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 October 4, 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 42 of the Commission s August 19, 1999 Order. The original agreement between Western and Reliant Energy Services (Reliant) had been filed with the Commission by Western.

a. Has Western filed the replacement agreement of Woodward Marketing, LLC (Woodward) with the Commission at this time?

b. When does Western expect to file the new agreement with the Commission?

c. Provide a detailed explanation for why Western decided to go with the next best proposal from the original vendors rather than re-open the process by requesting new bids.

d. Explain whether Western could have re-opened the process by requesting new bids from vendors other than Woodward, and then gone back to Woodward if its original proposal was still better than the new bids.

e. What is the corporate relationship between Western and Woodward?

f. The original agreement between Western and Reliant was terminated by mutual agreement of the parties. Provide the terms of the termination of the agreement and the impact that the termination has had, or will have, on the costs recovered through Western s Gas Cost Adjustment (GCA) clause.

2. Refer to the response to Item 43 of the Commission s August 19, 1999 Order and the proposed Weather Normalization Adjustment (WNA) tariff at Tab 6 in Volume 1 of 10 of the application.

a. Clarify the response to Item 43. Would Western be opposed to its WNA being implemented on a pilot basis?

b. As stated in the prior request, Western s proposed WNA tariff differs from the WNA tariff of Columbia Gas of Kentucky (Columbia) in some respects. Provide an example calculation, based on the formula in the proposed tariff, of the impact of the WNA on a representative residential customer s bill, during both a colder-than-normal month and a warmer-than-normal month.

3. Refer to the response to Item 44 of the Commission s August 19, 1999 Order. The comparison of December 1998 to December 1999 meters in service and the comparison of June 1998 to June 1999 meters in service both reflect larger increases than the March 1998 to March 1999 comparison included in the Direct Testimony of Gary L. Smith.

a. Explain why the March 1998 to March 1999 comparison of meters in service was chosen to be included in Mr. Smith s testimony.

b. As soon as available, provide a September 1998 to September 1999 comparison of meters in service in the same format as the other comparisons that have been provided. Indicate in this response the date the information will be filed.

c. The response to Item 44 shows a change of 1,983 residential customers from December 1997 to December 1998, while the table on page 12 of Mr. Smith s testimony shows a change of 1,722. Explain the reasons for these differences and explain how Average meters in service fiscal year to date as shown in the response differs from Residential meters in service, which is the heading in the table in Mr. Smith s testimony.

4. Refer to the response to Item 46 of the Commission s August 19, 1999 Order.

a. Provide an explanation for the decline in the number of Public Authority customers from fiscal year 1998 to the 12 months ended June 30, 1999.

b. As soon as available, provide an updated version of the response to Item 46(a), which substitutes fiscal year 1999 for the 12 months ended June 30, 1999. Indicate in this response the date the information will be filed.

c. The response to Item 46(b) provides weather-adjusted volumes by customer class, with Sheet 2 of 2 providing supporting calculations for the information shown on Sheet 1 of 2. Refer to the volumes for fiscal year 1996. Should the weather adjustment have resulted in a decrease from actual volumes rather than the increase shown when comparing responses 46(a) and 46(b)? If yes, provide Sheet 1 of 2 with the necessary revisions to the fiscal year 1996 volumes.

d. As soon as available, provide an updated version of response 46(b) that substitutes fiscal year 1999 for the 12 months ended June 30, 1999. Indicate in this response the date the information will be filed.

5. Refer to the response to Item 47(c) of the Commission s August 19, 1999 Order.

a. The response indicates that 13 customers, with adjusted volumes totaling 13,332,103 Mcf, will generate total net revenues of $1,692,428 under present margins (contract rates). Identifying them as Customer A, Customer B, etc., provide for each customer the net revenues it would provide Western if it were billed Western s tariffed rates, at both the existing rates and the proposed rates.

b. For the 13 customers as a group, provide the total volumes of 13,332,103 Mcf separated into the categories of Firm Carriage Service and Interruptible Carriage Service.

c. Based on the response to part (b) of this request, provide the total net revenues, under present margins, generated by Firm Carriage Service and Interruptible Carriage Service.

d. Based on the response to part (b) of this request, provide the total net revenues that this group of customers would provide for Firm Carriage Service and for Interruptible Carriage Service if they were billed Western s tariffed rates, at both the existing rates and the proposed rates.

6. Refer to the response to Item 48 of the Commission s August 19, 1999 Order and Revised Exhibits GLS-1 and GLS-2.

a. If Western s application did not employ a forecasted test year, but employed the historical test year ended September 30, 1998, normalized to reflect known and measurable adjustments, would Column (g) Total Volumes be the adjusted billing units on which rates would be calculated? If no, provide the adjusted billing units and explain how they would be determined.

b. Refer to part (b) of the response. Explain how the 180,576 Mcf attributable to commercial customer growth was split between the 0 to 300 Mcf rate block and the 301 to 15,000 Mcf rate block.

