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 September 3, 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 previously provided, 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 response to Item 1 of the Commission s July 16, 1999 Order. Provide the following information concerning WKG Storage, Inc. and Western Kentucky Energy Services, Inc.:

a. Describe the nature of the affiliate s business operations.

b. Indicate when the affiliate was established.

c. Indicate whether any of Western s assets, liabilities, capital, or personnel were transferred to either affiliate.

2. Concerning transactions between Western, Atmos Energy Corporation (Atmos), and any other Atmos regulated divisions or non-regulated affiliated subsidiaries:

a. For the base period and the five previous fiscal years, provide a schedule showing the total dollar value of affiliated party transactions between (1) Western and Atmos and (2) Western and all other Atmos affiliates. The schedule should separately identify the affiliate and the total dollar value of that affiliate s transactions for each of the periods requested.

b. For the base period and the five previous fiscal years, provide a description of any transaction between Western and Atmos, or Western and an Atmos affiliate, where the dollar value of the transaction equaled or exceeded $100,000. Identify which entity was the provider and which was the acquirer. Also, explain in detail how the value of the transaction was determined (cost, fair market value, etc.).

c. Does Western attempt to estimate the dollar level of its affiliate transactions in its budgeting process? If yes, explain in detail how the estimate is determined. If no, explain why this is not done.

d. For the base period and the five previous fiscal years, provide an analysis comparing the total dollar value of affiliated transactions Western incorporated in its fiscal year budget to the actual amount expended. Include an explanation for any differences between budgeted and actual amounts that exceeded 5 percent.

e. For the forecasted period, provide the total dollar amount of affiliated transactions incorporated into the budget. Explain how Western determined that amount.

3. Refer to the response to Item 3 of the Commission s July 16, 1999 Order. Provide the accounting entries Western normally would make to its books to record its post-retirement employee benefits (OPEB) during a fiscal year. Identify the account numbers and titles used, as well as a description of each transaction.

4. For the forecasted period, the base period, and the five previous fiscal years, provide the following information concerning Western s OPEBs. In addition, explain how the items requested below were determined for the base and forecasted periods.

a. The amount of OPEB claims incurred and funded.

b. The amount of OPEB claims actuarially determined.

c. The amount of the OPEB liability recorded for each period.

5. Concerning Western s OPEBs, provide citations to the applicable generally accepted accounting principles that support Western s accounting treatment.

6. Refer to the response to Item 3, Sheet 5 of 5, of the Commission s July 16, 1999 Order and the reference to the response to Item 59(b). The response to Item 59(b) appears to deal exclusively with the impacts of weather on Western s customers

gas usage. Explain how the average decline in Mcf/year/customer, which apparently is based on this weather-related impact analysis, is indicative of the effects of conservation on Western s gas sales.

7. Refer to the response to Item 9 of the Commission s July 16, 1999 Order. Western has indicated that the approach used to develop the capital budgets submitted in its application was not consistent with the approach normally used. Western has also indicated that it has not performed any analysis or review to determine if the baseline forecast approach produces a result similar to the usual bottom up approach. Explain in detail how the results of the baseline forecasting approach can be considered reasonable without some verification that the results from this approach are similar to the normal capital budgeting approach utilized by Western.

8. Refer to the response to Item 9(f) of the Commission s July 16, 1999 Order. Explain in detail why an allocation factor based on Western s percentage of customers to the total Atmos customer count is appropriate.

9. Refer to the response to Item 10 of the Commission s July 16, 1999 Order. Western was requested to provide the workpapers and assumptions used to determine that the projected increase in maintenance and improvements should be 36.25 percent for the FY 2000 capital budget. The response does not adequately satisfy the request.

a. Provide the originally requested workpapers and assumptions for the 36.25 percent factor.

b. For the base period and the 10 previous fiscal years, provide an analysis of the actual increase or decrease experienced by Western for maintenance and improvements. The analysis should compare the oldest fiscal year to the following year, and continue year-to-year comparisons through the base period.

10. Refer to the response to Item 12 of the Commission s July 16, 1999 Order.

a. Provide the actual capital ratios for Atmos as of April 30, 1999 and June 30, 1999.

b. Provide the actual capital ratios for Atmos as of July 31, 1999; August 31, 1999; and September 30, 1999. This information will be due on December 1, 1999.

11. Refer to the response to Item 13 of the Commission s July 16, 1999 Order.

a. Explain in detail why, if Atmos s objective is to maintain a capital structure comprised of approximately 50 percent equity and 50 percent debt, it is using a 5-year financial plan which results in equity levels significantly above 50 percent by FY 2002 and FY 2003.

b. Describe the changes in the assumptions for the 5-year financial plan that would be necessary to yield equity percentages for FY 2002 and FY 2003 that are closer to the stated goal of 50 percent.

12. For each of the items listed below, provide the percentage that Western s operations represent compared to the total regulated Atmos operations. This information is to be provided as of the end of the forecasted period, the base period, and the five previous fiscal years.

a. Total number of customers.

b. Total number of employees.

c. Total gas throughput in Mcf.

d. Total revenues from gas sales and transportation.

e. Total purchased gas costs.

f. Total other operating and maintenance expenses.

g. Total net operating income.

h. Total net income.

