

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE UNION LIGHT, HEAT AND	)	
POWER COMPANY'S APPLICATION	)	
FOR A CERTIFICATE OF PUBLIC	)	CASE NO. 2000-039
CONVENIENCE AND NECESSITY	)	

O R D E R

IT IS ORDERED that The Union Light, Heat and Power Company ("ULH&P") shall file an original and eight copies of the following information with the Commission with a copy to all parties on record. Each copy of the information should be placed in a bound volume with each item tabbed. When a response requires multiple pages, each page should be appropriately indexed, for example, Item 1(a), page 2 of 4. With each response, include the name of the person who will be responsible for responding to questions related thereto. Careful attention should be given to copied material to ensure that it is legible. The information shall be filed no later than 15 days from the date of this Order.

Most of the following questions relate to the schedule provided in Item 6 of "The Revised Response of The Union, Light, Heat and Power Company to the Commission Staff Supplemental Data Requests," which was filed with the Commission on April 28, 2000. Commission Staff has divided the schedule into six sections to facilitate referencing. Section A refers to the "8-inch Pipeline Construction" section. Section B refers to the "12-inch Pipeline Construction" section. Section C includes the five-line explanation following the "12-inch Pipeline Construction," Section B. Section D includes

the segment of the schedule between “Actual Cost Details” and the “Gross Margin” line. Section E is the segment regarding ULH&P expenses to construct its 50 percent of the pipeline, and Section F is the “Total Expenses” section.

1. Section A states that the price negotiated with Lafarge Corporation (“Lafarge”) was \$635,000.

a. With what company did Lafarge negotiate this price?

b. When was this price negotiated?

c. Was the price negotiated before ULH&P became involved in the pipeline negotiations?

d. Did Lafarge pay the company referred to in the answer to Item 1(a) the negotiated price of \$635,000?

e. If the answer to Item 1(d) is no, provide the name of the company(ies) Lafarge paid, and list the amount(s) paid to the company(ies). Also explain why this company was paid instead of the company listed in Item 1(a).

f. Did the company referred to in the answer to Item 1(a) construct the pipeline?

g. If the answer to Item 1(f) is no, provide the names of the companies involved in the construction and the role they played in the construction.

2. Section A of the schedule states that the estimated cost to install the 8-inch pipeline based on historical data was \$462,900.

a. Did ULH&P prepare the estimate? If the answer is no, who did?

b. Provide an explanation of the historical data used, including the source(s) of the information used.

- c. Which company(ies) had access to the cost estimate provided?
  - d. Was this amount used for the purposes of billing or accounting for the construction of the Lafarge pipeline?
  - e. What was the purpose of including this amount on the schedule?
3. In Section C, ULH&P states that “the original estimate for the incremental cost associated with the size increase was \$175,000” and that “This was based on a general discussion with one of our contractors. . . .”
- a. With which contractor was this matter discussed?
  - b. If the estimate was provided in written form, provide a copy.
  - c. Was the contractor in Item 3(a) involved in the construction of the pipeline? If so, how?
  - d. Why was the estimate of the incremental cost of the pipeline based on discussions with contractors instead of based on historical cost?
4. In Section C, ULH&P also states that “when the bids were received, the costs were much higher.” Provide a copy of the request for bids, and provide a bid tabulation sheet, i.e., a schedule showing the bidder, the items, quantities and unit prices included in the bid proposal, the amount of the bid, and any other relevant data.
5. Section D states that the 12-inch pipeline project costs were split between Cinergy Business Solutions (“CBS”) and Cinergy/ULH&P.
- a. Why were these costs split between CBS and Cinergy/ULH&P instead of between Lafarge and ULH&P?
  - b. How was the cost split determined?

c. If CBS did not construct the pipeline, why were 50 percent of the costs allocated to CBS?

6. In Section D, ULH&P shows that Lafarge made a \$635,000 payment to CBS for its share of the pipeline.

a. At what time did CBS become involved with Lafarge?

b. Explain CBS's role in the contracting for and the construction of the 12-inch pipeline and how it related to Baltimore Contractors ("Baltimore"), The Brewer Company ("Brewer"), ULH&P, and Lafarge.

c. Provide a copy of the contract between CBS and Lafarge.

7. According to Section F, the total expenses of the 12-inch pipeline were \$934,670.84.

a. Was this amount the actual installed cost of the pipeline?

b. If not, provide details of the actual installed cost.

8. According to Sections D and E, 50 percent of the costs of the assets were allocated to Lafarge and 50 percent were allocated to ULH&P. However, the agreement referred to in Item 3(a) of ULH&P's response to the Commission's Order dated March 7, 2000 states that "ULH&P agrees to be responsible for the additional cost of increasing the size of the Pipe from 8 inches to 12 inches" and that "Baltimore Contractors, as Lafarge's general contractor, and Cinergy Business Solutions, LLC have entered into a contract in the form of purchase order #00002, with an effective date of June 9, 1999, for the construction of an 8-inch natural gas pipeline." Item 8(a) of ULH&P's response to the Commission's Order dated March 7, 2000 refers to the purchase order from Baltimore in the amount of \$635,000. Section D shows Lafarge as having paid the

\$635,000. Assuming that the total cost of the pipeline is \$934,670.84, as stated in Section F, the difference between the price paid by Lafarge and the total cost of the pipeline is \$299,670.84. Provide an explanation of the reasons ULH&P paid for and recorded 50 percent of the cost of the pipeline on its books instead of the incremental cost of the pipeline.

