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 the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (AG), 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 November 22, 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.

1. Refer to page 5 of the Direct Testimony of Lafayette K. Morgan. Concerning the proposed adjustments to the plant in service:

a. Explain how Mr. Morgan determined his completion percentage of 92 percent. Include all supporting calculations.

b. Explain how Mr. Morgan determined his 39.5 percent overhead factor. Include all supporting calculations and provide the citations to the appropriate data responses.

c. In excluding structures and improvements from plant in service, explain whether Mr. Morgan contends such an adjustment is inappropriate, or whether he takes issue with the approach proposed by Western. Explain the response.

2. Western has indicated that the approach used to develop the capital budgets submitted in its application was not consistent with the approach normally used for preparation of its budgets.

a. Has Mr. Morgan examined or reviewed the differences between Western s bottom up approach, which was normally used for capital budgeting, and the baseline forecast approach used in this application? If yes, what were the results of Mr. Morgan s examination?

b. Does Mr. Morgan have any concerns about Western s use of the baseline rather than bottom up approach for its capital budgeting in this proceeding? Explain the response.

3. Refer to page 9 of Mr. Morgan s Direct Testimony. Over what time period was Western s frequency of filing rate cases averaged to derive the average of four years for amortization of rate case expense?

4. Refer to pages 9 and 10 of Mr. Morgan s Direct Testimony.

a. In recommending uncollectible expense based upon the average of the latest five-year period, was any consideration given to whether Western might have an upward trend in uncollectibles over recent years?

b. When determining the proposed adjustment for uncollectible expense, was Mr. Morgan aware that Western s response to Item 40 of the Commission s July 16, 1999 Order shows actual uncollectibles increasing from $171,000 for FY 1995 to $706,443 for FY 1998? Would this trend affect Mr. Morgan s recommendation? Explain the answer in detail.

5. Refer to page 10 of Mr. Morgan s Direct Testimony.

a. Is it Mr. Morgan s contention that lawsuit settlement costs are brought about because of management, and therefore should be borne by the shareholders? Explain the answer in detail.

b. Is it Mr. Morgan s opinion that to the extent that lawsuit settlement costs are recovered by operating earnings in the year the costs are incurred, deferral and amortization to future years is not appropriate? Explain the answer in detail.

6. Refer to pages 10 and 11 of Mr. Morgan s Direct Testimony. Would Mr. Morgan agree that if Western demonstrates direct benefits to its customers derived from the merger, then some portion of the merger and acquisition costs may be appropriately charged to its ratepayers? Explain the answer in detail.

7. Refer to pages 13-16 of Mr. Morgan s Direct Testimony. Based on the testimony and the computation on Schedule LKM-14, Mr. Morgan proposes an adjustment to reduce operations and maintenance expense by $2,272,501 reflecting pension expense at the 1999 actuarial level according to FASB Statement No. 87.

Explain the rationale for this adjustment in consideration of the Testimony of Donald P. Burman, at pages 6 and 7, Volume 2 of 10, of Western s Application, which states that Western s pension assets are held in trust for the benefit of Western s employees.

8. Refer to page 16 of Mr. Morgan s Direct Testimony.

a. Cite when during the base period the actual level of employees of 258 used to compute Mr. Morgan s adjustment for payroll expenses occurred and where in the record this data is located.

b. If Western increases its number of employees for the actual base period that ended September 30, 1999, would Mr. Morgan increase the level of employees for the forecasted year? Explain the answer in detail.

9. Mr. Morgan s Direct Testimony addresses Western s operating results based on the forecasted test year ending December 31, 2000. Mr. Morgan s testimony does not address Western s proposed adjustments for (1) customer growth or (2) declining usage per customer.

a. Explain whether Mr. Morgan s analysis included a review of these two adjustments.

b. Provide a detailed description of the extent of Mr. Morgan s analysis of these two adjustments.

c. Assuming that the absence of any discussion of these adjustments reflects Mr. Morgan s acceptance thereof, explain how Mr. Morgan s analysis led him to accept those adjustments.