13. Refer to the response to Item 14 of the Commission s July 16, 1999 Order.

a. Concerning Item 14(a), provide Western s definition of normal weather conditions.

b. For FY 1999 to date and the previous 10 fiscal years, indicate whether Atmos experienced normal weather conditions.

c. In how many jurisdictions does an Atmos business unit have in operation a Weather Normalization Adjustment (WNA) tariff similar to the one proposed in this proceeding? Indicate the percentage of Atmos s total regulated operations impacted by this mechanism. The percentage should be based on total gas sales revenues.

d. In how many jurisdictions does Atmos plan to propose, within the next two fiscal years, a WNA tariff similar to the one proposed in this proceeding? Indicate the percentage of Atmos s total regulated operations that would be impacted if the proposals were adopted. The percentage should be based on total gas sales revenues.

e. Indicate the status of the proposed Universal Shelf Offering discussed in the response to Item 14(b).

f. Concerning the response to Item 14(d), Atmos has completed five major acquisitions within the past 12 years. Explain in detail why it would not be reasonable to have modeled one additional acquisition in the current 5-year financial plan.

g. Concerning the responses to Items 14(e) and 14(f), it is stated that these items are dependent upon the reasonableness of other assumptions contained in the 5-year financial plan. Does Atmos perform any sensitivity analysis during the development of the 5-year financial plan to evaluate the reasonableness of the assumptions used? If yes, describe this analysis. If no, explain in detail why such an analysis is not performed.

14. Refer to the response to Item 15 of the Commission s July 16, 1999 Order. For the first nine months of FY 1999 and the five previous fiscal years, provide the base stock capital growth associated with the Employee Stock Ownership Plan, the Direct Stock Purchase Plan, and the UCG Plan. Provide the number of shares issued and the dollar increase in Atmos s equity balances associated with these plans.

15. Refer to the response to Item 20(a) of the Commission s July 16, 1999 Order.

a. For each of the recommendations listed in the Executive Summary of the Process and Impact Evaluation of Western Kentucky Gas WKG CARES Program (Evaluation Report), describe in detail the actions taken by the Western collaborative in response to those recommendations.

b. On page 2 of the Evaluation Report, it is recommended that written contracts be designed and implemented with each of the participating community assistance program (CAP) agencies. Explain in detail why written contracts were not already part of the process when WKG CARES was first established.

c. On page 5 of the Evaluation Report, it is stated that net per-participant energy savings had been estimated as 16.8 Mcf. It is also stated that the savings related to participants in the program covered the period from November 1996 to September 1997. Explain in detail why the actual level of achieved savings was not calculated or presented in the report. In addition, explain why a full year of program activity was not utilized.

d. On page 12 of the Evaluation Report is a listing of the nine efficiency measures included in the WKG CARES program. Explain why the following programs were included in WKG CARES, even though they failed three of the four standard demand side management (DSM) cost/benefit screening tests conducted during pre-implementation.

(1) Wall insulation.

(2) Floor insulation.

(3) Water heater replacement/repairs.

(4) Duct insulation.

(5) Repair/replace furnace.

e. Explain in detail how Western recorded the funding of WKG CARES during the Evaluation Report review period.

f. On page 17 of the Evaluation Report it is stated that at least 10 percent of all homes that have been weatherized using WKG CARES funds are inspected. Explain why only 10 percent are inspected and how the level of inspections was determined.

g. Refer to page 30 of the Evaluation Report. A review of the information presented in Table IV.1 shows that while the Bluegrass Community Action Agency had approximately 3 percent of the total WKG CARES participants, it represented 10 percent of the home surveys. The Pennyrile Allied Community Action Agency had approximately 33 percent of the WKG CARES participants, but represented only 24 percent of the home surveys. Explain in detail why these situations occurred and why the home survey sampling approach did not result in a distribution of the home survey that more closely matched the actual participant distributions by CAP agency.

h. If the home surveys were conducted in conjunction with an evaluation of WKG CARES, explain why it was necessary to include questions concerning customer satisfaction with Western as the customer s service provider.

i. On page 38 of the Evaluation Report is a continuation of bullet point observations from the home surveys. Reconcile the last two bullet points on page 38 with the results shown on Table IV.4 on page 33.

j. Beginning on page 42 of the Evaluation Report is a discussion of how a statistical billing analysis was used to estimate the change in annual Mcf consumption for a sample of program participants and non-participants. Explain in detail why the evaluation did not compare actual customer usage prior to, during, and after the program review period to determine the actual energy savings.

k. Explain how the data used in the Princeton Scorekeeping Methodology (PRISM) was weather normalized. Specifically state what time period was used to determine normal weather.

l. Western has stated in its data responses that the winters of 1996 and 1997 were generally normal. If that is the case, explain why the data for the PRISM analysis had to be weather normalized.

m. Provide a schedule showing the <u>actual</u> Mcf usage for each of the 114 participants and the 112 non-participants for these time periods: November 1995 through October 1996; November 1996 through September 1997; and April 1997 through March 1998. Reference numbers should be used rather than customer names. The data should not be weather normalized.

n. Define the phrase naturally-occurring reduction in consumption as it is used on page 55 of the Evaluation Report. Also, explain in detail why such an adjustment was needed in the development of the net energy savings.

o. Explain what the phrase environmental damage associated with the consumption of natural gas means as it is used on page 55 of the Evaluation Report.

p. Explain why an environmental damage factor for natural gas obtained from the Minnesota Department of Public Service was included in the cost/benefit testing analysis. Include with the explanation a discussion of why a factor based on Minnesota s experience is applicable to Kentucky.

q. Provide the material referenced in Appendix A Bill Stuffer of the Evaluation Report.