7. Refer to the response to Item 49 of the Commission s August 19, 1999 Order and Exhibits GLS-2, GLS-4, GLS-5 and GLS-6 of the Direct Testimony of Gary L. Smith.

a. Item 49, Sheets 1, 2, and 3 of 9, were provided to support the declining trend in residential usage per customer. Is it correct that the total for Column (h), Normalized Volumes, on each of these sheets reflects total volumes for the fiscal year identified at the top of the page?

b. Is it correct that the 13,034,849 Mcf at the top of Sheet 3, above Column (h), Normalized Volumes, reflects the total volumes for the forecasted test year, calendar year 2000?

c. Refer to the aforementioned exhibits to Mr. Smith s testimony at Column (b), Residential Mcf. These columns show, respectively, per book volumes, volume increases for weather, volume increases for customer growth, and volume decreases for conservation and energy efficiency. The net total, beginning with GLS-2 and going through GLS-6, is 13,026,240 Mcf. Explain why this number for residential Mcf for the forecasted test year does not match the 13,034,849 Mcf shown in the response on Sheet 3.

8. Refer to the response to Item 51 of the Commission s August 19, 1999 Order. Given Western s GCA tariff provision requiring annual Balancing Adjustment filings in February, would it be preferable for Western to make its February filing and then begin a quarterly GCA filing schedule with a filing schedule of February, May, August, and November?

9. Refer to the response to Item 52 of the Commission s August 19, 1999 Order and Exhibits GLS-2 and GLS-3 of the Direct Testimony of Gary L. Smith.

a. Part (b) of the response identifies 16,113,322 Mcf as being under special contract and indicates this amount represents 57 percent of Western s total industrial sales and transportation deliveries during the test year. Identify, in Exhibits GLS-2 and GLS-3, the Mcf levels that, when summed, produce the total industrial sales and transportation deliveries that were used as the denominator to derive the result of 57 percent.

b. Refer to the response to part (a) of this request. Using the volumes included in that response, provide the amount of net revenues that would be generated under both existing rates and proposed rates and the calculations performed to derive these revenue amounts.

10. Refer to the response to Item 53 of the Commission s August 19, 1999 Order.

a. Identify the periods that were covered by the field arrears reports that were reviewed.

b. If implemented as proposed, the Late Payment Charge would be effective April 1, 2000 and would remain in effect permanently on a going forward basis. Explain why Western believes it is appropriate to include only nine months of Late Payment Charge revenues in the forecasted test year.

11. Refer to the response to Item 55(d) of the Commission s August 19, 1999 Order.

a. Provide the basis for the allocation of new connections of 1,700 between Main and MSR and MSR Only.

b. Would the allocation ratio between Main and MSR and MSR Only remain the same if the number of connections were an amount larger or smaller than the 1,700 used in the calculation? If no, explain why it would be different.

c. The Number of Customers 2001 reflects additions of 1,700 for each of the calendar years 1999 and 2000 to the customer count as of September 30, 1998. Explain why no customer additions were reflected for the last three months of calendar year 1998.

12. Refer to the response to Item 56 of the Commission s August 19, 1999 Order. Historically, Commission approval of returned check charges has required cost support on a utility-by-utility basis. The intent of such charges is to charge the costs incurred by the utility to process the bad check to the cost-causer rather than to the entire body of ratepayers. Provide the cost calculations necessary to support a returned check charge based on Western-specific costs.

13. Refer to lines 22 through 24 on page 4 of the Direct Testimony of Earl Fischer. Describe how Western s return on new investments compares with those of Atmos s other business units.

14. Refer to pages 19 and 20 of the Direct Testimony of Dr. Donald Murry, to Schedules DAM 16 and DAM-17, and to Items 32 and 33 of the response to the Commission s August 19, 1999 Order.

a. Reconcile the response in Item 32(c) with the description of Schedule DAM-16 that begins at line 18 on page 19 of the testimony.

b. Fully describe, compare, and contrast the CAPM methodologies employed in Schedules DAM-16 and DAM-17. Include a more thorough explanation of the responses given in Items 32(e) and 33(d), as well as a full description of each variable used in each equation, its specific source, the time period covered by each variable, and its purpose in the specific equation that it is used.

c. If not fully explained in part (b) above, explain why the simple extension of the standard CAPM methodology to account for company size necessitates the use of different input values for those inputs that are common to both sets of calculations in Schedules DAM-16 and DAM-17.

d. Provide copies of the relevant sections from academic texts, such as Morin s <u>Regulatory Finance,</u> which justify the use of different input values in place of the same inputs used in similar calculations when the time periods used in the calculations do not change.

e. Provide all the calculations and results of any sensitivity analysis that Western has conducted supporting the CAPM calculations in Schedules DAM-16 and DAM-17. For each variable whose input value was changed from one set of calculations to the other, explain the rationale behind the range of input values used.

