

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF GAS RATES OF) CASE NO.
COLUMBIA GAS OF KENTUCKY, INC.) 2002-00145

SECOND DATA REQUEST OF COMMISSION STAFF TO
COLUMBIA GAS OF KENTUCKY, INC.

Columbia Gas of Kentucky, Inc. (Columbia) is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before June 26, 2002. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, 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 Columbia's response to Item 2 of the Commission Staff's information request of May 23, 2002, in Case No. 2002-00117.¹ Part (b) of that response shows stranded costs incurred and revenue opportunities realized under the Columbia Customer Choice program.

a. For the test year in this case, calendar year 2001, Columbia reports stranded costs of \$6,184,137. Identify the accounts in which those costs were recorded on Columbia's books and provide the related journal entries.

b. For the test year in this case, calendar year 2001, Columbia reports revenue opportunities of \$5,141,321. Identify the accounts in which those revenues were recorded on Columbia's books and provide the related journal entries.

c. Provide a detailed description of the extent to which these costs are recovered through Columbia's Gas Cost Adjustment mechanism and the extent to which they are included in the test year for recovery through base rates.

2. Refer to Columbia's Customer Choice program annual report, which was filed with the Commission June 3, 2002, and is attached as Appendix A to this request. The fifth full paragraph in the report's Introduction indicates that, through March of 2002, with marketers offering fixed price rates that exceed Columbia's gas cost, Customer Choice customers have paid \$813,742 more in gas costs than they would have paid if they had remained Columbia sales customers. The sixth paragraph concludes as follows, today customers have not saved money on their gas bills, a prime goal of the program.

¹ Case No. 2002-00117, The Filing by Columbia Gas of Kentucky, Inc. to Require that Marketers in the Small Volume Gas Transportation Program be Required to Accept a Mandatory Assignment of Capacity.

a. Provide Columbia's general assessment of the reasons for marketers switching from offering discounts from Columbia's rates to offering fixed price rates.

b. The Customer Choice program was approved to be operated as a pilot for a period of four years, until the fall of 2004. Given that Customer Choice customers have paid almost \$ one million more than if they had remained sales customers, explain whether Columbia has considered making changes to the four-year term of the pilot.

3. Refer to pages 8 through 12 of the Prepared Direct Testimony of Kimra H. Cole (Cole Testimony) and Attachment KHC-1 regarding the proposal to replace the Customer Assistance Program (CAP) with the new Energy Assistance Program (EAP).

a. Refer to page 8, line 19 through page 9, line 2 of the testimony regarding the 2001 passage of House Bill 305 to specify that energy assistance programs be included among demand-side management programs. Explain Columbia's understanding of the factors included in KRS 278.285, as amended by House Bill 305, that the Commission may consider in reviewing energy assistance programs.

b. Describe the extent to which Columbia received input from consumer groups, including the Office of the Attorney General, in developing the proposed EAP.

c. Under Columbia's proposal to include the customers share of the cost of the EAP in base rates rather than as a separate charge, as was done for the

CAP, explain how it can ensure that the cost of EAP will be assigned only to the customer class benefiting from the program, as required by KRS 278.285, Section 3.

d. For the CAP, customers shared the cost of the program with Columbia on a 1:1 ratio. Provide the rationale for the proposed sharing of EAP costs, which has customers bearing \$500,000 to Columbia's \$175,000, a nearly 3:1 ratio.

4. Generally, energy assistance programs are expected to result in savings or cost reductions to the utility from arrearages, uncollectible accounts, service terminations, disconnect notices, and cut-off notices. Concerning Columbia's proposed EAP, describe in detail and quantify the estimated savings or cost reductions Columbia anticipates in conjunction with the implementation of the EAP. Include all workpapers, assumptions, and other supporting documentation used to quantify the savings or cost reductions.

5. Refer to page 10 of the Cole Testimony.

a. Provide a schedule showing the number of the 341 current CAP customers that reside in each of the counties served by Columbia.

b. Explain in detail why the current CAP customers will not have to re-qualify for the proposed EAP.

6. Refer to page 11 of the Cole Testimony. Concerning the arrangement between the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties (CAC-LFBHN) and other Community Action Councils (Other CACs):

a. Provide a listing of the Other CACs in Columbia's service territory.

b. Will all the Other CACs in Columbia's service territory be involved in the proposed EAP?

c. If one or more of the Other CACs do not subcontract with the program, explain in detail how customers in those portions of Columbia's service territory will be processed as part of the EAP.

d. Describe the involvement of CAC-LFBHN and the Other CACs in the current CAP.

7. Refer to page 11 of the Cole Testimony. Provide a detailed breakdown of the proposed yearly \$80,000 administrative expense anticipated for the EAP. This breakdown is to include details on the costs for Columbia as well as the costs for CAC-LFBHN. Include all workpapers, assumptions, and other supporting documentation used to determine the expense levels.

8. Was Columbia aware that the Commission has required utilities with cost recovery mechanisms approved under KRS 278.285 to separately disclose the associated charge as a separate line item on customers' bills? Explain why Columbia should not be required to make the same disclosure.

9. For purposes of this question make the following assumptions. The Commission approves the proposed EAP. On December 1, 2002, the funding for EAP can only accommodate 10 additional customers. On that date, CAC-LFBHN and the Other CACs receive 20 requests for assistance.

a. Explain in detail how it will be decided which 10 customers are accepted into the EAP.

b. Explain in detail what procedures are in place to assure that customers from areas served by the Other CACs have the same opportunity of being accepted into the EAP as those served by CAC-LFBHN.