16. Refer to the response to Item 20(c) of the Commission s July 16, 1999 Order. The request asked why actual customer savings were not developed as part of the impact evaluation. The testimony cited in the response states that net per-participant energy savings has been estimated (emphasis added), while pages 45 through 48 of the Evaluation Report contain references to estimated reads were combined with subsequent actual reads, normalized annual consumption estimates were developed for each of the program participants, and net energy savings estimates were developed. While the analysis may have started with actual consumption data, the Evaluation Report makes it clear that the reported customer savings were estimated. Provide the information originally requested.

17. Refer to the response to Item 27 of the Commission s July 16, 1999 Order. The response indicates that Western expensed all DSM pilot costs. However, the account numbers listed for the schedule of pilot program costs are all miscellaneous deferred debit accounts.

a. Indicate the account number(s) used to show these expenses on Western s income statement.

b. Provide a sample accounting entry made to Western s books to record a DSM pilot program cost.

c. Explain in detail why, if the DSM pilot costs were expensed, the accounts identified in this response are miscellaneous deferred debit accounts.

18. Refer to the response to Item 28 of the Commission s July 16, 1999 Order. Provide the same information as was supplied in this response for the capital projects for fiscal years 1989 through 1993 (FY89-FY93 Period).

19. Provide the following information for each of the capital projects included in the response to Item 28 of the Commission s July 16, 1999 Order and the response Western will be providing for capital projects in the FY89-FY93 Period:

a. For each project included where the responses show a reference of Deferred, explain why the project was deferred, when the project was next included in a capital projects budget, and when it was actually constructed.

b. For each project included where the responses show a budgeted amount and no expenditure amount, but was not referenced as deferred, explain why no expenditures were made on the project. Indicate when expenditures were made on those projects.

c. For each project included where the responses show expenditures but no budgeted amount, explain the situation that required capital expenditures where none were budgeted.

d. For each project included in the responses, prepare a schedule showing the month and year for the following dates:

(1) Budgeted project starting date.

(2) Budgeted project ending date.

(3) Actual project starting date.

(4) Actual project ending date.

e. Using the project information contained in the responses, prepare a summary by fiscal year that shows the following:

(1) The total number of capital projects.

(2) The number of capital projects that were completed ahead of schedule.

(3) The number of capital projects that were completed on schedule.

(4) The number of capital projects that were completed behind schedule.

20. Refer to the responses to Items 28 and 29 of the Commission s July 16, 1999 Order. The response to Item 28 indicates Western s historic capital projects completion percentage ranged between 80.2 percent and 112.4 percent. Given this historic information, explain in detail why it is reasonable to assume that all capital projects included in the forecasted test year capital budget will be completed by the end of the forecasted test year.

21. Refer to the response to Item 35 of the Commission s July 16, 1999 Order. The response provides the link between the capital budget projects shown in Volume 3 of 10, Tab 1, Exhibit DHD-1 with Volume 10 of 10, Tab 2, Schedule B-2.2. However, this link applies only to the grand totals from Exhibit DHD-1. A link between the additions to a particular plant account cannot readily be established.

a. For pages 1 through 4 of 6 of Exhibit DHD-1, provide a summary for each page listing the additions by plant account number, rather than budget categories. Retain the column titles showing the expenditure classifications for each page. Also show how the amounts for retirements and public works reimbursements are allocated to the particular plant accounts.

b. For any asset account shown on Schedule B-2.2, for either the base period or forecasted period, explain in detail why the addition shown does not match the plant account summary provided in response to part (a) above.

22. For each of the estimated months contained in the base period and for the entire forecasted period, explain in detail how it was determined when the particular amount of plant addition would be recognized in the plant account. Also, provide a schedule showing by month the amount of plant addition by plant account number.

23. Refer to the response to Item 37 of the Commission s July 16, 1999 Order.

a. Provide a detailed explanation as to how the accumulated depreciation amounts were allocated to the individual 300 series account numbers, for both the base and forecasted test periods. Include all assumptions, the basis for the allocations, calculations, and supporting workpapers used to determine the amounts. This should be done for both the original Schedule B-3 filed, as well as the revision included in the response to Item 37.

b. Provide a schedule showing Western s utility plant in service, accumulated depreciation, and proposed depreciation expense adjustment by classes of assets, for both the base and forecasted test periods. If any class of asset appears to be over-depreciated, include a detailed explanation for what has occurred or is occurring within that plant classification.

c. Explain in detail the nature of the errors made by Western when originally preparing Schedule B-3.

24. Refer to the response to Item 39(a) of the Commission s July 16, 1999 Order.

a. For each of the consultants listed in the response, provide a description of the areas of the rate case on which the consultant worked.

b. Describe the nature of the employee expenses that total $13,274.

c. Describe the nature of the labor expense of $452.

d. Provide a description of the services received from the Lukens Consulting Group, Inc. for the period April through June 1999.

e. Concerning the work performed by Utility and Economic Consulting, Inc., explain why entries for the following dates were determined to be related to this rate case: October 20, 1998 (entire day); November 20, 1998; December 18, 1998; December 23, 1998; March 1, 1999; and April 20, 1999.

f. Explain why the invoice from the law firm of Ward & Anderson, P.C. was included as a rate case expense.

