Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 1
Page 1 of 2

Refer to pages 8-9 and Exhibit BCO-1 of the Direct Testimony of Bion C. Ostrander ("Ostrander Testimony"). The cases cited in the testimony as recent cases in which a rate of return ("ROR") was considered a placeholder are not among the cases shown in the exhibit as major cases in Mr. Ostrander's experience of the past ten years.

a. Describe Mr. Ostrander's involvement, if any, in these two cases or, in the alternative, his general understanding of the cases and why an ROR was used as a placeholder in each case.

b. Given that the ROR in one of the cases was 7.63 percent, while in the other case the ROR was 7.29 percent, explain how Mr. Ostrander chose 7.63 percent as his ROR placeholder in this case.

RESPONSE:

a. Please see an attached updated Exhibit BCO-1 which does indicate that Mr. Ostrander testified in the Potomac Electric Company ("Pepco") rate case, Case No. 9311, as cited at page 9, footnote 3 of his testimony in this proceeding. Mr. Ostrander addressed and testified to revenue requirement issues related to rate base, expenses, and taxes in the Pepco case. Mr. Ostrander did not address or testify to rate-of-return ("ROR") issues in the Pepco case.

   Mr. Ostrander was not involved in the Northern Utilities Inc. d/b/a UNITIL rate case in Docket No. 2012-00133 as cited at page 9, footnote 3 of his testimony in this proceeding. Mr. Ostrander's testimony in this proceeding does not indicate that he was involved in the UNITIL case.

   Mr. Ostrander's testimony in this proceeding does not state that a ROR placeholder was used in the two cited cases for Pepco and UNITIL.

b. Mr. Ostrander chose the 7.63%ROR from the Pepco case as a placeholder in this proceeding because it is a conservatively higher ROR of the two numbers, and Mr. Ostrander has more familiarity with the Pepco rate case. However, that is not an indication that a lower ROR would not be appropriate for this proceeding.

Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 2
Page 1 of 3

Refer to page 23, lines 12-15, and Exhibit BCO-2, Schedule A-5, of the Ostrander Testimony. The testimony states that "a review of the underlying SSU, DGO, and Kentucky Direct expenses for the actual periods 2010, 2011, 2012, and the base period revealed significant and unusual increases in expenses which Atmos did not address." The exhibit shows the expenses in these three categories from 2008 through 2012, plus the base and forecasted periods.

a. Explain why the discussion of expense increases in the testimony does not include the years 2008 and 2009.
b. Provide Mr. Ostrander's definitions of "significant" and "unusual."
c. The exhibit reflects that Kentucky Direct expenses in both the base period and forecasted period are less than they were in 2009. Explain whether Mr. Ostrander considers it significant or unusual for these expenses to decline over a period of almost five years.
d. The exhibit reflects that the "SSU" and "DGO" expenses in the base period are 6.1 percent greater than they were in 2008. Explain whether Mr. Ostrander considers it significant or unusual for these expenses to increase at a rate only slightly greater than 1.0 percent annually over a period of more than four and one-half years.

RESPONSE:

a. This was done only to keep testimony brief and focused on more recent years.
b. The definitions for the terms "significant" and "unusual" may differ between various adjustments depending upon the amount, percentage, or direction of the change, and it may vary depending upon the "original" amount of any SSU and DGO expenses prior to allocation to the Kentucky jurisdiction. Furthermore, the amount of change can be deemed significant if it exceeds an amount of an adjustment proposed by Atmos, given that Atmos must have considered such amounts to be significant enough to warrant a specific adjustment.

Regarding SSU and DGO expenses, the relatively consistent declines from 2009 to 2011 ranging from 2% to 4% (and ranging from $182,000 to $256,000) are contrasted with the significant increases for 2012 and the base period of 7% and 8% (and ranging from $674,000 and $791,000).

c. Just because Kentucky Direct expenses in the base period and forecasted test period are less than they were in 2009 does not make them reasonable, because perhaps 2009 expenses were overstated to begin with or perhaps the base period/forecasted test period expense reductions should be greater. For example, perhaps the 21% decrease from 2009 to 2010 should be more indicative of future expense trends than the subsequent 19% increase the next year. There is a definite trend of uncertainty with these expenses, especially without further detailed explanation from Atmos. For example, for Kentucky Direct expenses there was an 11% increase from 2008 to 2009, a 21% decrease from 2009 to 2010 (which is a total 32% change from 2008), a 19% increase from 2010 to 2011, a 3% decrease from 2011 to 2012 and a 7% increase from 2012 to the base period. While Atmos has had ample opportunity, it has not provided specific information to show that any of this information (an 11% increase, a 21% decrease, a 19% increase, etc.) is indicative of a specific expense trend going forward. The inconsistent changes from positive to negative and year to year, absent further explanation from Atmos, are a cause for concern. Those widely inconsistent changes are significant and unusual.