10. Refer to the depreciation study conducted by Gannett Fleming, Tab 32 of the application.

a. Account 376 Mains. The average net salvage on page III-80 shows a negative 13 percent. John Spanos selected the statistical indication of negative 15 percent mentioned on page II-27. Explain why, for this account, Mr. Spanos selected the statistical indication rather than Columbia's actual net salvage value.

b. Account 378 Measuring and Regulation Station. The book net salvage on page III-82 and III-83 show + 1 and + 9. The calculated net salvage on page III-118 indicates a net salvage percent of 5. Explain.

c. Account 380 Services. The costs of removal range from 36 percent to 456 percent (page III-84).

(1) Explain the reason for the high costs of removal and state whether Columbia could have avoided such costs by leaving the services in place.

(2) What is the range of the costs of removal estimates made by other gas utilities for services?

d. Account 387 Other Equipment. The book net salvage is 71 percent (Page III-98). The calculated net salvage is zero (III-132). Reconcile the numbers.

e. Account 391 Office Furniture. The book salvage is not provided. The calculated net salvage is zero. Provide the book net salvage for this account.

11. Has Columbia adopted Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS 143) for financial reporting purposes?

12. Did Columbia take SFAS 143 into consideration in establishing its proposed new depreciation rates? If not, will adoption of the standard require Columbia to perform a new depreciation study? Explain your response in detail.

13. What impact did or, will adoption of SFAS 143 have on the depreciation rates and account balances of Columbia on the date of adoption? If you do not know what the impact will be, state when Columbia will have this information.

14. Is Columbia aware of the Federal Energy Regulatory Commission's (FERC) open Docket No. RM02-7-000, Accounting and Reporting of Asset Retirement Obligations?

a. If yes, has Columbia or its parent submitted comments or participated in workshops conducted in conjunction with this proceeding?

b. If yes, provide all documents and comments filed in this docket as well as a narrative summary of the information provided to the FERC.

15. Refer to page 6 of the Prepared Direct Testimony of Paul R. Moul (Moul Testimony) which contains the statement that the maintenance of a financial profile that would support a strong A bond rating is the appropriate regulatory objective.

a. Provide any studies, articles or other documentation that supports this statement.

b. Mr. Moul further states that regulators should encourage achievement of an AA bond rating. Explain why achievement of an AA bond rating

should be encouraged by regulators if an A bond rating is the appropriate regulatory objective.

16. Refer to page 10 of the Moul Testimony where Mr. Moul states that Columbia would have a Standard & Poor business profile of 4 while the Barometer Group has an average business profile of 3. Explain in detail what accounts for Columbia's higher business profile since the Barometer Group faces the same competitive positions and weather dependency as Columbia.

17. Refer to pages 10 through 11 of the Moul Testimony regarding the risk associated with serving customers that have the capability of physical bypass and pages 3 through 5 and page 18 of the Cole Testimony regarding, respectively, the proposed Margin Loss Recovery mechanism (MLR) and the proposed allocation of the requested revenue increase.

a. Per the Cole Testimony, the MLR is intended to mitigate Columbia's risk from losing revenues due to bypass or from discounting rates in order to avoid bypass. Explain why the proposed MLR was not recognized by Mr. Moul in his analysis of Columbia's business risk.

b. Provide a list of other NiSource companies that have MLR mechanisms similar to what Columbia is proposing.

c. Provide a list of Barometer Group companies with MLR mechanisms.

d. Given the results of its cost-of-service studies and Mr. Moul's concerns about the risk associated with serving customers that have bypass potential,

explain why Columbia is proposing equal base rate percentage increases for all customer classes.

18. Refer to pages 11 through 12 of the Moul Testimony. Mr. Moul states that Columbia's Weather Normalization Adjustment (WNA) does not affect his recommendation because innovations such as the WNA and the proposed mechanism to reflect the capital cost for the rehabilitation of its pipe system will allow Columbia to achieve the financial performance that conforms more closely with the intended outcome of the Commission's rate case decision.

- a. Provide a list of other NiSource companies with WNA mechanisms.
- b. Provide the name of the witness who testified on the proposed mechanism to rehabilitate the pipe system.
- c. Identify all exhibits or workpapers that support the \$46.270 million over 5 years that Columbia expects to invest to upgrade the pipe system referenced in Moul Testimony.

19. Refer to page 17 of the Moul Testimony where Mr. Moul states that both Columbia and CEG have experienced higher common equity ratios in recent years. Describe the effect a higher common equity ratio has on Columbia's risk level.

20. Refer to page 19 of the Moul Testimony, Internally Generated Funds (IGF). Describe how the risk level associated with Columbia's IGF of 131.6 percent compares to the risk level associated with the Barometer Group's IGF of 75.4 percent.

21. Refer to page 31 of the Moul Testimony where Mr. Moul discusses the implications of using a market-based discounted cash flow derived return applied to the book value of a utility's capitalization.

a. Describe how investment information sources, such as Value Line, report the capital structure of a stock.

b. If the capital structure is reported at book value, explain why investors using such sources would not already incorporate their knowledge of the risk presented by book value capitalization into their determination of the price of the stock.

c. Describe the level of understanding of an average utility stock investor about how utility rates are set.

22. Refer to page 32 of the Moul Testimony. Provide the part of the Modigliani and Miller study that specifically addresses an adjustment based on the difference between book value and market value debt calculations.

23. Refer to page 33 of the Moul Testimony. Provide any state or federal commission orders accepting this leverage adjustment.

24. Refer to pages 39 through 40 of the Moul Testimony where Mr. Moul states that the risk premium approach is preferable because of the disconnection of the yields on corporate and treasury bonds. Provide further explanation for what causes the disconnection between corporate and treasury yields.

25. Refer to page 40 of the Moul Testimony. Provide any documentation from an authoritative source (e.g.; articles, studies, and any order from a regulatory agency) on the acceptance of the adjustment to unleverage and releverage the common equity ratios using book values as described by Mr. Moul.

26. Refer to page 42 of the Moul Testimony. Provide the referenced chapters or articles from Fundamentals of Financial Management, The Journal of Finance and Public Utility Fortnightly.