25. Refer to the response to Item 43(c) of the Commission s July 16, 1999 Order.

a. Explain why there was a balance remaining in Western s FY 1998 overhead Account 1070.

b. Explain why it was appropriate to apply the remaining overhead balance from FY 1998 to FY 1999 capital expenditures.

c. Does Western anticipate that there will be a remaining balance in its overhead accounts for FY 1999? Explain the response.

d. For each of the 10 previous fiscal years, indicate whether Western had a balance remaining in its overhead accounts, and describe how any remaining balance was cleared.

26. Refer to the response to Item 45(c) of the Commission s July 16, 1999 Order. Explain what Western means by recapitalized and why the Division 09 annual reserve computation will be expensed.

27. Refer to the response to Item 46 of the Commission s July 16, 1999 Order. Explain why the PSC Assessment is considered by Western to be a prepayment. Also explain why Western believes it should be allowed to earn a return on its PSC Assessment.

28. Refer to the response to Item 46 of the Commission s July 16, 1999 Order. For each of the items listed below, describe the nature of the item and explain why Western believes it should be allowed to earn a return on the item.

a. Division 09 Alliance Gas.

b. Division 09 Tennessee Alliance Gas.

c. Division 02 American Gas Cooling Center.

d. Division 02 Southern Gas Association.

e. Division 02 American Gas Association.

f. Division 02 Nation Bank of Texas.

g. Division 02 Int. of Gas Tech.

29. Refer to Schedule DAM-5 of the Direct Testimony of Donald A. Murray. Provide the time period used to obtain the figures in the last three columns of the chart.

30. Refer to Schedule DAM-10 of the Direct Testimony of Donald A. Murray. This chart uses two separate estimates for Earnings Per Share (EPS) growth rates. Explain why the Value Line EPS estimates are used to calculate the High cost of capital and the Standard & Poor s (S&P) EPS estimates are used to calculate the Low cost of

capital, as opposed to using the exact method for calculating cost of capital used in Schedule DAM-9. (If the exact method were to be used, Schedule DAM-10 would have a High and Low cost of capital calculation using the Value Line EPS growth rate estimates and a separate but similar calculation using the S&P EPS growth rate estimates.)

31. Refer to Schedule DAM-15 of the Direct Testimony of Donald A. Murray. Explain why the figures comparing Discounted Cash Flow (DCF) results for dividend and earnings growth do not come from sets of calculations consistent across time. In other words, explain why DCF results for Dividend growth rates come from Schedules DAM-6 and DAM-7 and why DCF results for Earnings growth rates come from Schedules DAM-10 and FSM-11.

32. Refer to Schedule DAM-16 of the Direct Testimony of Donald A. Murray.

a. Explain the time period used for this table.

b. Explain the source or derivation of the figures in column (1), Market Total Returns.

c. Explain why Western used Long Term Corporate Bonds Return as a risk free rate in column (2), as opposed to a federal government bond rate.

d. Explain why it is appropriate to use 6.10 percent in the calculation of the Cost of Equity in Schedule DAM-16, but not appropriate in the similar calculation in Schedule DAM-17.

e. Explain why the Equity Risk Premium in column (3) is different from that used in column (3) in Schedule DAM-17.

f. Explain why Western uses the Long Term Bond return of 6.10 percent in the calculation of the Risk Premium, but uses the Aaa Corporate Bond Return to calculate the Cost of Equity.

33. Refer to Schedule DAM-17 of the Direct Testimony of Donald A. Murray.

a. Explain the time period used for this table. If it is not the same as the time period used in Schedule DAM-16, provide an explanation for why a different time period was used.

b. Explain the source of the Risk Free Return figure in column (1).

c. Explain the source and derivation of the Equity Risk Premium figures in column (3).

d. Comparing the Equity Risk Premiums in columns (3) of both Schedules DAM-16 and DAM-17, the difference between these sets of figures (1.20%) is greater than the difference between the Risk Free Returns, column (2) in Schedule DAM-16 (6.10 percent) and column (1) in Schedule DAM-17 (5.81 percent). This implies that a different Market Total Return figure is used in Schedule DAM-17 than that used in Schedule DAM-16. The implied Market Total Return in Schedule DAM-17 is 13.81 percent compared to 15.30 percent in Schedule DAM-16. If not explained previously, explain this apparent difference in usage of Market Total Returns.

e. Explain the source and derivation of the Size Premium, column (5). Also, explain why similar adjustments are made for some companies, and not others.

34. Refer to the Direct Testimony of Donald A. Murray. At page 19 of the testimony, Dr. Murray discusses the reasons for making an adjustment to the historical CAP-M calculation to account for Atmos s small size relative to other companies.

a. Explain why a size premium was added to all of the companies.

b. If investors attribute additional risk to relatively smaller companies and everything else being equal, shouldn t the Cost of Equity calculations be higher in Schedule DAM-17 than in Schedule DAM-16? Explain why the Cost of Equity declines with Western s size adjustment.

c. How common is the use of a size premium in other regulatory jurisdictions?

35. Refer to the response to Item 60(a) of the Commission s July 16, 1999 Order. In what ways should the Commission allow for the risk of short-term interest rate increase? By incrementally increasing the allowed return on equity? By adjusting the short-term interest cost? Explain thoroughly.