15. Refer to the response to Item 12 of the Attorney General s (AG) Data Request of August 19, 1999. The page provided from <u>Ibbotson Associates SBBI 1999 Yearbook</u> includes government as well as corporate bond Total Return rates. Explain why a government bond rate was not used as the risk-free rate in the CAPM calculation in Schedule DAM-16.

16. Refer to the response to Item 9 of the AG s Data Request of August 19, 1999.

a. Table 8-1 of the <u>SBBI 1999 Yearbook</u> sets out the Equity Risk Premium and the Size Premia used in Schedule DAM-17 of Dr. Murry s testimony. Explain why the risk-free rate was not taken from Table 8-1 as well.

b. Were the size premia set out in Table 8-1 developed from utility stock returns? If not, identify which companies returns were used and explain how those returns are applicable to gas utilities.

c. Provide a detailed explanation of how the size premia set out in Table 8-1 are calculated.

17. If Morin s <u>Regulatory Finance</u>, which is mentioned in response to Item 13 of the AG s Data Request of August 19, 1999, contains a discussion of the use of size premia for utilities, provide a copy of that discussion.

18. Refer to Schedules DAM-18 and DAM-19 of Dr. Murry s Testimony.

a. The Dow Jones Utilities price appreciation does not deviate from those of the Dow Jones Industrials and Moody s Transmission companies to the extent that Moody s LDCs do, and in fact, for a period of time it exceeds them. To the extent that competition and deregulation are increasing in the majority of utility industries, provide Dr. Murry s assessment of the shift in risk for the utility industry as a whole as perceived by investors.

b. The Atmos price appreciation does not deviate from the Dow Jones Industrials and Moody s Transmission companies to the extent that Moody s LDCs do, and in fact, for periods of time it exceeds them. Provide Dr. Murry s assessment of investors perceived shift in risk due to deregulation and increasing competition for Atmos relative to Moody s LDCs.

c. To what would Dr. Murry attribute the sudden stock price depreciation for Atmos, the Moody s LDCs, and the Dow Jones Utilities beginning in December 1998?

19. Refer to the response to Item 16 of the AG s Data Request of August 19, 1999. The studies and articles provided in the response to Item 16, which questioned how the financial markets assess the shift of risk between interstate transmission companies and LDCs, were published between 1993 and 1996. Schedule DAM-18, which supports Dr. Murry s testimony that investors are able to distinguish between the risks and returns of gas distribution and transmission companies, depicts price appreciation for Dow Jones Industrials, Moody s Transmission companies, and Moody s LDCs for March 1998 through March 1999. Page 20 of Dr. Murry s Testimony discusses investors assessment of changing risks for LDCs brought about by deregulation of pipelines and increasing competition.

a. Explain why Dr. Murry assumes that the relatively lower price appreciation of LDC stocks for March 1998 through March 1999 is a result of the pipeline deregulation and emerging competition discussed in the studies published during the period 1993-1996.

b. Could LDC price appreciation be impacted by the warmer than normal weather experienced during March 1998 through March 1999? Explain the answer in detail.

c. Would investors assess transmission companies, with their Straight Fixed Variable rate design, to be as risky as LDCs during a warmer than normal winter? Explain the answer in detail.

d. Would investors assess the Dow Jones Industrials to be as risky as LDCs during a warmer than normal winter? Explain the answer in detail.

e. If Western s WNA is approved as proposed, would Western be assessed by investors as having closer to the same level of risk as the other two groups depicted in Schedule DAM-18? Explain the answer in detail.

20. Refer to the Direct Testimony of Betty L. Adams and the forecasted test period filing requirements at Volume 7 of 10 of the Application, Tab 4, exhibit FR 10(9)(o). The referenced monthly budget variance reports provided in response to FR (9)(n) do not satisfy the filing requirement. The reports supplied in FR (9)(n) have no further breakdown of expenses beyond operations and maintenance. Additionally, no narrative explanations were provided, as required by 807 KAR 5:001, Section 10(9)(o). Ms. Adams testimony indicates Western s operating budget is prepared by cost center and individual functional expense. The response to the AG s August 19, 1999 Data Request, Item 175, Schedule A, Page 1 of 1, provides a comparison of budgeted operations and maintenance (O&M) expenses (without employee benefits) by responsibility area for Western. The response to Item 176, in that same data request, states that variance explanations are communicated verbally. However, Ms. Adams testimony at page 6 states that Ms. Adams reviews variance reports for cost centers which exceed the monthly budget by five percent (5%) or more, then document[s] for future budgeting purposes, known changes in current operational spending from budget.

a. Explain whether the testimony is correct in stating certain variances of operational spending from budget are documented, or merely communicated verbally.

b. Western s response to the AG s August 19, 1999 Data Request, Item 175, states that the threshold below which O&M budget variances are evaluated is 10 percent. Is 10 percent or the 5 percent referenced in Ms. Adams testimony the threshold for evaluation of variances? Explain the response.