27. Refer to page 46 of the Moul Testimony. Explain why there is some downward bias due to Value Line computing the returns on year-end rather than average-book value.

28. Refer to page 47 of the Moul Testimony. Explain why the rate of return generated by the comparable earnings approach differs so widely from the other three approaches.

29. Refer to Item 2 of the response to the First Data Request of Commission Staff to Columbia Gas of Kentucky, Inc. released April 29, 2002, and Schedule J-1.1 of the Application, Cost of Capital Summary for the Columbia Energy Group (Columbia Energy) as of December 31, 2001.

a. Explain why Columbia excluded swaps and capitalized leases from its capital structure ratios.

b. Provide amended versions of Columbia s response to Item 2 that reflects the impact of including swaps and capital leases in Columbia s and Columbia Energy s capital structures.

c. Provide an amended version of Schedule J-1.1 that reflects the impact of including swaps and capital leases in Columbia Energy s test-period capital structure. Also, calculate the impact the inclusion of the swaps and capital leases would have on Columbia s weighted cost of capital and requested revenue requirement. Provide all workpapers, calculations, and assumptions used by Columbia in its calculations.

d. Below is a comparison of Columbia Energy s test-period capital structure as reported in Schedule J-1.1 with the structure provided in the response to

Item 2. Provide a detailed reconciliation of the two responses, including workpapers, calculations and assumptions used by Columbia in its reconciliation.

Class of Capital	Sch. J-1.1 (000)	Item 2 (000)	Differences (000)
Long-term Debt	\$ 1,636,729	\$ 1,639,100	\$ (2,371)
Short-term Debt	0	72,500	(72,500)
Common Equity	2,169,908	2,177,100	(7,192)
Total Capital	\$ 3,806,637	\$ 3,888,200	\$ (81,463)

e. State whether Columbia considered using NiSource's capital structure for this case rather than Columbia Energy's capital structure. Explain the decision.

f. If NiSource's capital structure was considered, but rejected, for use in this case, explain why it was rejected.

g. Provide an amended version of Columbia's response to Item 2 that reflects NiSource's capital structure.

h. Provide an amended version of Schedule J-1.1 that reflects NiSource's capital structure as of December 31, 2000. Also, calculate the impact the use of NiSource's capital structure would have on Columbia's weighted cost of capital and requested revenue requirement. Provide all workpapers, calculations, and assumptions used by Columbia in its calculations.

30. Refer to Item 2 of the response to the First Data Request of Commission Staff to Columbia Gas of Kentucky, Inc. released April 29, 2002, and Schedule J-2 of the Application, Imbedded Cost of Short-Term Debt for the Columbia Energy Group as of December 31, 2001.

a. According to the response to Item 2 Columbia Energy reported an outstanding short-term debt balance of \$72,500,000 as of December 31, 2001.

However, in Schedule J-2 Columbia states that it is not making a claim for short-term interest cost. Provide a detailed explanation of why Columbia is not including short-term debt as a component of its requested capital structure.

b. Provide a detailed explanation for why Columbia Energy's short-term debt at the end of the test period was \$72,500,000 but the average test-period balance was \$227,385,000 and at March 31, 2002 the outstanding short-term debt balance was \$228,600,000.

31. Refer to page 22 of the Moul Testimony. Provide a schedule of any short-term debt that Columbia has incurred since the end of the test year.

32. Refer to pages 3 through 5 of the Cole Testimony regarding the proposed MLR and proposed tariff sheet No. 51 which contains the proposed MLR.

a. Provide a list of current customers Columbia is attempting to retain via the MLR whose margins would be included in the MLR calculation (the customers may be identified as Customer A, B, C, etc.). Include each customer's test year sales and/or transportation volumes along with the rate(s) the customer was charged and the revenues, exclusive of gas cost recovery revenues, that Columbia received from the customer. Provide a short description of each customer's ability to use alternate fuel and/or potentially bypass Columbia. Within this group, identify all customers served under discounted rates or special contracts during any part of the test year.

b. Rates approved in this case will produce a level of margins for the group of customers identified in response to part (a) above. Based on both existing and proposed rates, provide the resulting margins for this customer group along with supporting workpapers showing the derivation of those margins.

c. The tariff indicates that the MLR will reflect losses resulting from: (1) discounts pursuant to the flex provision of Rate Schedule DS and Alternate Fuel Displacement Service; (2) Commission-approved special contracts; and (3) physical bypass of Columbia by a customer.

(1) Provide a list of all instances from 1997 through May of 2002 when a customer's flex rate was increased to a level greater than the customer's otherwise applicable fixed rate.

(2) Provide a list of all instances from 1997 through May of 2002 when Columbia entered into a special contract specifically for the purpose of avoiding physical bypass. For each instance, provide the customer's annual volumes for each of the three calendar years preceding the special contract and for each calendar year since the contract became effective. Provide all e-mails, correspondence, memos, and other documents which demonstrate that bypass would occur absent entering into the special contract.

(3) Provide a list of all instances from 1997 through May 2002 when Columbia was actually subject to physical bypass. Identify each customer, the rate schedule(s) under which the customer was taking service, the customer's total volumes for the twelve months immediately prior to the bypass, and the resulting lost revenues to Columbia, exclusive of gas cost recovery revenues. Provide all correspondence, memos, e-mails, and other documents which identify the circumstances that resulted in the bypass.

33. Refer to pages 4 and 5 of the Cole Testimony describing the benefits of the proposed MLR and the responsibilities of customers versus shareholders.

a. Under the proposed MLR, lost margins would be shared between customers and shareholders on a 50/50 basis until Columbia's next general rate case as opposed, in the absence of an MLR, to being borne 100 percent by shareholders until the next general rate case. If the MLR is approved, explain how Columbia expects to address any lost margins at the time of the next rate case.

b. Explain how Columbia's proposed treatment of lost margins in a future rate case under the proposed MLR will differ from its treatment of lost margins in a future rate case in the absence of the proposed MLR.