36. Western not being a stand-alone company explains, in part, the proposal to use Atmos s capital structure as the capital structure to be used to determine Western s cost of capital. If it is beneficial to Western to be part of the Atmos system and have Atmos raise capital for Western s operations, explain why the issue of whether or not Western would have a higher cost of capital as a stand-alone company is relevant.

37. By utility and jurisdiction, identify all Atmos operating divisions that presently have: (1) WNA tariffs; (2) Premises Charges; or (3) Margin Loss Recovery Mechanisms.

38. All other things being equal, explain whether reducing the volatility in revenues and earnings tends to lower the risk of a financial investment from the point of view of an investor.

39. Provide a definition and/or explanation that differentiates business risk from financial risk.

40. Refer to Schedule DAM-22 of the Direct Testimony of Donald A. Murray. Explain how Dr. Murray determined the recommended range on page 22 of his Direct Testimony using the variety of calculated returns on equity. Provide workpapers.

41. Refer to the Direct Testimony of John W. Hack at pages 2-3.

a. Provide the most recent Request for Proposal (RFP) issued by the Gas Supply Department on behalf of Western and the list of potential vendors to whom it was sent.

b. Provide a thorough description of the bid selection process employed by Atmos/Western after receiving the responses to this most recent RFP.

42. Refer to the Testimony of John W. Hack at page 4 regarding Western s supply source arrangements.

a. The testimony refers to a Natural Gas Sales, Transportation, and Storage Agreement with Reliant Energy Services. Has there been any change in that arrangement since the time Mr. Hack s testimony was filed?

b. Provide a detailed description of any changes to that arrangement that have occurred since the filing of Mr. Hack s Testimony.

43. Refer to the Direct Testimony of Gary L. Smith at pages 34-38 and the response to Item 48 of the Commission s July 16, 1999 Order.

a. The reference to the WNA tariff of Columbia Gas of Kentucky (Columbia) does not refer to the fact that the Commission initially approved Columbia s

WNA tariff as a three-year pilot. Was Western aware that Columbia s WNA tariff was implemented as a pilot program?

b. There are some differences between Western s proposed WNA tariff and Columbia s WNA tariff. Did Western give any consideration to proposing its WNA tariff as a pilot program?

c. Provide any reasons for why Western would be opposed to having its proposed WNA tariff implemented on a pilot basis.

44. Refer to the Direct Testimony of Gary L. Smith at pages 7-8.

a. The testimony indicates that through March 1999, Western s total average monthly meters in service have increased by 2,132 over the same period in FY 1998. Does the number 2,132 represent all meters for all customer classes?

b. Provide a breakdown of the 2,132 increase in meters by customer classification.

c. Provide the comparable numbers reflecting the average increase in monthly meters in service, by customer class, for the periods ended December 1998 and June 1999.

45. Refer to the Testimony of Gary L. Smith at pages 11-12 and the response to Item 58 of the Commission s July 16, 1999 Order.

a. Provide a more detailed description and further explanation of the differences in the ways that Western uses its financial statistics and its marketing reports for purposes of tracking customer growth.

b. Provide a detailed explanation of how the revised forecasted growth of 1,700 residential customers shown in the testimony was derived.

c. Provide a summary of the analysis referred to on page 12 of the testimony for commercial and public authority customers that resulted in the revised growth rate of 230 for commercial customers.

46. Refer to Item 58(a) of the response to Commission s July 16, 1999 Order.

a. In the same format used in the response to Item 58(a), provide an update that includes two additional columns: one for fiscal year 1998 and one for the 12 months ended June 30, 1999.

b. The response included actual sales and transportation volumes, by class, in Mcf ; however, the request was that the volumes be provided adjusted for normal weather. Provide a second version of the update requested in part (a.) with the volumes adjusted for normal weather for each of the five periods..

47. Refer to Exhibits GLS-1 and GLS-7 in the Direct Testimony of Gary L. Smith.

a. Explain the increase of $84,884 in the negative revenue adjustment for additional contract reformation as shown on line 33 of the two exhibits. Provide any necessary calculations.

b. Provide the calculations, along with a narrative explanation, showing how the gas cost revenues of $77,522,158 were derived.

c. Provide a breakdown, by customer, of the adjusted volumes of 13,332,103 Mcf and revenues of $1,692,428 for Total Special Contracts. This does not require identifying customers. Reference to Customer No. 1, No. 2, etc. will suffice.

48. Refer to Exhibits GLS-1, GLS-5, and GLS-7 of the Direct Testimony of Gary L. Smith.

a. Exhibits GLS-1 and GLS-7 show 6,281 as the increased number of commercial bills related to the customer growth forecast. Exhibit GLS-5, which summarizes the customer growth forecast adjustment, includes 6,210 as the increased number of commercial bills. Identify which is the correct number.

b. Provide the calculations, along with a narrative explanation, of how the Mcf volumes in Exhibit GLS-5 resulting from the customer growth forecast were derived for each customer class.

49. Refer to Exhibit GLS-6 of the Direct Testimony of Gary L. Smith. Provide the calculations, along with a narrative description, of how the Mcf volume reductions resulting from residential and commercial conservation and energy efficiency measures were derived.

