. Adams. Does Western have a conversion table that converts its current chart of accounts for general ledger purposes to the NARUC accounts as presented for operating revenue and expenses in Volume 10, FR 10(10)(c), Schedule C-2.1 and Schedule C-2.2? If yes, provide the conversion table.

66. Are the NARUC account numbers referenced in Ms. Adams testimony at page 5, lines 5 through 23, the same as the account numbers used to determine the account balances for the annual FERC Form No. 2 filed with the Commission? If no, is there a conversion table that converts from NARUC accounts, to FERC accounts, to Western's general ledger chart of accounts?

67. Refer to Ms. Adams testimony.

a. Are the operating revenue and expenses in Volume 10, FR 10(10)(c), Schedule C-2.1 and Schedule C-2.2 according to NARUC accounts available according to Western's current general ledger chart of accounts? Resubmit these schedules according to the current chart of accounts.

b. Does Western have operating revenue and expenses in the detailed manner described above according to its current chart of accounts which

compare budgeted amounts to actual year-to-date totals for the FY 1998, 1997, 1996, 1995 and 1994?

c. If yes to part (a) provide the budget to actual comparison for those years. Provide a brief explanation for accounts with a budget to actual variance of 5 percent or greater.

d. Resubmit Volume 10, FR 10(10)(d), the summary of jurisdictional adjustments, according to Western's general ledger chart of accounts.

e. Resubmit Volume 9, FR 10(9)(d) for the base year and test year according to Western's general ledger chart of accounts.

f. Are the jurisdictional adjustments in Volume 10, FR 10(10)(d) and FR 10(9)(d) for the base year and test year by account as Western would submit to the Commission in a FERC Form No. 2 annual report? If not, resubmit these schedules according to the FERC accounts.

g. Are the operating revenue and expenses in Volume 10, FR 10(10)(c), Schedule C-2.1 and Schedule C-2.2 according to FERC Form No. 2 as filed annually with the Commission available? If no, resubmit these schedules according to the FERC accounts.

68. Refer to Volume 2 of 10 of the Application, Tab 4, the Testimony of Betty L. Adams. On page 6, line 24, a table is presented to point out Western's overall operating and maintenance (O & M) budgeting effectiveness for FY 1994 through 1998. Provide the source documents from which this table was created, with amounts detailed according to Western's general ledger chart of accounts.

69. On page 8, line 22 of Ms. Adams testimony there is a discussion of the increase in the forecasted test period labor costs that is attributed to the planned filling of a number of vacant employee positions and a four percent wage increase.

a. Provide the number of vacant employee positions, by job classification, that Western intends to fill.

b. Provide the actual employee positions, by job classification, and provide the actual period used to determine the number of vacant positions necessary.

c. Does Western have both union and non-union employees? If there are union employees, provide the job classifications and a copy of the union contract.

d. Provide a schedule showing the derivation of the proposed 4 percent wage increase along with an explanation of how wage increases are determined for management, union and non-union employees.

e. Provide a list of the planned positions being filled that were previously held by contractors, by job classification, and break down the list further by identifying contractors performing construction activities, not operational duties.

f. Identify how many years the contractors have performed construction activities and whether these activities are now being considered in the planned construction budget.

g. If the planned positions are replacing contractors that have been performing construction services, and construction services with contractors are included in the planned construction budget, provide a detailed description of the expected benefits from the addition of the planned operating and maintenance employees that Western's customers will receive that they have not been receiving.

70. Resubmit Volume 9, FR 10(9)(h)9 for the years 2000 through 2003 with employees separated by job classifications. Also, provide a comparison of budgeted to actual number of employees for FY 1994 through 1998. Provide references in each of these schedules to the employee numbers by Western's chart of account number, NARUC account, and FERC account. Explain any increases or decreases of 5 percent or more in employee numbers from year to year.

71. On page 9, lines 10 through 17 of Ms. Adams testimony is a discussion of the increase in the forecasted test period communications expense that is attributed to increased use of mobile data terminals (MDTs) and higher cellular usage. Provide a schedule showing the cost amounts, MDT units acquired and plant accounts charged since the project inception, showing the years in which the investments in MDTs were made.

a. Does Western have contracts for communications expenses, such as long distance and cellular usage?

b. If yes, provide the old and new contracts and an explanation of why the usage was deemed to increase in the forecasted period considering any contractual changes or changes in services used.

c. Give a quantified determination of how this increase was estimated and whether the costs are under contract or not.

72. Refer to Ms. Adams testimony. Provide an explanation, complete with a quantified determination, of how the increase in uncollectible write-offs was calculated for the forecasted test period.

a. Provide the accounts receivable aging schedules for the last two fiscal years.

b. Explain why under-budgeted write-offs for the six-month period in FY 1999 provided sufficient reason to adjust the forecasted period.

c. Provide an accounts receivable aging schedule for the last month of actual results in the test period.

d. Provide an account analysis of Western's reserve for uncollectibles comparing the actual charge-offs with the year to date provision for uncollectibles (expense) for the six-month period of actual results in the FY 1999 that comprises part of the base year. If different, schedule Western's monthly provision for uncollectibles (expense) in comparison to the year-to-date (YTD) budget.

e. Provide a comparison of the YTD budget to actual provision for uncollectibles (expense) for the last two fiscal years.

f. Provide a comparison of the reserve for uncollectibles to accounts receivable for FY 1997, FY 1998 and the end of the six-month actual period included in the base year.

73. In Volume 10 of 10 of the Application, Schedule D2.2, Sheet 2 of 2, ADJ 7 includes the transfer of Human Resources expenses from Shared Services of \$67,700.

a. Provide a list of the job(s) transferred, an explanation of the previous job(s) function with Shared Services, and an explanation of the job(s) function with Western.

b. Did similar job reclassifications occur with Western's gas distribution affiliates? If yes, give an explanation of the reasoning. If no, why not?