34. Refer to pages 5 through 8 of the Cole Testimony and the proposed tariff sheet No. 62 concerning Columbia's proposed changes regarding extensions of service lines.

a. Page 6 of the testimony refers to customers using natural gas for interior heating, water heating, gas lights, gas grills, log lighters, and gas fireplaces. Identify and describe the criteria Columbia will use in determining if a customer has agreed to use natural gas as his or her major source of energy.

b. Under the proposed tariff change, Columbia will make a calculation for each customer not using natural gas as his or her primary energy source to determine the amount of the customer contribution. Explain why Columbia believes it is appropriate to make separate calculations for each individual customer.

c. In 2001, Columbia installed approximately 170 new service lines for customers that use natural gas only for fireplace products. For those 170 installations, provide: (1) Columbia's average cost of installation; (2) the amount of the highest cost

installation; (3) the amount of the lowest cost installation; and (4) workpapers supporting the amounts provided in response to parts (1) through (3) of this request.

35. Refer to page 6 of the Cole Testimony.

a. Is Columbia requesting to limit the ownership of service lines to customers who use a minimum volume of gas?

b. Provide any agreement Columbia proposes to use, if any, where a customer will have a limited usage and agrees to pay for the service line.

c. Who will assume ownership of the line in instances where the customer has paid for the service line?

36. Refer to the Prepared Direct Testimony of John E. Skirtich (Skirtich Testimony) regarding Columbia s two cost-of-service studies and Item 39 of Columbia s filing requirements, which contains those cost-of-service studies.

a. On page 3, line 20 of his testimony, Mr. Skirtich refers to Columbia having filed cost-of-service studies using both the demand-commodity methodology and the customer-demand methodology in previous rate cases in Kentucky. Aside from its most recent cases in 1990 and 1994, both of which were settled, identify the previous rate cases in which Columbia filed such studies.

b. Refer to lines 9 through 15 on page 4 of the Skirtich Testimony where Mr. Skirtich discusses the treatment of off-system sales in the cost-of-service studies. Describe in more detail the treatment of such sales, which results in no operating income impact, and explain why the 25 percent retained by Columbia is recorded below the line.

c. Pages 4 and 5 of the Skirtich Testimony and Attachment JES-2 to the testimony address Columbia's use of the minimum system methodology for allocating the cost of mains in the customer-demand study. In various cases over a number of years, the Commission has expressed a preference for the zero-intercept methodology to allocate the cost of mains. Identify and describe what Columbia believes are the advantages and disadvantages of the two methodologies and explain its reasons for using the minimum system approach.

37. Refer to the Skirtich Testimony regarding Columbia's two cost-of-service studies and page 18 of the Cole Testimony regarding Columbia's proposed allocation of the requested \$2.5 million revenue increase.

a. Explain why, given the results of its cost-of-service studies, Columbia is proposing to allocate the proposed \$2.5 million revenue increase equally across all rate components.

b. Identify and describe the extent, if any, that Columbia relied upon the results of its cost-of-service studies as the basis for its proposed revenue allocation and rate design.

c. If the Commission's final decision in this case results in an overall revenue decrease rather than a revenue increase, would Columbia prefer that such a decrease be applied equally across all rate components? Explain the response.

38. Refer to page 18 of the Cole Testimony regarding Columbia's proposal to make no changes in its existing rate design.

a. Columbia is the only major local distribution company (LDC) operating in Kentucky with residential, commercial, and industrial rate designs that

contain minimum bill provisions based on consumption of up to one Mcf. The other major LDCs rate designs contain customer charges based on zero consumption. Provide a narrative description of the advantages and disadvantages of the two types of rate design.

b. Explain whether Columbia has a preference for the minimum bill approach and, if so, provide the reasons for that preference.

c. Provide amended versions of pages 4 of 42, 15 of 42, and 16 of 42 of Schedule M-2.2 of Columbia's application that reflect changing the rate design for current rates for residential, commercial and industrial customers from the minimum bill approach to a customer charge approach based on zero consumption. Use the current minimum bill as the customer charge and include all Mcf presently covered by the minimum bill in the first commodity rate block.

d. Provide amended versions of pages 4 of 42, 15 of 42, and 16 of 42 of Schedule M-2.3 of Columbia's application that reflect changing the rate design for proposed rates for residential, commercial and industrial customers from the minimum bill approach to a customer charge approach based on zero consumption. Use the current minimum bill as the customer charge and include all Mcf presently covered by the minimum bill in the first commodity rate block.

39. Refer to pages 8 through 11 of the Prepared Direct Testimony of Mark P. Balmert (Balmert Testimony) and workpaper WPM-D, sheet 2 of 3.

a. For schedule GSO-Commercial on sheet 2 of 3, the Normalized volumes in Column 2, which are based on the weather normalization calculations described in the testimony, are greater than the Physical Flow volumes for the first

three rate blocks, but less than the Physical Flow volumes for the last two rate blocks. Explain how, within a single rate schedule, the weather normalization process produces an increase in Mcf volumes up to a usage level of 400 Mcf but produces a decrease in volumes at usage levels greater than 400 Mcf.

b. Provide the supporting calculations that produce the Normalized Mcf volumes for schedule GSO-Commercial shown in Column 2, sheet 2 of 3, of workpaper WPM-D.

40. Refer to page 11 of the Balmert Testimony and sheets 7-10 of workpaper WPM-E regarding the reduction in industrial customers Mcf volumes.

a. The workpaper reflects reductions in volumes due to industrial customers becoming inactive during the test year. While various workpapers show increases in volumes for residential and commercial customers due to new construction during the test year, there are no corresponding increases in industrial volumes. Does this mean that no new industrial customers began operating in Columbia's service territory at any time during the test year? Explain the response in detail.

b. The testimony references the adjustment shown on page 10 of the workpaper to recognize that one customer's prospective usage is expected to be one-half what it was during the test year. Identify the customer, describe the circumstances causing this decrease in the customer's usage. Provide the customer's monthly and annual volumes from January 2001 through December 2001 and the monthly volumes from January 2002 through May 2002.