50. Refer to the Direct Testimony of Gary L. Smith and the response to Item 59(b) of the Commission s July 16, 1999 Order.

a. Define what customer actions Western includes in its references to conservation effects.

b. Has Western conducted any surveys or studies in an attempt to determine the specific actions or measures customers have undertaken that have caused the decline in usage? If yes, provide the results and a narrative description of Western s analysis of the results. If no, explain why such surveys of studies have not been conducted.

c. Has Western attempted to quantify the impact of improved appliance efficiency and technological innovations in equipment when examining its declining sales volumes? If yes, provide the results of that analysis. If no, explain why Western has not considered the impacts of these factors.

d. Has Western been able to determine what portion of the decline in usage is due to normal occurrences such as: (1) newer, better insulated homes equipped with more efficient energy-using appliances accounting for a larger percentage of its total customer base; (2) naturally occurring replacement of older, less efficient appliances with newer, more efficient appliances; and (3) reduced usage per customer due to changing demographics, such as smaller household size and increases in multi-family residences as a percentage of total residences?

51. Refer to the response to Item 50 of the Commission s July 15, 1999 Order.

a. Many of the gas distribution companies regulated by the Commission that make quarterly Gas Cost Adjustment (GCA) filings have tariff provisions that permit out-of-time filings when such filings are warranted. These provisions provide the flexibility to respond to significant gas supply cost changes. Would Western be able and agreeable to operating under a similar tariff provision?

b. While this rate application is pending, Western will continue to make monthly GCA filings, with the last filing prior to the end of the suspension period being due in early January of 2000 with rates to be effective February 1, 2000. Assuming this case stays on schedule, would Western be able to convert to a quarterly filing schedule after the conclusion of this proceeding with its first quarterly filing on April 1, 2000 for rates to be effective May 1, 2000? If not, explain why.

52. Refer to the response to Item 51 of the Commission s July 16, 1999 Order.

a. Provide copies of the orders from the Tennessee, Georgia, and South Carolina commissions in which the respective sharing ratios were established for another Atmos business unit.

b. The special contracts Western currently has produce average margins of less than $.13 per Mcf. Discounts from tariff rates in the form of additional contract reformation exceed $1 million. How much of Western s load (in Mcf) not already served at less than tariff rates is subject to competition or possible bypass? How much net revenue was generated from these loads during fiscal year 1998?

c. The proposed tariff rider does not include a starting point, or base amount, reflecting the margins, or net revenues, derived from the loads already served at less than tariff rates or those loads served at tariff rates that are subject to competition or possible bypass. If a base level, or starting point, from which to measure the margin losses is not included in the tariff, explain why such an omission will not result in an immediate loss calculation based on the proposed formula.

d. Based on the revenues from existing contracts, discounts and rate flexes, along with the revenues from loads that could be subject to less than tariff rates in the future, provide the total dollar amount of margins, or net revenues, for the forecast period that would reflect the type of base level, or starting point, described in part (c.) of this request.

e. Historically, between rate cases, Western s shareholders have been at risk for 100 percent of lost margins due to competition, bypass, etc. and Western, in response to competitive circumstances, has had to make rate concessions in several instances. Explain how having shareholders at risk for only 10 percent of lost margins will provide Western an incentive to maximize the revenues from its special contract, alternative fuel, and potential bypass customers.

53. Refer to Item 52 of the response to the Commission s July 16, 1999 Order.

a. Under the transition schedules for the pipelines when would Western began collecting Gas Research Institute (GRI) surcharges from its customers?

b. How does Western intend to notify the Commission that it will begin to make such collections?

c. GRI is involved in numerous research and development activities. Provide the most recent GRI annual report that details its activities and its levels of expenditures.

54. Refer to Item 54 of the response to the Commission s July 16, 1999 Order.

a. Explain how the amount of $77.57 million in Total Annual Residential Revenue, proposed margins, was reduced to $61.66 million in Approximate Residential Margins, 11 months.

b. Provide an explanation for the use of 11 months and 10 percent in the derivation of the estimate of $308,304 as the amount to be generated annually from the proposed late payment charge.

55. Refer to the Direct Testimony of Daniel Ives and the response to Item 56 of the Commission s July 16, 1999 Order.

a. The specific items of plant involved in new service installations are mains, meters, services, and regulators. For which of these items does Western expect the economic life to be shorter than the physical life? Explain why.

b. For each of these four plant items, provide the lives Western is presently using for purposes of calculating its per books depreciation.

c. Provide the calculation used to derive the pre-tax rate of return shown on Exhibit DMI-5, Schedule 1 of 2.

d. Provide schedules, in the same formats as Exhibit DMI-5, Schedules 1 and 2, showing the carrying costs and resulting premises charges based on recovery periods of 240, 300, and 360 months.

e. Provide the calculations, along with a narrative explanation, of the Facilities Adjustment Charge of $15.44 per year for all residential customers that Mr. Ives suggests Western be allowed to implement if the Commission rejects the proposed premises charge.

56. Refer to the Direct Testimony of David H. Doggette and the response to Item 57 of the Commission s July 16, 1999 Order.

a. The survey of banks in Exhibit DHD-2 was limited to eight local banks. Explain how these particular banks were selected for the survey.

b. Considering how widespread Western s service territory is, why was the survey limited to eight local banks ?

c. The proposed returned check charge is based on the premise that Western incurs an administrative charge for processing bad checks similar to the returned check charges imposed by the banks. What attempt has Western made to determine the actual level of costs it incurs to handle and process bad checks?

d. Has Western determined, or attempted to determine, the margin, or mark-up above their costs, that the banks include in their returned check charges?

e. The proposed Seasonal Turn-on Charge is not cost-based but is intended as a disincentive to customers disconnecting from the system on a seasonal basis. Explain why such a charge requires a higher after hours rate similar to those special charges that are cost-based.