21. The response to the AG s August 19, 1999 Data Request, Item 175, Schedule A, Pages 1, 8, 13, 18, 22, 26, 30, and 33 of 33 provides monthly O&M budget to actual variances for October 1998 through May 1999.

a. Provide narrative explanations by cost center and functional expense of variances in these reports as required by 807 KAR 5:001, Section 10(9)(o). A narrative explanation for employee benefit variances may be provided on a monthly basis for Western in total. Use 10 percent as the minimum threshold to determine the variances requiring explanation. Additionally, provide these variance analyses and narrative explanations of variances greater than 10 percent for the months of June 1999 through September 1999 by November 15, 1999.

b. Provide the variance analyses with narrative explanations for variances greater than 10 percent, as referenced in (a) above for the 12 months immediately prior to the base period, as required in 807 KAR 5:001, Section 10(9)(o).

22. Refer to the Direct Testimony of Betty L. Adams and the forecasted test period filing requirements at Volume 9 of 10 of the Application, Tab 2, Exhibits FR 9(u)1, and Schedules 1-3 and Exhibit A. The referenced Schedules 1-3 and Exhibit A do not satisfy the filing requirement of providing a detailed description of the amounts allocated. Furthermore, the answers to the Commission s July 16, 1999 Order, Items 34(a) and 83(a) were non-responsive. It appears, based on the information in the

record at this point, that the recording of the $9,050,095 of Shared Services cost allocated to Western in Account 922 Administrative Expenses Transferred Credit is not in accordance with the FERC USoA.

a. Explain how the use of Account 922 for Shared Services costs allocated to Western complies with the FERC definition that Account 922 is for administrative expenses . . . [from] Accounts 920 and 921 which are transferred to construction costs or non-utility accounts.

b. The schedule of Shared Services Combined Direct & Billed total monthly expenses as allocated by division on the exhibit in response to DR Item 83a, April s Financial Statements, bottom of the page marked (33),(34) and (35) appears to represent a detailed statement of operating expenses. Prepare this detailed statement of operating expenses showing the total six months actual activity and the projected six months total in the base period. Additionally, prepare a similar detailed statement of operating expenses showing total balances for the forecasted test year. Be sure that the amounts are reconciled to the amounts included on the FR 10(9)(h)1 and FR 10(10)(i)1 as described in (c) below.

c. The answer to the Commission s August 19, 1999 Order, Item 57, is non-responsive. A reconciliation should consist of detailed items comprising the approximate $953,000 difference for Shared Services Billing on DR 67(f) of $10,003,000 and Administrative Services Transferred on DR 67(g), Schedule C-2.1, Sheet 4 of 10, account 922, in the amount of $9,050,095. Provide a list of the items posted to different accounts that make up this difference.

d. Refer to the detailed statement of operating expenses in (b) above. Provide detailed descriptions of the types of expenditures and amounts for the base period and forecasted test year, for items the lesser of $10,000 or 10 percent of the account total. For all lesser amounts provide explanations of the various types of expenditures comprising the remainder.

e. Provide the Shared Services detailed statement of operating expenses cross-referenced to corresponding FERC account numbers.

23. Refer to the response to the Commission s August 19, 1999 Order, Item 1(c). The response states that no assets, liabilities, capital, or personnel of Western or Atmos Energy Corporation (Atmos) were directly transferred to either WKG Storage, Inc. or WKG Energy Services, Inc. Were any of Western s assets, liabilities, capital, or personnel <u>indirectly</u> transferred to either of these affiliates? If yes, explain the nature of the transfer.

24. Refer to the response to the Commission s August 19, 1999 Order, Item 2. Based on the definition of affiliate in 807 KAR 5:001, Section 10(1)(b)10 and (1)(b)11, the five unincorporated divisions of Atmos are considered to be affiliates. Based on this clarification, and excluding those shared services transactions already described in this record, provide the information originally sought by this request.

25. Refer to the response to the Commission s August 19, 1999 Order, Item 3. Entry number 2 is shown as two debits, without a corresponding credit. Indicate whether the entry shown is correct or, if in error, provide the correct entry.