41. Refer to page 12 of the Balmert Testimony and sheets 1-2 of workpaper WPM-E regarding reductions in residential and commercial volumes due to attrition.

a. Explain why Columbia assumes that customer loss due to attrition occurred evenly throughout the test year.

b. Explain why the workpaper includes only a summary of attrition volumes and not the level of detail included for the new construction and conversion volumes shown on sheets 3 through 6 of the workpaper.

c. Provide the detailed calculations that produce the residential and commercial attrition volumes shown on sheet 2 of workpaper WPM-E.

42. Refer to Schedule M-2.2 and workpaper WPM-C. a. The volumes for the individual rate classes shown on Schedule M-2.2 match the volumes for the same rate schedule shown in Column 8, Per books adjusted on workpaper WPM-C, except for the volumes for rate GTO-Choice Commercial, on page 26 of 42 of Schedule M-2.2. For rate GTO-Choice-Commercial, the volumes in Schedule M-2.2 match the volumes in Column 1 Physical flow, in workpaper WPM-C.

a. Clarify whether Staff's conclusion is correct that this is an error resulting in the volumes of 1,699,832.9 Mcf for rate GTO-Choice-Commercial, on page 26 of 42, being understated by the difference between that number and 1,783,396.1, the Mcf volumes in Column 8, Per books adjusted on sheet 3 of 5 of workpaper WPM-C.

b. If the answer to part (a) of this request is yes, provide a revised page 26 of 42 of Schedule M-2.2 which reflects annualized revenues at most current rates based on corrected Mcf volumes of 1,783,396.1.

c. Provide revised versions of other series M schedules and any other series schedules that are impacted by the revision to page 26 of 42 of Schedule M-2.2.

43. Provide the analysis prepared by Columbia which resulted in its outsourcing its meter reading function. List and explain in detail the top 4 or 5 factors that led Columbia to conclude this function should be outsourced. Also provide any negative factors Columbia identified in its analysis or considered when deciding whether to outsource the meter reading function.

44. Provide the following information for each year of the last 5 years concerning Columbia's meter reading outsourcing:

- a. Total savings by year attributed to outsourcing meter reading.
- b. Total cost by year from each outsourcing vendor.

45. Provide the following information for each meter reading vendor:

- a. Remaining length of contract or agreement.
- b. Any costs associated with non-renewal of the contract or agreement.
- c. Additional customer service functions carried out by each vendor that added a perceived value to the customer or community.

46. Provide the following information by customer classification (Residential, Commercial and Industrial) as it relates to existing meters:

- a. Total number of meters by customer classifications.
- b. Types of meters used for each customer classification, i.e., time of day, demand, curtailable, etc.
- c. Average cost of meter types installed, remaining depreciable balance and salvage value by classification grouping.

d. Detail by vendor and Columbia employees the number of meters read for each classification.

e. Number of meters read by Columbia and outsourcing vendor by customer classification each month.

f. Number of monthly rereads for meters initially read by Columbia and outsourcing vendor by customer classification.

47. Refer to page 13 of the Cole Testimony, which contains the statement that readings with the hand-held porta processor experienced an error rate of seven per thousand. Provide the detailed process that Columbia used to determine that the error rate was directly attributed to human error and not a problem occurring when the information was downloaded electronically into the company's billing system.

48. Refer to page 14 of the Cole Testimony that contains the question, Is there a perception with customers that meter reads within the current meter reading process are sometimes inaccurate? Answer, we believe that some customers have this misperception. Describe how a customer's perception will change when Columbia's proposed Automated Meter Reading Program (AMR) is implemented.

49. Refer to pages 14 and 15 of the Cole Testimony which contains statements that 1) customers initiated more than 5,600 orders during 2001 expressing dissatisfaction with the current process, 2) called to complain that their bill seemed inaccurate, and 3) the customer's perception of an inaccurate meter reading resulted in Columbia sending out an employee to re-read meters to solve billing disputes with the customer.

- a. Provide a frequency chart detailing the type of call received and number of calls per type.
- b. Provide a detailed explanation of how these calls were resolved.
- c. Explain in detail how automated meter reading will eliminate this type of complaint.

50. Provide the cost benefit analysis used to determine that the implementation of AMR will be more beneficial than outsourcing.

- a. If Columbia did not develop a cost benefit analysis concerning AMR, explain in detail why such an analysis was not performed.
- b. If Columbia did develop a cost benefit analysis concerning the AMR option, explain how the benefits were determined and the weighting of all factors to determine the benefits of AMR.

51. Concerning the potential for meter tampering:

- a. Does Columbia now have any mechanisms currently in place used to determine meter tampering that compares usage in the CIS system.
- b. If yes, what are the tolerances?
- c. If no checks are in place, explain why Columbia has not incorporated such checks and balances in the CIS system.
- d. Explain in detail how the AMR will detect meter tampering.

52. Perform a comparison of the capitalized investment and the annual operating expense associated with the current meter reading process (both outsourced and in-house readings) versus the AMR. Include all assumptions and calculations.

53. Concerning the proposed AMR:

a. If the AMR is fully implemented, will Columbia discontinue its past practice for a group of customers of estimating bills every other month? If not, why not?

b. Does the AMR impact only residential customers, or will all commercial and industrial customers meters be automatically read? Are there any commercial or industrial customers currently using hourly meters or specialized meters?

c. As of test-year end, prepare a schedule showing the total number of customer meters by rate class, and indicate how many meters in each class will be affected by the proposed AMR.

d. If all meters are not being converted over to the AMR, explain why the proposed funding of the program through depreciation expense savings is fair and reasonable to those customers whose meters will not be included in the AMR.

