

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

FIRST DATA REQUEST OF COMMISSION STAFF TO
THE ATTORNEY GENERAL

The Attorney General (AG) is requested, pursuant to Administrative Regulation 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 September 6, 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 the Direct Testimony of Michael J. Majoros, Jr., Exhibit MJM-2, Straight-Line Remaining Life Accruals Using Spanos Parameters, Currently Prescribed Practices and No Net Salvage.

a. If Column 3, Book Reserve, is subtracted from Column 2, Original Cost at 12/31/2001, should this be equal to Column 4, Future Book Accruals?

(1) If the response to (a) is no, provide a detailed explanation as to why this is not true.

(2) If the response to (a) is yes, explain why the difference between Column 2, \$216,772,259, and Column 3, \$96,464,986, for Total Depreciable Plant is \$120,257,273 and Column 4 has a balance of \$169,059,902.

(3) If the response to (a) is yes, provide a corrected version of Exhibit MJM-2 and provide the impact this has on the AG's proposed reduction to depreciation expense of \$4,340,660.

b. The survival curves used by Mr. Majoros in Exhibit MJM-2 are identical to those used by Mr. Spanos. However, the composite remaining lives on Exhibit MJM-2 are substantially higher for every depreciable group. Provide all calculations and workpapers used by Mr. Majoros in estimating the composite remaining lives for each depreciable group and also include a detailed explanation for each estimate used.

c. Provide workpapers to support the amortization of net salvage amount of \$319,546 that is included on this exhibit. Include all assumptions, calculations, and documentation used to support this amount.

2. On page 10 of his Direct Testimony, Mr. Majoros describes how the Federal Communications Commission (FCC) will allow a company subject to its jurisdiction to implement equal life group in the calculation of depreciation rates. Is Mr. Majoros aware of any regulatory agency that allows a natural gas company to utilize the

equal life group procedure for depreciation rate determination? If the response is yes, provide a list of those jurisdictions.

3. On page 9 of the Direct Testimony of Mr. Majoros are the following comments, Although he does not show it in his study, Mr. Spanos s recommendations indicate an \$18.7 million depreciation reserve excess. In reality, however, even accepting all of Spanos s judgmental assumptions, the reserve excess is actually \$33.3 million based on the existing VG procedure.

a. Provide workpapers to support the determination that the depreciation reserve excess under Mr. Spanos s recommendations will be \$18.7 million. Include all assumptions, calculations, and supporting documentation.

b. Provide workpapers to support the determination that the depreciation reserve excess using the vintage group procedure will be \$33.3 million. Include all assumptions, calculations, and supporting documentation.

4. If the Commission were to adopt Mr. Majoros s proposals concerning depreciation, when would he recommend Columbia Gas of Kentucky (Columbia) undertake another depreciation study?

5. Assume for purposes of this question that the Commission were to adopt Mr. Majoros s recommendation on net salvage and prospectively applied the equal life group procedure. Would Mr. Majoros s proposed depreciation adjustment shown on Exhibit MJM-2 change? If yes, provide a revised Exhibit MJM-2 reflecting this change. Include all assumptions, calculations, and supporting documentation.

6. On page 22 of his Direct Testimony, Mr. Majoros states that the merger produced a net increase to expenses of \$1,802,001. Provide workpapers to support the

determination that the merger resulted in an increase in expenses of \$1,802,001. Include all assumptions, calculations, and supporting documentation.

7. On pages 25 and 26 of his Direct Testimony, Mr. Majoros proposes to use Columbia's effective federal income tax rate of 25.7 percent for rate-making purposes.

a. Is Mr. Majoros aware of any federal tax law prohibiting the Commission from using the effective tax rate resulting from a consolidated return rather than the statutory rate of 35 percent in calculating a utility's revenue requirement? If the response is yes, provide the cite[s] to the appropriate tax law.

b. Is Mr. Majoros aware of any Internal Revenue Service (IRS) ruling or pronouncement prohibiting the Commission from using the effective tax rate resulting from a consolidated return rather than the statutory rate of 35 percent in calculating a utility's revenue requirement? If the response is yes, provide the copies of the appropriate IRS ruling or pronouncement.

c. Is Mr. Majoros aware of any other state regulatory agency that uses the effective tax rate resulting from a consolidated return rather than the statutory rate of 35 percent in calculating a utility's revenue requirement? If the response is yes, provide a list of those jurisdictions along with a copy of a recent decision showing the use of the effective federal tax rate.

8. Columbia and the AG have proposed to use Columbia Energy Group's capital structure in the calculation of Columbia's revenue requirement. The only difference between the two proposed capital structures is the period used. Should the capital structure of the parent corporation with ultimate responsibility for issuing stock, in

this instance NiSource, be used in the determination of Columbia's revenue requirement? Provide a detailed explanation to support the response.

9. Refer to pages 12 and 13 of the Direct Testimony of Charles W. King.

a. Provide copies of all the Value Line and other underlying reference source material (e.g., Zacks, I/B/E/S, etc.) from which data regarding the companies listed on page 13 is subsequently used in Mr. King's calculations.

b. Columbia is a relatively small gas company, especially compared to companies like Atmos Energy. Was there any consideration for the relative sizes (e.g., customers, revenues, earnings, etc.) of comparable companies when selecting a set of benchmark companies? Explain.