26. Refer to the response to the Commission s August 19, 1999 Order, Item 4(c). Explain in detail why information on Western s post-retirement employee benefits is not available for years prior to the fiscal year ending September 30, 1996.

27. Refer to the response to the Commission s August 19, 1999 Order, Item 6. The second paragraph of this response makes reference to an adjustment to the test year in this case. Clarify whether this reference is to the base period or the forecasted period.

28. Refer to the response to the Commission s August 19, 1999 Order, Item 6. In this response, Western has filed an update to its original weather adjustment schedules Exhibit GLS-4, using billing information through May 1999. KRS 278.192(2)(b) states that the actual results for the estimated months of the base period shall be filed no later that 45 days after the last day of the base period. 807 KAR 5:001, Section 10(8)(d) states that after an application based on a forecasted test period is filed, there shall be no revisions to the forecast, except for the correction of mathematical errors, unless such revisions reflect statutory or regulatory enactments that could not have been included in the forecast on the date it was filed.

a. If the update to Exhibit GLS-4 is related to the base period, explain why this information was filed covering a period other than the end of the base period.

b. If the update to Exhibit GLS-4 is related to the forecast period, explain in detail why Western is not in violation of 807 KAR 5:001, Section 10(8)(d).

29. Refer to the response to the Commission s August 19, 1999 Order, Item 7. Indicate where in this record Western has provided an analysis showing that the results of the baseline forecasting of the capital budget correlates with prior years budgeted

and actual amounts. If such an analysis has not been submitted, provide such an analysis.

30. Refer to the response to the Commission s August 19, 1999 Order, Item 9 and the supplemental response to the Commission s July 16, 1999 Order, Item 10, filed on August 18, 1999. 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. Western has not provided the requested workpapers nor adequately explained the assumptions used to make the 36.25 percent determination. Provide the originally requested information; this is the third request for this information.

31. Refer to the response to the Commission s August 19, 1999 Order, Item 9(b).

a. Provide the supporting workpapers for the $2,048,660 in maintenance and improvements for 1993.

b. Explain the reason(s) for the increases and decreases experienced by Western for maintenance and improvements for 1996, 1997, and 1998.

32. Refer to the response to the Commission s August 19, 1999 Order, Item 12.

a. Explain why it is reasonable to assume that by the forecasted period, Western s number of employees will represent 20 percent of the number of employees for Atmos s total regulated operations.

b. The response indicates that historically, Western s percentage of the total number of employees has been slightly lower than its percentage of the total number of customers. Explain why Western expects this relationship to change in both the base period and the forecasted period.

c. Do the responses to parts (d), (g), and (h) for the forecasted period reflect the impact of the proposed revenue increase? Explain the response.

d. Explain in detail why Western s percentages of net operating income and net income are expected to decrease significantly in the base period and forecast period. Include a discussion as to how this can be expected to happen, given the corresponding percentages shown for parts (d), (e), and (f).

33. Refer to the response to the Commission s August 19, 1999 Order, Item 13(g). Western stated that the reasonableness of the assumptions used in the five-year plan is evaluated against historical occurrences and anticipated future operating conditions. Provide a further explanation of how Western performs this type of evaluation and indicate whether the evaluation is presented in writing or orally.

34. Refer to the response to the Commission s August 19, 1999 Order, Item 14. Western contends that it is reasonable to assume that the employee stock plans will continue to add roughly $20 million annually to Atmos s equity base.

a. Based on the information in this response, it would appear that Atmos and Western have based this assumption solely on the employee stock plan activity during FY 1999. Does Western agree with this conclusion? Explain the response.

b. The average dollar amount of the increase in Atmos s equity balance associated with the employee stock plans for the five previous fiscal years is approximately $10.5 million. Given this historic information, explain in detail why it is reasonable to assume that $20 million annually will be added to Atmos s equity base.

35. Refer to the response to the Commission s August 19, 1999 Order, Item 15.

a. In the response to Item 15(d), Western states it was our understanding that there were already guidelines in place based upon prior policy and regulatory rulings from the Kentucky Commission. Identify the guidelines, policies, and rulings this response is referencing.

b. In the response to Item 15(d), Michael Marks makes reference to several representations that were relayed to him concerning the WKG CARES program. Keeping in mind that the Commission speaks only through its Orders, do either Mr. Marks or Western have in their possession any Commission Orders that approved the WKG CARES program? If yes, provide copies of those Orders.

c. In the response to Item 15(k), it is stated that normal weather was based on actual weather for the 1980 1991 time frame as recommended in the Princeton Scorekeeping Methodology (PRISM) software manual.

(1) Explain why the software manual recommended a 10-year period to use for the weather normalization.

(2) Explain why a 30-year period was not used for the weather normalization in the PRISM analysis, which is the time period normally used in weather normalization adjustments.