54. Concerning the implementation of AMR in other states:

a. Has the automatic reading program been proposed and/or implemented at any other Columbia Energy Group distribution company? If yes, name the company and the state in which the company operates.

b. Has the proposed funding approach (use of depreciation expense savings) been proposed and authorized by any other state commission? If yes, provide copies of the orders approving this approach.

55. Concerning the creation of a regulatory liability in conjunction with the AMR:

a. Other than the fact the treatment would be established by a regulatory commission, explain in detail how the proposed funding for the AMR is

consistent with and qualifies as a regulatory liability under the Uniform System of Accounts.

b. Explain why the use of a regulatory liability and contribution in aid of construction approach is more reasonable than the more traditional approach of Columbia investing in the program and recovering that investment through depreciation and earning a return on the investment in future rate cases.

c. What are the income tax impacts of the funding approach proposed by Columbia? Explain the response.

56. Will the adoption of SFAS 143 have an impact upon Columbia's ability to fund the AMR through depreciation expense savings in the future? Explain the response.

57. Concerning the operation of the AMR:

a. Explain in detail how ITRON was selected.

b. Provide a table and weighting factors used to determine that ITRON was the best equipment and/or vendor to use.

c. What is the expected life of the meters being proposed?

d. What parts will be on a replacement schedule, for example, batteries, etc.?

e. How many and what types of vehicles will be used for automatic meter reading?

f. How many man-hours will be used to collect the meter data monthly if the AMR is implemented? Provide a detailed estimate of the man-hours for Lexington, Frankfort, and Floyd County.

g. Has Columbia discussed collecting data for other utilities if they were to change to ITRON's ERTs? If not explain why this has or has not been pursued?

58. With regard to merger costs and savings associated with the recent Columbia Energy/NiSource merger, provide the following:

a. Copies of all orders from other state commissions in which a merger sharing mechanism was established.

b. All filings made in compliance with the orders identified in (a) above.

59. On page 4 of the Prepared Direct Testimony of Timothy J. Tokish, Jr. (Tokish Testimony) Mr. Tokish states that Columbia has maintained a side record to track merger costs and savings in order to comply with Generally Accepted Accounting Principals (GAAP). Provide specific site to any GAAP that would govern the tracking mechanism and explain how it would impact the deferral or tracking of the merger costs and savings.

60. Refer to Tokish Testimony pages 5 through 6 and Attachment TJT-1, Calculation of Merger Savings.

a. Attachment TJT-1 is a comparison of the amounts historically charged to Columbia by the Columbia Energy Service Corporation and the Columbia Shared Service Center with the amounts being charged by the New NiSource Corporate Services Corporation. The table below represents the actual corporate billings for the 12-month periods ending January 2001 and January 2002 (billing periods 2000 and

2001). Provide a detailed comparison of the corporate billings included on this table in the format attached as Schedule 60(a).

Category Description	2000 Billing Period	2001 Billing Period
Contract Billings from Service Corporation	\$ 5,435,711	\$ 7,412,636
Billings from COH	\$ 5,436,150	\$ 1,195,690
CKY Functions to Service Corp./Direct Charges	\$ 1,488,347	\$ 142,852
Normalized Staffing 2001 Corporate Structure	\$ 0	\$ 74,447

b. In Attachment TJT-1, Columbia has made several adjustments to the actual corporate billings. Provide a detailed comparison of the corporate billing adjustments for the billing periods 2000 and 2001 that are listed in the following table using the format attached as Schedule 60(a).

Category Description	2000 Billing Period	2001 Billing Period
Service Corporation Charges to Balance Sheet Accounts & Non-recoverable Accounts	\$ (89,745)	\$ (8,793)
Service Corporation Other Adjustments	\$ 0	\$ (328,821)
COH Billings - Charges to Balance Sheet Accounts & Non-recoverable Accounts	\$ 68,028	\$ (255,481)
COH Billings Building Write Down	\$ 0	\$ (691,026)
Continued COH Billing to CKY Direct	\$ (507,165)	\$ (377,666)

61. Refer to Tokish Testimony pages 5 through 6 and Attachment TJT-3, Corporate & Other Related Recoverable Merger Costs.

a. Columbia has identified recoverable merger costs of \$1,323,112 and \$345,886 for the billing periods 2000 and 2001, respectively. Provide copies of any analysis or study performed by Columbia to identify the recoverable merger costs.

b. For the \$1,323,112 of recoverable merger costs identified for the 2000 billing period and listed in Attachment TJT-3, provide an itemized list of the costs and a detailed description in the format attached as Schedule 61(b).

c. For the \$345,886 of recoverable merger costs identified for the 2001 billing period and listed in Attachment TJT-3, provide an itemized list of the costs and a detailed description in the format attached as Schedule 61(b).

d. For each cost category listed below, provide a detailed explanation as to why Columbia believes that it is a merger-related cost that this Commission should allow Columbia to recover from its ratepayers.

- (1) Retention
- (2) Severance
- (3) Job Placement
- (4) Columbia/NiSource Integrate
- (5) IT NiSource Intergrate
- (6) Other Civic Center Floor Write-Off
- (7) Building and Administration - Duties
- (8) Mainframe Consolidation

62. Refer to pages 6-8 of the Tokish Testimony, describing Columbia's proposed methodology for recovering its merger costs.

a. In designing Columbia's proposed methodology to offset merger-related costs against the merger savings, did you review any of the recent Commission decisions regarding recovery of merger costs?

b. If yes, identify the Commission decisions you reviewed and how they impacted your proposed methodology.

c. If no, explain why Columbia did not perform such a review of recent Commission decisions.

d. Provide a detailed explanation as to why Columbia choose this method rather than to amortize the proposed merger costs over a fixed period, e.g.; 5 years.