57. Refer to the Direct Testimony of Betty L. Adams and the response to Item 67 of the Commission s July 16, 1999 Order. Refer to the response identified as DR 67(f), sheet 1 of 2, compared with the response identified as DR 67(g), Schedule C-2.1, Sheet 4 of 10. The base period amount of Shared Services Billing on DR 67(f) of $10,003,000 does not correspond with Administrative Services Transferred on DR 67(g), Schedule C-2.1, Sheet 4 of 10, Account 922, in the amount of $9,050,095. The amounts provided for the forecasted year on DR 67(f), Sheet 2 of 2, and DR 67(g), Schedule C-2.1, Sheet 9 of 10, Account 922 are in agreement. Explain and reconcile the differences in amounts for the base period.

58. Refer to Volume 10 of 10 of the Application, Tabs 3 and 5, the Direct Testimony of Rebecca M. Buchannan, and FR 10(10)(c)2, Schedule C-2, and FR 10(10)(e), Schedule E.

a. Explain why the State and Federal Income Tax on Schedule E for the base period is mathematically correct, but does not agree to the Income Taxes for Base Year Revenue and Expenses on Schedule C-2.

b. If FR 10(10)(c)2, Schedule C-2 as originally filed in the application would be different if presented on the basis of FERC accounts, resubmit Schedule C-2 based on FERC accounts.

c. Provide calculations to support the income tax for the columns titled Base Year Revenue & Expenses, Utility Budget Adjustments, SSU Billing Adjustments, Forecasted Revenue & Expenses, and Ratemaking Adjustments on FR 10(10)(c)2, Schedule C-2.

59. Refer to the Direct Testimony of Betty L. Adams and the response to Item 68 of the Commission s July 16, 1999 Order. Included with this response are comparisons of budget to actual year-to-date reports for FY 1998, 1997, 1996, 1995 and 1994 referenced as RESP-10. These reports contain data for only 11 costs or element groups.

a. Are the costs or element groups on these budget reports broken down further on other budget to actual comparison reports?

b. If yes, provide these reports for FY 1998 and for the months-to-date since then with a cumulative total beginning October 1998 through the most recently completed month of accounting records. Also, provide a brief explanation of all variances, both favorable and unfavorable, for the lesser of $5,000 or 5 percent.

c. If yes, provide a schedule combining the year-to-date actual per the RESP-10, the Shared Services Billing, depreciation, and any other costs to determine operating and maintenance expense for FY 1998 and for the months-to-date with a cumulative total beginning October 1998 through the most recently completed month of accounting records.

d. If no, explain in detail how Western monitors the underlying account element data for accuracy in budgeting. Also, what form of variance analysis does Western use for management reporting? Provide this variance analysis for FY 1998, 1997, 1996, 1995, and 1994 or such periods as are referenced in subpart b.

60. Refer to the Direct Testimony of Betty L. Adams and the response to Item 68 of the Commission s July 16, 1999 Order.

a. Since authorized employees have exceeded actual employees every year from 1994 through 1998, explain the basis for including 100 percent of authorized employees for rate-making purposes in the forecasted period.

b. What measures does Western propose to use in filling the 15 open positions that are shown when comparing the Testimony of Conrad E. Gruber and the response to Item 62 or the Commission July 16, 1999 Order, which reflects a total of 267 employees compared to the forecasted level of 282?

c. What are 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?

61. Refer to Volume 4 of 10 of the Application, Tab 4, FR 10(9)(m), and the Direct Testimony of Donald P. Berman. In the NARUC accounts individual elements of functional expense are shown in the chart of accounts at FR 10(9)(m) as follows: directors retirement benefits, service awards; employee incentives; meals & entertainment; membership fees; community relations & trade shows; and sports activities:

a. Are any amounts for the above individual elements of functional expenses included in the base period or forecasted period?

b. If yes, provide the amounts for both the base period and forecasted period as applicable, and explain why these types of expenses should be recoverable for rate-making purposes.

c. If no, explain why these types of expenses are included as above the line accounts in the chart of accounts.

62. Does Western s bottom-up budget process for the annual operating and maintenance budget include providing budgeting personnel with any reports comparing, for instance, the most recently completed fiscal year budgeted amounts and actual results, as well as the present operating budget, for a reference point in establishing a new budget?

a. If yes, provide such completed documentation from the element group account level for FY 1999, 1998, 1997, 1996 and 1995.

b. If no, explain in detail what reports management uses to evaluate the budget for accuracy of inputs, and provide documentation in the way of comparative reports from the element group account level for FY 1999, 1998, 1997, 1996 and 1995.

c. If no comparative reports are available from the budgetary input process, explain in detail how Western s budget process can be relied upon for accuracy, evaluation of trends and other analysis for periods past the immediate budget period.

63. Does Shared Service s bottom-up budget process for the annual operating budget include providing budgeting personnel any reports comparing, for instance, the

most recently completed fiscal year budgeted amounts and actual results, as well as the present operating budget, for a reference point in establishing a new budget?

a. If yes, provide such completed documentation from the most detailed account level for FY 1999, 1998, 1997, 1996 and 1995.

b. If no, explain in detail what reports management uses to evaluate the budget for accuracy of inputs, and provide documentation in the way of comparative reports from the most detailed account level for FY 1999, 1998, 1997, 1996 and 1995.

c. If no comparative reports are available from the budgetary input process explain in detail how Shared Service s budget process can be relied upon for accuracy, evaluation of trends and other analysis for periods past the immediate budget period.