10. Refer to page 14 of the Direct Testimony of Charles W. King.

a. Has the Federal Energy Regulatory Commission made statements similar to the FCC statements referenced by Mr. King?

b. The FCC believes that the Discounted Cash Flow (DCF) should be given the greatest weight in determining the return on equity. What other methods are accepted, but given a lesser weight in such determinations?

c. Provide a copy of the FCC document referenced in footnote 8.

11. Refer to pages 15, 16 and 21 through 23 of the Direct Testimony of Charles W. King.

a. If Value Line's forecasts are optimistic and reflect the judgment of a single analyst, wouldn't the average investor know that and simply treat subsequent return estimates as an upper bound in his range of rate of return estimates? Provide a detailed explanation for the response.

b. Explain why the average investor would not also obtain results using dividend information to calculate g or the growth factor in the DCF model and use that information, as well as Earnings Per Share (EPS) based results, to obtain a range of estimates.

c. There is a discussion of the fact that Value Line does not provide forecasts that are indicative of market expectations and, hence, are not used in obtaining the Classic DCF results. However, Value Line was used in the calculations discussed and presented on pages 22 and 23. Explain this apparent contradiction in the relevance of Value Line information.

d. Recalculate the Classic DCF results using Value Line data.

e. Recalculate the Book Value DCF results presented in Table 10 on page 23 using Zacks and I/B/E/S data.

12. Refer to page 17 of the Direct Testimony of Charles W. King. Mr. King states that there is a more mechanical approach to compute the next year's dividend by annualizing the most recent dividend and then increasing it by one half of the analysts prediction of long-term annual growth rate in EPS.

a. Explain why this approach increases the dividend by one half of the predicted growth in EPS.

b. Provide any documentation that supports the contention that dividends grow by one half of the growth rate of EPS.

13. Refer to page 18 of the Direct Testimony of Charles W. King. Explain why a 50-day stock price average is a more reasonable time period than, for example, 6 months.

14. Refer to page 21 of the Direct Testimony of Charles W. King. Explain whether Mr. King considered excluding the outlying high and low results in developing the average DCF return.

15. Refer to page 24 of the Direct Testimony of Charles W. King.

a. Is it true that gas utility companies dividend policies tend to be stable and, hence, dividend growth rates tend to move slowly?

b. If so, explain why the trend in dividend growth rates and last year's growth rate wouldn't be a good predictor, everything being equal, of near term future growth rates.

16. Refer to page 25 and Table 11 of the Direct Testimony of Charles W. King. Since investors may clearly not expect LaClede's earnings to continue to decline, or Southwest Gas's earnings rapid growth to continue, would the average investor simply throw out the top and bottom numbers as being unrealistic?

17. Refer to page 27 of the Direct Testimony of Charles W. King.

a. Provide any documentation that supports adjusting the DCF returns for the book value growth.

b. Explain in depth how Mr. King developed the numbers in Table 13.

18. Refer to page 29 of the Direct Testimony of Charles W. King. Explain why Columbia's Weather Normalization Adjustment reduces risk.

19. Refer to pages 36 and 37 of the Direct Testimony of Charles W. King.

a. Is Mr. King aware of any corrective actions that may be taken to overcome any of the shortcomings to the Capital Asset Pricing Model (CAPM)?

b. If the response to (a) is yes, explain what they are, how they may be applied.

c. Has Mr. King utilized the CAPM model in any variation in a regulatory rate proceeding in the last 10 years?

d. If the response to (c) is yes, provide a complete copy of the testimony, including an explanation of the CAPM model that was used, as it relates to rate of return.

e. Is Mr. King aware that the CAPM model generally is widely recognized and generally accepted in many utility rate proceedings and that it has been relied upon in AG rate of return testimony in previous rate proceedings before this Commission?

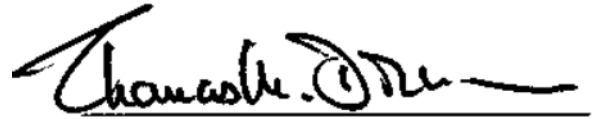
f. If Mr. King were to find and use an acceptable form of the CAPM model in this rate proceeding, provide an explanation of, including all worksheets, the results of such an application when applied to Columbia.

20. Refer to page 38 of the Direct Testimony of Charles W. King. Mr. King discusses the difference between the beta calculated by Value Line and the beta calculated by Zacks. Explain how Value Line and Zacks actually calculate their betas.

21. Refer to page 40 of the Direct Testimony of Charles W. King. Mr. King discusses risk free rates. Isn't the rationale for using a 30-year Treasury Bond that it is matching the time horizon of an investor in stocks?

22. Refer to page 43 of the Direct Testimony of Charles W. King. Provide documentation to support the statement that most utilities earn more than actually needed.

23. Refer to page 45 of the Direct Testimony of Charles W. King. In the event the Commission approves Columbia's proposed Margin Loss Recovery Rider, explain what effect this will have upon Columbia's risk profile.

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: 8/22/02

cc: Parties of Record