63. Refer to page 8 of the Tokish Testimony where Mr. Tokish proposes to add a net merger savings rider to Columbia s tariff that passes 40 percent of any net merger savings to the ratepayers as a credit to the monthly bill. Mr. Tokish also proposes that the remaining 60 percent of the net merger savings be retained by Columbia.

a. Provide a detailed explanation as to why Columbia s proposed 40/60 split of the net merger savings is fair, just, and reasonable.

b. Provide any basis for Columbia s proposed 40/60 split of the net merger savings.

e. In determining the amount of the net merger savings that would be shared with its ratepayers, did Columbia review any of the recent Commission decisions regarding merger surcredits?

f. If yes, identify the Commission decisions you reviewed and how those decisions impacted your proposed methodology.

c. If no, explain why Columbia did not perform such a review of recent Commission decisions.

64. In an April 26, 2000 Analyst Presentation entitled, Creating Value in the Energy Corridor, NiSource estimated that its merger with Columbia Energy would result in the following annual synergies: \$97.6 million in 2001; \$141.3 million in 2002; \$155.9 million in 2003; \$173.6 million in 2004; and \$185 million in 2005. However, on page 7 of

his testimony, Mr. Tokish states that, At this time, Columbia does not anticipate any further merger savings.

a. Provide a reconciliation of the merger synergies identified in this proceeding with those synergies originally estimated to occur in 2001 and 2002.

b. Provide a detailed explanation as to why NiSource and Columbia Energy have not and do not expect to achieve the merger synergies that they presented to the financial community prior to consummation of the merger.

65. Refer to page 6 of the Prepared Direct Testimony of Jeffery T. Gore (Gore Testimony) in which Mr. Gore proposes to retain 8.29 percent or \$162,990 of the gain generated by Other Postretirement Employee Benefits (OPEB) trusts purchase of insurance policies. Provide a detailed explanation as to why it is appropriate for Columbia to retain any portion of the gain.

66. In Columbia s prior rate case it agreed to an 18-year amortization period for its OPEB transition obligation. However, Mr. Gore proposes to accelerate the recovery by amortizing transition obligations over 3 years. Provide a detailed explanation as to why the Commission should accelerate the amortization period.

67. On page 9 of the Gore Testimony there is a reference to Columbia s actuarial report.

a. When was Columbia s most recent actuarial study performed?

b. Provide a copy of Columbia s most recent actuarial report.

c. When will the next actuarial study be performed?

d. Provide an analysis of Columbia s pension assets investment comparing the performance to the 5 pervious calendar years.

68. Refer to the Application, Volume 1, Tab 27, Filing Requirement 6-I, the reconciliation of Columbia's rate base and capital. The response does not represent a reconciliation of the rate base and capital, but rather is a comparison of the total assets with the capitalization and liabilities. Provide the reconciliation, starting with net investment rate base, plus or minus reconciling items, and ending in the capitalization. Include a description of each reconciling item.

69. Refer to Volume 6 of the Application, Schedule B-2.1, Plant In Service by Accounts and Subaccounts and Schedule B-2.3, Gross Additions, Retirements and Transfers. Provide a detailed reconciliation of the Plant In Service listed on Schedule B-2.1 with the Total Gas Plant In Service reported on Schedule B2-3.1 and include a description of each reconciling item.

70. Refer to the Application, Volume 8, WPD-5.1, Sheet 4, Account No. 165 Prepayments and the response to Item 10 of the First Data Request of Commission Staff to Columbia Gas of Kentucky, Inc. released April 29, 2002.

a. Provide a detailed reconciliation of Account No. 165 monthly totals reported in the response to Item 10 with those from WPB-5.1 and include a detailed description of any differences.

b. Provide a detailed description of Account No. 165.2034 Prepayment COH Flow Through and include an explanation as to why it should be included in Columbia's rate base as a prepayment.

c. Columbia has included in the determination of its rate base the Kentucky PSC Assessment as a prepayment. The Commission in three recent proceedings has rejected the inclusion of the unamortized prepayment balance for the

PSC Assessment in the utility's rate base.² In light of these Commission decisions, explain in detail why the Commission should in this case allow the inclusion of the unamortized prepayment balance for the PSC Assessment in Columbia's net investment rate base.

71. Refer to the Application, Volume 8, WPD-5.1, Sheet 3 Account No. s 164/242 Gas Stored Underground Current and the response to Item 10 of the First Data Request of Commission Staff to Columbia Gas of Kentucky, Inc. released April 29, 2002.

a. According to the response to Item 10 Account No. 242 is a deferred income tax account. Explain why there is a reference to deferred income tax accounts on a schedule listing the monthly balances of gas stored underground.

b. Provide a detailed reconciliation of Account No. 164 monthly totals reported in the response to Item 10 with those from WPB-5.1 and include detailed description of any differences.

72. Refer to the Application, Volume 6, Schedule C-2.2, Comparison of Total Company Account Activity for the Historic 12 Months Ended December 31, 2001 and Prior Period December 31, 2000. For each of the accounts listed below, explain in detail the reason(s) for the change in the account balance for the test-period from the prior year.

² See Case No. 98-474, The Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of its Rates and Service, Order dated January 7, 2000, at 52 and footnote 134; and Case No. 2000-080, The Application of Louisville Gas and Electric Company to Adjust its Gas Rates and to Increase its Charges for Disconnection Service, Reconnecting Service and Returned Checks, Order dated September 27, 2000, at 16-17; Case No. 2001-092, Adjustment of Gas Rates of the Union Light, Heat and Power Company Order released January 31, 2002, at 8-10.