64. Refer to the Direct Testimony of Betty L. Adams and the response to Item 72(a) of the Commission s July 16, 1999 Order.

a. Does Western s response that its billing system prior to June 1, 1999 did not provide accounts receivable aging mean that management did not otherwise have an aging schedule created for periodic evaluation of revenue collectibility?

(1) If yes, provide a detailed explanation of how Western determined the uncollectible accounts to write off?

(2) If no, provide any aging schedules created for the FY 1998 and 1997, with an explanation of any coding identifying customer classes.

(3) Provide a detailed explanation of Western s uncollectible account determination policy, with procedures on how accounts 60, 90, or 120 days and older are pursued for recovery.

b. Provide monthly accounts receivable aging schedules since June 1, 1999 and monthly uncollectibles written off for those months activity.

c. Provide the calculation supporting the derivation of the 0.4 percent of revenue factor used in the gross revenue conversion factor at Volume 10 of 10 of the Application, Tab 8, FR 10(10)(h), Schedule H. Include support for the combination of uncollectibles and revenue from different customer classes in determining a composite factor.

65. Refer to the Direct Testimony of Betty L. Adams and the response to Item 83(a) of the Commission s July 16, 1999 Order.

a. Provide a summary of Shared Services Combined Direct & Billed total monthly expenses as allocated by division on the exhibit in the response to Item 83(a), April s Financial Statements, bottom of the page marked (32). Prepare this summary for fiscal year 1998 and for the months since then with a cumulative total beginning October 1998 through the most recently completed month of accounting records.

b. Are any non-regulatory expenses allocated to regulated divisions or any regulatory expenses allocated to non-regulated divisions? If so, explain the reasons for the allocations and the allocation processes.

66. Refer to Volume 10 of the Application, Tab 3, FR 10(10)(c)2.1, and the Direct Testimony of Rebecca M. Buchannan.

a. For NARUC account 923, outside services employed, provide a schedule of actual and projected expenses by vendor that exceed $7,500 directly paid or billed to Western, or allocated by Shared Services. Give a brief explanation of the service to be provided.

b. For NARUC account 925, injuries and damages, provide a schedule of actual and projected expenses beginning with total workers compensation, then by vendor, that exceed $10,000 directly paid or billed to Western, or allocated by Shared Services. Give a brief explanation of the expenditure, other than the amount of workers compensation.

67. Refer to Volume 10 of the Application, Tab 4, FR 10(10)(d)2.2, Schedule D-2.2 and the Direct Testimony of Betty L. Adams. The explanation for ADJ 1, budgeting adjustment, includes an adjustment of the credit for pension due to FASB 87 in the base year. Is this a result of an accounting method change? If yes, explain the change. If no, is it similar to the Ratemaking Adjustment on FR 10(10)(c)2, Schedule C-2, in Volume 10 of the Application, in the amount of $771,992 referenced to Schedule F-2.3? Are these adjustments duplicated in both the base period and forecasted period?

68. Refer to the Direct Testimony of Donald P. Berman. Provide Atmos s or Western s most recent actuarial report for its pension plan.

69. The response to Item 47(f) of the Commission s July 16, 1999 Order indicated that Western would require more time to prepare an adequate response. The supplemental response filed August 13, 1999 indicated that progress was being made, but that additional time would be required, and that substantial time and analyses had

been required to develop the cost-of-service study based upon the future test period. The Commission renews the original request and further requests that all underlying worksheets for the development of the forecasted inputs and other analyses discussed in the supplemental response be supplied no later than the due date of this request.

70. Refer to the Direct Testimony of Thomas H. Petersen and the response to Item 47(i) of the Commission s July 16, 1999 Order. Many of the notes describing the functionalization and classification processes within the model seem to represent assumptions based upon historic precedent and industry knowledge. What analysis has Western undertaken currently or during recent cases to validate that the assumptions used as inputs to the cost-of-service study are reasonable? Has Western completed any analyses to validate the sensitivity of these judgmental inputs? Provide any such analyses. If no analyses have been completed, how can the Commission be assured that the results of the cost-of- service model are reasonable?

71. Provide the summary pages of the cost-of-service model assuming the minimum system method had been incorporated rather than the zero intercept method for both the historic period and the forecasted period. Describe what changes are necessary to implement this change.

72. Provide a reconciliation of the volume units and dollar amounts used by the financial, rate design and cost-of-service witnesses for the unadjusted historic test period, the adjusted historic test period, and the forecasted test period.

73. Refer to the response to Item 47(g) of the Commission s July 16, 1999 Order. Provide a detailed breakdown of the amount for Other Revenue of $1,094,414

shown on Sheet 6 of 9 of the functional allocations attached to the cost-of-service analysis utilizing proposed rates.

74. Refer to the response to Item 47(e) of the Commission s July 16, 1999 Order. Western states that the allocation could be applied to differing numbers of customer classes and/or differing customer sizes within customer classes, albeit requiring significant analysis. Has Western completed such an analysis? If so, provide the results. If not, what assurances can be given that the current customer classifications are the most optimal?

Done at Frankfort, Kentucky, this 19th day of August, 1999.

By the Commission

ATTEST:

Executive Director