9. Section E provides a list of ULH&P's expenses for its half of the 12-inch pipeline.

a. Were the expenses in the Company Labor category incurred using ULH&P's resources? If yes, explain how these expenses were allocated to Lafarge or CBS.

b. Were the expenses in the Material category incurred using ULH&P's resources? If yes, explain how these expenses were allocated to Lafarge or CBS.

c. Were the expenses in the Other category incurred using ULH&P's resources? If yes, explain how these expenses were allocated to Lafarge or CBS.

d. Were the expenses in the Transportation category incurred using ULH&P's resources? If yes, explain how these expenses were allocated to Lafarge or CBS.

e. In Item 8(b) of ULH&P's response to the Commission's Order dated March 7, 2000, ULH&P states, "Dennis Westenberg was responsible for the construction of the 12-inch pipeline, as part of his normal duties to supervise gas contractor construction activities for ULH&P." Were any of the costs associated with

him allocated to Lafarge? If so, provide the amount and an explanation of how the amount was determined.

f. Provide the journal entries that ULH&P used to record the total of \$476,882.75 on its books.

g. Provide the general ledger accounts reflecting these transactions.

10. Provide copies of all invoices received by ULH&P from any source for the construction of the 12-inch pipeline.

11. Provide a copy of the work order for the 12-inch pipeline.

12. Provide any valid contracts or agreements, written and oral, between or among any of the following: Brewer, Baltimore, CBS, Lafarge, ULH&P, and any other person or business involved in the construction of the 12-inch pipeline.

13. In Item 4(b) of ULH&P's response to the Commission's Order dated March 7, 2000, ULH&P provided a schedule showing ULH&P's direct and loaded dollar costs for the pipeline.

a. Item 1(b) of ULH&P's supplemental response filed on April 28, 2000 provides percentages to apply to the direct dollars to obtain the loaded dollars. However, the percentages do not provide sufficient information to explain how the loaded dollars were determined. Provide the underlying calculations used to develop the loaded amounts. The information should be in such detail that the amounts can be traced from the direct dollar amounts to the loaded dollar amounts included in Item 4(b) of the response to the Commission's March 7, 2000 Order.

b. Provide a schedule reconciling the total amount included in Item 4(b) of the response to the Commission's March 7, 2000 Order and the amount shown as ULH&P's total expense in Section E.

c. Provide an explanation of why ULH&P uses direct and loaded dollar amounts if ULH&P did not construct any part of the pipeline.

d. Explain how ULH&P determined the percentages used to mark-up the direct dollars to loaded dollars.

e. Explain the types of costs that are included in each of the items contained in the original schedule. The explanation should include discussion of, but not be limited to, answers to the specific questions listed below that are applicable.

1. Construction Overheads

2. Contract Labor—What company's employees were used?

What were their roles during the construction?

3. Contract Material—What company's materials were used?

4. Labor—In what roles were ULH&P's employees used?

5. Material

6. Other

7. Transportation

14. Has the agreement between Lafarge and ULH&P been signed? If no, explain why it has not been signed.

15. Provide a copy of a signed agreement between ULH&P and Lafarge for the co-ownership of the 12-inch pipeline, and explain any difference in the signed

agreement and the unsigned agreement provided in ULH&P's response to Item 3(a) of the Commission's Order dated March 7, 2000.

16. Are any ULH&P or CBS employees shared between ULH&P and CBS? Explain the response.

a. If employees are shared, how are items such as wages and salaries and other expenses allocated between the two companies?

b. Provide a copy of the agreement between CBS and ULH&P.

17. Provide a list of the employees of CBS. Include an explanation of the duties and responsibilities of the employees. Employees may be grouped into job classifications for the purposes of this response.

18. Refer to the Commission's Order dated March 7, 2000, Item 10(b). ULH&P was asked to provide the journal entries that it will use to record the cost and billing of operating and maintenance costs that are shared between ULH&P and Lafarge. ULH&P failed to provide these journal entries. Provide the information originally requested.

19. Refer to the Commission's Order dated March 7, 2000, Items 11(a) and 11(b). ULH&P was directed to provide an explanation that included sample journal entries and estimates of how the shared assets will be recorded on the books of ULH&P, and information relating to the recording of the contribution and the depreciation of assets. ULH&P failed to provide these explanations. Provide the information originally requested.

20. Refer to the Commission's Order dated March 7, 2000, Item 4. ULH&P's response to Item 4 shows that ULH&P paid \$2,753.57 of cost associated with Cinergy



Services, Inc. Explain why Cinergy Services, Inc. costs were included and how the amount was determined.

21. Refer to ULH&P's response to Item 15(a) of the Commission's Order dated March 7, 2000. ULH&P states, "30 customers have signed up to connect to the 12-inch pipeline."

a. Provide details of the classification of the 30 customers signed up to connect to the 12-inch pipeline. Include estimated usages for any commercial or large industrial customers.

b. Have the customers been connected to the pipeline?

c. Are any customers currently receiving gas service? If so, how many?

22. Provide details of the gas consuming equipment that will be located at the Lafarge plant site. Include the maximum daily volume of gas that could be consumed by each item of equipment.

23. What is the maximum daily usage of gas by Lafarge?

24. What is the operating pressure at Silver Grove City Gate and the minimum pressure required at Lafarge receiving station?

25. Refer to the schedule included as Item 6 of the April 28, 2000 supplemental response.

a. Do any of the costs on the schedule include any of the costs of installing meters or connecting any of the 30 customers to the 12-inch pipeline? If yes, provide details of the amounts included.

b. Do any of the costs on the schedule include any of the costs associated with service to Silver Grove? If yes, provide details of the amount included.

Done at Frankfort, Kentucky, this 15<sup>th</sup> day of May, 2000.

By the Commission

ATTEST:

  
Executive Director