- a. Account No. 404 Amortization Expense
- b. Account No. s 409, 410, 411 Federal Income Taxes
- c. Account No. s 409, 410, 411 State Income Taxes
- d. Account No. 419 Interest & Dividend Income
- e. Account No. 426 Miscellaneous Deductions
- f. Account No. 431 Interest Expense Other Contingent Taxes,

Rate Refunds, Customer Deposits

- g. Account No. 481.2 Industrial Revenue
- h. Account No. 483 Public Utilities
- i. Account No. 489 Transportation Revenue Commercial
- j. Account No. 489 Transportation Revenue Residential
- k. Account No. 812 Gas Used for Other Utility Operations
- l. Account No. 880 Other Expense
- m. Account No. 885 Supervision and Engineering
- n. Account No. 894 Other Equipment
- o. Account No. 901 - Supervision
- p. Account No. 904 Uncollectible Accounts
- q. Account No. 905 Miscellaneous Customer Account Expense
- r. Account No. 907 - Supervision
- s. Account No. 902 Administrative and General Salaries
- t. Account No. 923 Outside Services Employed
- u. Account No. 924 Property Insurance Premiums
- v. Account No. 925 Injuries and Damages

- w. Account No. 926 Employee Pensions and Benefits
- x. Account No. 931 Rents

73. Refer to the response to Item 18 of the First Data Request of Commission Staff to Columbia Gas of Kentucky, Inc. released April 29, 2002.

a. Explain why the test-period capitalized wages were 24.2 percent lower than the capitalized wages in the prior year.

b. Explain how the wage capitalization rate is determined, how frequently is it reviewed, and when the last revision to the capitalization rate occurred.

c. If the wage capitalization rate in use in 2002 is different from that used in the test period, explain why the rate was changed and when the change became effective.

74. In its response to Item 19 of the First Data Request of Commission Staff to Columbia Gas of Kentucky, Inc. released April 29, 2002, Columbia provided the actual and overtime hours worked in the test period. Provide an analysis by work group of the straight time and overtime hours for the period 1997 through 1999, as shown in Format 74.

75. Refer to the response to Item 48 of the First Data Request of Commission Staff to Columbia Gas of Kentucky, Inc. released April 29, 2002.

a. Provide copies of the contracts Columbia has with its outside consultants that are working on this rate case proceeding.

b. In its response Columbia provided copies of the invoices to support the amounts that have been charged, but the invoices do not contain descriptions of the services that have been provided. Provide copies of itemized invoices to support

Columbia's rate case expense. The invoices should contain detailed descriptions of the services, the amount of time billed for each service, and the hourly billing rate.

c. For the period of December 2001 through April 2002, Columbia has been charged \$46,064 by corporate service for rate case services. Provide documentation to show that these corporate service charges are not included in Columbia's test-period operating expenses.

76. Refer to the Application, Volume 6, Schedule H-1, Computation of Gross Revenue Conversion Factor and the response to Item 30 of the First Data Request of Commission Staff to Columbia Gas of Kentucky, Inc. released April 29, 2002.

a. The ratio of the uncollectible provision to total revenue increased from 0.40424 percent in 2000 to 0.9959 percent in 2001. Provide a detailed explanation for this increase.

b. On Schedule H-1 Columbia used an uncollectible provision of 0.835855 percent, but in its response to Item 31 the 2001 provision is 0.9959 percent. Reconcile and provide a detailed explanation for the difference between the two uncollectible provisions.

77. On page 15 of the Prepared Direct Testimony of Joseph W. Kelly, Columbia requests to be relieved of all merger reporting requirements set forth in the final Order in Case No. 2000-00129.³ For each requirement set forth in that Order, provide a detailed explanation for why that reporting requirement is no longer necessary.

³ Case No. 2000-00129, Joint Application of NiSource Inc., New NiSource Inc., Columbia Energy Group and Columbia Gas of Kentucky for Approval of a Merger, Order released June 30, 2000.


78. Have NiSource, Columbia Energy and Columbia adopted SFAS 142, Accounting for Goodwill and Intangible Assets, for financial reporting purposes? If not, why not?

79. Provide a detailed description of the process that will be used, or is being used, to reflect the adoption of SFAS 142. Include a timeline and any initial analyses the company or its parent has undertaken as part of this effort.

80. What impact does the company believe adoption of SFAS 142 will have on NiSource's, Columbia Energy's, and Columbia's books and records and financial position?

81. Has Columbia or its parent had discussions with the financial community regarding the effect that the adoption of SFAS 142 may have on the company's financial position? If yes, provide details of those discussions including the company's position regarding the effects of the adoption on its books and records.

82. In its response to Item 12 of the First Data Request of Commission Staff to Columbia Gas of Kentucky, Inc. released April 29, 2002, Columbia provided the monthly account balances for the controlling accounts only. Resubmit this response providing the requested monthly balances and 13-month averages for the controlling accounts and sub-accounts.

A handwritten signature in black ink, appearing to read "Thomas M. Dorman", with a horizontal line underneath it.

Thomas M. Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40601

Dated: June 12, 2002

cc: Parties of Record

COLUMBIA GAS OF KENTUCKY, INC.

CASE NO. 2002-00145

ATTACHMENT A

(see 200200145apx_061202.pdf)

COLUMBIA GAS OF KENTUCKY, INC.

CASE NO. 2002-00145

ATTACHED SCHEDULES

(see 200200145apx_061202.pdf)

Columbia Gas of Kentucky

Case No. 2002-00145

Analysis of Straight Time and Overtime Hours
For the Periods as Shown

Description of Service Provided (a)	Service Corporation Providing Service (b)	2000 (c)	2001 (d)
Totals			

Columbia Gas of Kentucky

Case No. 2002-00145

Analysis of Straight Time and Overtime Hours
For the Periods as Shown

Actual Straight Hours Worked					
Item (a)	1997 (b)	1998 (c)	1999 (d)	2000 (e)	2001 (f)
Exempt					
Manual					
Clerical					
Part-Time					

Overtime Hours Worked					
Item (g)	1997 (h)	1998 (i)	1999 (j)	2000 (k)	2001 (l)
Exempt					
Manual					
Clerical					
Part-Time					