(3) Explain why Western believes the use of a 10-year period produces reasonable results for its PRISM analysis.

36. Refer to the response to the AG s Data Request dated August 19, 1999, Volume 2 of 3, Item 145.

a. Who performed the analysis and developed the expense estimates shown on Exhibit MM-2 of the testimony of Michael Marks?

b. Explain why Western concluded that these estimated expenses did not need to be documented with supporting workpapers.

c. The schedules of actual DSM program expenditures show that for the period from December 1996 through October 1998, Western expended $598,326. Using this historic information, explain in detail how Western and its DSM collaborative arrived at an estimated expense level of $268,000 for the period November 1998 through December 1999 and an estimated expense level of $200,000 per year for each of the following three calendar years.

37. Refer to the response to the AG s Data Request dated August 19, 1999, Volume 3 of 3, Item 230.

a. During the planning stage of the WKG CARES program, did Western and its DSM collaborative consult with other utilities in Kentucky that had approved DSM cost recovery mechanisms, especially those approved under KRS 278.285?

b. If yes to part (a), explain how Western incorporated that information into WKG CARES. If no to part (a), explain why Western and its DSM collaborative did not undertake such a consultation.

c. Explain how Western determined that the use of a deferred debit account was the most appropriate method to record WKG CARES program expenses.

38. Refer to the response to the AG s Data Request dated August 19, 1999, Volume 3 of 3, Items 176 and 192. Western has stated that for both its O&M budget variance analysis and the capital budget variance reports, variance explanations are communicated verbally during top management staff meetings and no written explanations are provided. Explain in detail why Western believes it is a sound and proper business practice not to document these budget variance explanations.

39. Refer to the response to the Commission s August 19, 1999 Order, Item 19.

a. In response to Item 19(d), Western states that it is not required to maintain records documenting capital project budgeted starting and ending dates nor capital project actual starting and ending dates. Based on this response, does Western mean that it does not keep any information concerning the starting or ending dates for its individual capital projects? Explain the response.

b. Would Western agree that the maintenance of such capital project information would be a sound business practice? Explain the response.

c. In response to Item 19(e), Western states that it does not record whether a capital project is completed ahead of schedule, on schedule, or behind schedule. Explain in detail why Western does not record such information. Also explain whether Western would agree that the recording of such information would be a sound business practice.

d. In the response to Item 20 of this data request, Western has stated that all capital projects were completed in the fiscal year in which they were budgeted. If Western does not record information concerning the beginning and ending construction dates or information on whether the project was completed on schedule, explain in detail how Western can conclude that all capital projects are completed within the fiscal year they were budgeted.

40. Concerning Western s capital projects included in the base and forecasted periods,

a. Western has assumed that the budgeted amounts for the capital projects and the final actual expenditure for those projects will be the same. Explain in detail why this is a reasonable assumption.

b. When determining the amounts to recognize for its budgeted capital projects in the estimated portion of the base period or in the forecasted period, does Western agree that it would be reasonable to adjust the budgeted amounts, using the historic completion percentage, in order to more accurately reflect actual expected capital additions? Explain the response.

41. Refer to the response to the Commission s July 16, 1999 Order, Item 28, and the August 19, 1999 Order, Item 18.

a. In five of the eight fiscal years that Western reported capital budget project information for the WKG Company Office operating area, the expenditure amount exceeded the budget amount. For those eight fiscal years, the WKG Company Office s total of all expenditures exceeded the total of all budgeted amounts by approximately 163 percent. Explain in detail why actual capital project expenditures have been exceeding the capital budgets for this operating area.

b. In seven of the nine fiscal years that Western reported capital budget project information for the Owensboro Operations operating area, the expenditure amount exceeded the budget amount. For those nine fiscal years the Owensboro Operations total of all expenditures exceeded the total of all budgeted amounts by approximately 114 percent. Explain in detail why actual capital project expenditures have been exceeding the capital budgets for this operating area.

42. Refer to the response to the Commission s August 19, 1999 Order, Item 21(a). Western was requested to provide a summary for pages 1 through 4 of 6 of Exhibit DHD-1, listing the additions by plant account number. The summary was to also show how amounts for retirements and public works reimbursements were allocated to the particular plant accounts. Western s response, which included citations to workpapers B-2 B 09 and B-2 F 09, does not adequately address the question, in that the cited workpapers do not show how the amounts for retirements and public works reimbursement were allocated to the plant accounts. Provide the information originally requested.