74. In Volume 10 of 10 of the Application, Schedule D2.3, Sheet 1 of 1, ADJ 2 is described as an adjustment to reflect the amortization of the PSC Assessment for 1997 paid in 1999. Provide a detailed explanation and calculations to support the determination of this adjustment.

75. Refer to Ms. Adams testimony at page 10, line 6, where adjustments to Western's FY 1999 budget decreasing O & M expenses and increasing Shared Services expenses are discussed in regard to the utilization of the new Customer Support Center in Amarillo, Texas. Provide quantified schedules, referenced to Western's chart of accounts, with explanations of the cost shifts discussed, i.e., decreased number of employees by job classification to Western, new charges by Shared Services.

76. Refer to Ms. Adams testimony at page 10, line 17, where adjustments to Western's FY 1999 budget decreasing O & M expenses and increasing Shared Services expenses are discussed in regard to the United Cities Gas merger. Provide quantified schedules, referenced to Western's chart of accounts, with explanations of the cost shifts discussed, i.e., decreased number of employees by job classification to Western, new charges by Shared Services.

77. Refer to Ms. Adams testimony at page 10, line 22, where adjustments to Western's FY 1999 budget from non-labor savings in the proposed Gas Meter Performance Control Program are referenced. Provide a detailed schedule with a calculation showing how these savings were determined.

78. Refer to Ms. Adams testimony at page 10, line 22, where adjustments to Western's FY 1999 budget from transferring the rates and regulatory vice-president position from the Shared Services staff is mentioned. Did similar job reclassifications occur with Western's gas distribution affiliates? If yes, give an explanation of the reasoning. If no, why not?

79. Refer to Ms. Adams testimony at page 13, lines 15 through 18, where the adjustments to Western's Shared Services forecasted budget includes an adjustment for a decrease in the labor portion of Atmos administrative and general overheads, which is a capital expense.

a. Provide a description of these costs and a schedule of these costs, with reference to the accounts charged in the Shared Services forecasted budget.

b. Explain how these costs represent a capital expense as Atmos administrative and general overhead, but upon reclassification as a Shared Service expense become an operating and maintenance expense subject to recovery through customers rates.

c. Were these costs similarly reclassified for Shared Services charges to Western's gas distribution affiliates? If yes, give an explanation of the reasoning. If no, why not?

80. Provide the basis for the beginning of Western's FY 1999 budgeting process in quantitative form, i.e., prior year's budget, prior year's actual results, by Western's current chart of accounts.

a. Provide a listing of the known adjustments made at the beginning of Western's budgetary process, i.e., increase or decrease in employee numbers, reductions for expenses non-recurring in nature.

b. Provide a listing of the known adjustments made at the major decision-points of Western's budgetary process, i.e., increase or decrease in employee numbers, reductions for expenses non-recurring in nature, deferring or accelerating maintenance projects.

81. Provide the basis for the beginning of the Western's Shared Services FY 1999 budgeting process in quantitative form, i.e., prior year's budget, prior year's actual results, prior year service adjusted by changes in affiliated charges, by Western's current chart of accounts.

a. Provide a listing of the known adjustments made at the beginning of Shared Services budgetary process, i.e., increase or decrease in employee numbers, reductions for expenses non-recurring in nature.

b. Provide a listing of the known adjustments made at the major decision-points of Shared Services budgetary process, i.e., increase or decrease in employee numbers, reductions for expenses non-recurring in nature, deferring or accelerating projects.

82. Refer to Volume 2 of 10 of the Application, Tab 4, the Testimony of Betty M. Adams, page 3, which shows her sponsoring FR 10(10)(d) and FR 10(10)(f) and Volume 10 of 10, Tabs 4 and 6, which include FR 10(10)(d) and FR 10(10)(f). Provide a schedule of the rate-making adjustments for country club dues, promotional advertising and sales expenses, employee party and gift expenses and pension expense in

reference to the Detailed Adjustments in Volume 10, FR 10(10)(d)2.1, FR 10(10)(d)2.2, and FR 10(10)(d)2.3, as applicable.

a. Provide the location of the above adjustments in FR 10(10)(d)1, with specific account number references.

b. Provide the location of the above adjustments in FR 10(10)(d)1, with specific account number references to the same schedule as previously requested to be resubmitted in Western's general ledger account number form.

83. Refer to Volume 2 of 10 of the Application, Tabs 2 and 4, the testimony of R. Earl Fischer and Betty L. Adams. To some extent, both witnesses address the issue of direct billed intercompany services and allocated service costs from Atmos's Shared Services Business Unit (Shared Services) to Western and other Atmos business units.

a. Provide a detailed operating statement for Shared Services for FY 1997, 1998, and year to date FY 1999 actual, with detailed intercompany revenue accounts to reflect similar services provided by Shared Services for the Atmos operating divisions. Specifically, reference Shared Services revenue accounts to Western's expense accounts by current chart of accounts. Provide the FY 1999 Shared Services budget and provide updates of FY 1999 actual data as it becomes available.

b. Provide contractual agreements between Western and Shared Services since 1997, with a schedule of expected service cost increases that are included in the determination of the base year or the forecasted year. Reference these service costs to Western's expense accounts by current chart of accounts.

c. Provide Shared Services cost allocation manual, if available. If none is available, describe the cost allocation process for the portion of the cost not directly billed to Western and provide copies of all internal policies and procedures relating to the allocation of costs from Shared Services to Western.

Done at Frankfort, Kentucky, this 16th day of July, 1999.

By the Commission

ATTEST:

Executive Director