10. Refer to page 18 of Mr. Morgan s Direct Testimony. Concerning the demand side management (DSM) cost recovery proposal:

a. Prior to the filing of Mr. Morgan s testimony, indicate where in the record of this proceeding the AG has taken the position that the past DSM costs are not eligible for recovery and should not be allowed as part of any DSM surcharge arising out of this proceeding.

b. Explain why Mr. Morgan and the AG have not expressed a position on a prospective DSM charge and why it is appropriate to address this issue only in the AG s post-hearing brief.

11. Refer to Schedule LKM-5 of Mr. Morgan s Direct Testimony.

a. Provide the calculations referenced in Note No. 1 on this schedule. Include citations to the specific data responses used in these calculations.

b. Explain in detail how Mr. Morgan recognized the plant in service additions during the forecasted period. Include a discussion of how Mr. Morgan s approach to recognizing the additions compares with that proposed by Western. Also explain why Mr. Morgan s approach is reasonable.

12. Refer to Schedule LKM-7 of Mr. Morgan s Direct Testimony.

a. Provide the calculations referenced in Note No. 1 on this schedule. Include citations to the specific data responses used in these calculations.

b. Does Mr. Morgan agree with Western s contention that the PSC Assessment should be included as part of the prepayments? Explain the response.

13. The Direct Testimony of Richard A. Galligan and Steven L. Estomin both include criticisms of Western s proposed cost-of-service study. Mr. Galligan performs a separate cost-of-service study that, if followed, would result in allocating Western s proposed increase differently than Western has proposed. However, Mr. Galligan does

not recommend that his study be followed; but that all customer classes receive a proportional share of the revenue increase. Given that ultimate recommendation, explain in detail the reasons for Mr. Galligan performing the cost-of-service study summarized in his testimony.

14. Mr. Galligan recommends the Commission reject Western s proposed Margin Loss Recovery Rider and its proposed Premises Charge. However, Mr. Galligan s testimony makes no mention of Western s proposed Weather Normalization Adjustment (WNA) mechanism.

a. Explain whether Mr. Galligan conducted any analysis of Western s proposed WNA.

b. Provide a detailed description of Mr. Galligan s analysis of the proposed WNA.

c. Given the absence of any criticism of the proposed WNA in his testimony, it appears that Mr. Galligan accepts Western s proposal. Explain how Mr. Galligan s analysis led him to accept, or not oppose, Western s proposed WNA.

15. Refer to pages 32 and 33 of the Direct Testimony of Dr. Carl G. K. Weaver.

a. Did Dr. Weaver examine or evaluate the reasonableness of the capital structure proposed by Western for the forecasted period? If yes, what were the results of that examination? If no, explain why such an examination was not performed.

16. Concerning the development of a forecasted capital structure for Atmos and Western, for each of the assumptions listed below, indicate if Dr. Weaver believes the assumption is reasonable for Atmos.

a. A return to normal long-term weather patterns for the other Atmos utility divisions beginning in FY 2000.

b. The issuance of $26 million of new equity in November 1999.

c. Raising $20 million of new equity annually through stock plans.

d. No significant acquisitions.

e. Cash flow from depreciation will fund ongoing capital spending requirements.

f. No new long-term debt issues.

17. Refer to the Dr. Weaver s Direct Testimony. Identify any of Dr. Weaver s comparable companies that use WNA mechanisms, Premises Charges, or Margin Loss Recovery Riders such as those proposed by Western.

18. Explain whether Dr. Weaver s analysis of Western s cost of equity reflects Western s proposed WNA mechanism; its proposed Premises Charge; or its proposed Margin Loss Recovery Rider. If it does not, explain how the approval of each of these mechanisms would impact Dr. Weaver s recommended return on equity range. Quantify the effect of including each mechanism in the analysis, and include all supporting calculations.

19. If not already provided, provide copies of all source documents used in calculating Western s cost of equity.

20. Explain whether Dr. Weaver believes that local distribution companies are perceived by investors as having higher risks because of deregulation.

Done at Frankfort, Kentucky, this 5th day of November, 1999.

By the Commission

ATTEST:

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Executive Director