43. Refer to the response to the Commission s August 19, 1999 Order, Item 21(b).

a. In this response, Western states These variations are mainly attributed to the line items 41 retirements and 72 public works retirements on Exhibit DHD-1 not being assigned to the asset accounts on this exhibit. Explain in detail what asset accounts line items 41 and 72 were being assigned to if not Exhibit DHD-1.

b. If line items 41 and 72 were not being assigned to asset accounts on Exhibit DHD-1, explain why these line items were included on Exhibit DHD-1 originally.

c. In this response, Western states Finally, there were slight variations in how inflation and overhead rates were applied and to how line 79 Forfeitures (asset account 376 Mains) was handled on DHD-1 as compared to on the workpapers WP B-2 B 09 and WP B-2 F 09. Explain in detail the nature of the slight variations referenced in this response. Also explain why Western would handle the Forfeitures amount differently.

44. Refer to the response to the Commission s August 19, 1999 Order, Item 22. It appears that the estimated monthly plant account additions result from a determination of the total increase, which is then divided into equal amounts to be added during the base or forecasted periods.

a. Explain in detail why Western believes this to be a reasonable method to recognize the estimated additions to its utility plant accounts.

b. Does the approach described by Western in this response represent its normal method of reflecting estimated plant additions as part of its normal budgetary process? Explain the response.

c. Explain why Western did not recognize seasonal factors when determining when to record the estimated plant additions.

45. Refer to the response to the Commission s August 19, 1999 Order, Item 23.

a. In the response to Item 23(a), Western stated that the depreciation allocation problem in the original base period was due to a misallocation of the reserve balances that occurred prior to 1996. Explain how and when Western determined that there had been a misallocation of the depreciation reserve balances.

b. In the same response, Western states that the major category accumulated depreciation balance was spread among the individual accounts within the specific category pro-rata, according to the related plant investment balance as compared to the total investment for that asset category at September 30, 1998. Explain how and when Western determined this was the appropriate methodology to use when allocating the accumulated depreciation balance to individual accounts.

c. Concerning the allocation of the accumulated depreciation balance, explain in detail why Western s approach is reasonable.

d. Under Western s allocation of the accumulated depreciation balance, doesn t this approach eliminate the possibility that Western could have over-depreciated an asset group? Explain the response.

46. Refer to the response to the Commission s August 19, 1999 Order, Item 24(e). The response to this request was inadequate. For each of the consulting services described below, explain in detail why the associated costs have been included as part of the rate case expenses.

a. October 20, 1998 Met with West Kentucky Gas to discuss . . . other PSC related activities.

b. November 20, 1998 Reviewed Court decision and agreement with Hopkinsville concerning franchise tax.

c. December 18, 1998 Reviewed information on CIAC and discussed with PSC Staff.

d. December 23, 1998 Continued to work on CIAC.

e. March 1, 1999 Work on testimony.

f. April 20, 1999 Work on testimony.

47. Refer to the response to the Commission s August 19, 1999 Order, Item 24(f). Provide a description of the certain matters that the firm of Ward and Anderson provided legal research in conjunction with this rate case.

48. Refer to the response to the Commission s August 19, 1999 Order, Item 28. For the organizations listed in parts (c), (d), (e), and (g), provide a description of the nature of the organization, a listing of the benefits Western receives from being a member, and a description of the education and training programs that Western employees have attended within the last two years that have been sponsored by the organization.

49. Refer to the filing requirements at Volume 10 of 10 of the Application, Tab 6, Exhibit FR 10(10)(f), Schedule F-1, Pages 1 through 6, membership dues for the base period and forecasted test year. Explain the nature of the organizations listed below and why the membership dues should be included for ratemaking purposes.

a. Club or organization from the base period Associated Industries of KY, Ky., Labor-Management Conference, Green River Home Builders Association, Owensboro Home Builder Association, Hopkins County Home Builders, Henderson Home Builders, Association of U.S. Army, Hopkinsville Home Builders, Military Affairs Committee, Paducah Home Builders, Builders Association of Bowling Green, Russellville Home Builders, Danville-Boyle County Home Builders, Kiwanis Club, Lions Club and Civitan Club.

b. Club or organization from the forecasted test year Associated Industries of KY, Ky. Labor-Management Conference, Green River Home Builders

Association, Owensboro Home Builder Association, Hopkins County Home Builders, Henderson Home Builders, Association of U.S. Army, Hopkinsville Home Builders, Military Affairs Committee, Paducah Home Builders, Builders Association of Bowling Green, Russellville Home Builders, Danville-Boyle County Home Builders, Kiwanis Club, Lions Club and Civitan Club.

50. Refer to the response to the AG s August 19, 1999 Data Request, Item 206. A standard business year includes 52 weeks with 40 hours of regular work time per week. This results in 2,080 hours per year.

a. Explain in detail why Western believes it is reasonable to normalize payroll expenses using 2,088 hours. If Western is proposing 2,088 hours because the year 2000 is a leap year, explain why the normalization should recognize an event that occurs only once every four years.

b. Revise all applicable schedules in this response to include a 2,080 per employee, regular time work year (FR 10(10)(g)).

c. If Western based its payroll hours on the year 2000 being a leap year, explain why it did not also adjust its sales and transportation delivery volumes to reflect an additional day s operations.

51. Refer to the response to the AG s August 19, 1999 Data Request, Item 165. Explain the amortized merger and acquisition costs and expenses applicable to Western.

52. Refer to the response to the AG s August 19, 1999 Data Request, Item 179. Explain how the $4,536 total medical costs per employee per year in part (c) is

determined, i.e., $X for medical per month, $Y for dental per month, and any distinction between single employee costs versus married employee costs.

53. Refer to the response to the AG s August 19, 1999 Data Request, Item 216. Are there any indirect lobbying activity expenses allocated to Western from Atmos or Shared Services in the forecasted test year? Explain the response in detail.

54. Are any non-recurring expenditures included in operating and maintenance expenses for the base period or forecasted test year? Explain and describe the nature and amounts of these non-recurring expenditures.

55. Refer to the response to Item 61(b) of the Commission s August 19, 1999 Order. If FR 10(10)(c) 2, at Volume 10 of 10 of the Application, Tab 3 of the Application addresses the amounts of functional expense for directors retirement benefits, community trade relations and trade shows, and sports activities, specify the amounts and explain or describe the nature of the expenditures. Western s response to the Commission s August 19, 1999 Order appears to be non-responsive to these items of expense. If the above-mentioned expenses are not addressed in FR 10(10)(c)2, resubmit the response to Item 61(b).

56. As stated in 22(b), the schedule of Shared Services Combined Direct & Billed total monthly expenses as allocated by division on the exhibit in response to DR Item 83a, April s Financial Statements, bottom of the page marked (33), (34) and (35) appears to represent a detailed statement of operating expenses. Additionally, this statement allocates total Shared Services costs to the divisions to which Shared Services costs apply.

a. Explain whether any Shared Services costs are allocable to Atmos as parent company expenses.

b. Describe how applicable costs are allocated to Atmos as parent company expenses.

c. Are any of the Shared Services costs and expenses allocated to the gas operating divisions of Atmos below the line expenses according to FERC, i.e., investor relations, new business ventures, and directors retirement? Explain the response in detail.

57. Refer to the filing requirements at Volume 10 of 10 of the Application, Tab 3, Exhibit FR 10(10)(c), Schedule C-2.

a. If Western s application did not employ a forecasted test year, but employed the historical test year ended September 30, 1998, normalized to reflect known and measurable adjustments, would the type of adjustments termed utility budget adjustments, SSU billing adjustments, and rate making adjustments on Schedule C-2 be the same? Provide a detailed explanation.

b. What would the dollar amounts of the adjustments be from the standpoint of normalizing known and measurable adjustments?

58. Concerning the capital budget projects included in the estimated portion of the base period and the forecasted period, Western has assumed the actual expenditures on these projects will be equal to the budgeted amounts. Based on the nine fiscal years of information provided by Western concerning its capital budget

projects completion percentage, Western s historic completion percentage is 94 percent.[1]

a. Restate all capital project budget amounts shown on Exhibit DHD-1 for the estimated months of the base period and for the entire forecasted period, reflecting the historic 94 percent completion factor.

b. Recalculate Western s base period rate base, balance sheet, and operating income statement reflecting the impact of applying the 94 percent completion factor. Include all workpapers, assumptions, and calculations used to determine the recalculated amounts. Provide this information on diskette using Excel spreadsheets as was done in responses to previous data requests.

c. Recalculate Western s forecasted revenue requirement, rate base, balance sheet, and operating income statement reflecting the impact of applying the 94 percent completion factor. Include all workpapers, assumptions, and calculations used to determine the recalculated amounts. Provide this information on diskette using Excel spreadsheets as was done in responses to previous data requests.

d. Western has also identified corrections and revisions to other financial information, which it has submitted in conjunction with its responses to various data requests. An example of such a revision is contained in the response to the AG s Initial Data Request, Volume 3 of 3, Item 206. When preparing the recalculation of the information required in parts (b) and (c) above, recognize and incorporate the impact of all corrections and revisions submitted by Western since the filing of its application.

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[1] Total capital project expenditures for the nine fiscal years equals $101,474,634; total capital project budgets for the same nine fiscal years equals $107,992,213. Dividing the expenditures by the budget equals 94 percent.

Include in the workpapers, assumptions, and calculations the appropriate cross-references to the location in the record of these corrections and revisions.

Done at Frankfort, Kentucky, this 20th day of September, 1999.

By the Commission

ATTEST:

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Executive Director