d. The same explanation in (c) above holds true for SSU/DGO expenses. Regarding SSU and DGO expenses, there are relatively consistent declines from 2009 to 2011 ranging from 2% to 4% (and ranging from $182,000 to $256,000) and this is contrasted with the significant increases for 2012 and the base period of 7% and 8% (and ranging from $674,000 and $791,000). It cannot be automatically assumed that an average 1% increase for 4 years is reasonable, especially when the costs have increased 7% in the base period and previously were on a relatively consistent declining path from 2009 to 2011. The average decline of these expenses was 3% per year from 2009 to 2011, if this carries forward for the approximate three years through the forecasted test period, it could be argued that these expenses should be 9% less than expenses in 2011. A 9% decrease in these expenses is significantly different than the 1% increase that KPSC Staff determined using its averaging method. There is a more prominent trend of expense declines versus expense increases, and thus the changes are significant and unusual in that context - - especially without detailed explanations and calculations by Atmos.

Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 3
Page 1 of 1

Refer to page 34, lines 10-13, and Table BCO-4 on page 35 of the Ostrander Testimony. Confirm that the amounts of $8,500,877 and $6,519,624 shown in the table as "OAG Payroll" and "Atmos Payroll," respectively, are not increases, as the sentence on page 34 indicates, but represent total expensed amounts.

RESPONSE:

Mr. Ostrander identified an error in his workpaper/spreadsheet and is providing an updated Table BCO-4, Table BCO-5, and Exhibit BCO-2, Schedule A-7 with this response.

Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 4
Page 1 of 1

Refer to Table BCO-5 on page 36 of the Ostrander Testimony. Identify the documents in the record of this case and the specific pages of those documents upon which Mr. Ostrander relied to determine the amount of the expense increases shown in the "Atmos" column of the table.

RESPONSE:

Please see the response to Staff Question No. 3.

Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 5
Page 1 of 1

Refer to Exhibit BCO-2, Schedule A-7 to the Ostrander Testimony, which shows Atmos Payroll of $8,500,877 at line 3 and Atmos Benefits of $3,161,528 at line 7, both for the forecasted test period. Refer also to Atmos's response to Item 117 of the AG's First Request for Information and Schedule G-2 of Atmos's application. Atmos's response indicates that the $8,500,877 is the expense portion of its labor and benefits for the forecasted test period. For the test period, Schedule G-2, line 17, shows "O&M Labor Dollars" of $5,339,350, while line 23 shows "Employee Benefits Expensed" of $3,161,528, the sum of which, adjusted for rounding, totals $8,500,877. As $8,500,877 is the total of Atmos's payroll/labor expense and its benefits expense in the test year, explain why Mr. Ostrander's Exhibit BCO-2, Schedule A-7, shows this amount as only payroll expense while it shows a separate amount of $3,161,528 for benefits expense.

RESPONSE:

Please see the response to Staff Question No. 3.

Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 6
Page 1 of 1

Refer to page 43 of the Ostrander Testimony regarding Mr. Ostrander's discussion of the Washington Gas Light Company case in which he recommended disallowing 50 percent of the cost of long-term incentive programs, a recommendation adopted by the Maryland Commission. Provide references to any other cases in which Mr. Ostrander has made this recommendation, in any jurisdiction, and a summary of the commission's decision regarding his recommendation.

RESPONSE:

A recent summary of my work has been provided in Exhibit BCO-1 of my Direct Testimony. The type of research requested by this question is outside the scope of my contract with the Kentucky OAG. However, for the period 2010 through present, for all energy cases, Mr. Ostrander has not proposed this adjustment in another case besides the Washington Gas Light Company ("WGL") case. There are some reasons why Mr. Ostrander has not proposed this adjustment in other cases.

First, regarding Mr. Ostrander's experience in other rate cases in the Maryland jurisdiction, The Public Service Commission of Maryland has required other utility companies (in addition to WGL) to make this similar adjustment in their respective rate case filings - - and because those companies already made the adjustment in their rate case filings it was not necessary for Mr. Ostrander to sponsor an adjustment.

Second, Mr. Ostrander addresses compensation issues in rate cases on a case-by-case basis depending on his specific contract with the client, scope of review, fees, and other considerations of the client. Thus, although it may be reasonable to propose similar compensation adjustments in other rate cases, Mr. Ostrander is not specifically under contract to perform such a review.

Third, Mr. Ostrander only proposes compensation adjustments when it will result in fair, just, and reasonable rates.

Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 7
Page 1 of 1

Refer to Exhibit BCO-2, Schedule A-8 to the Ostrander Testimony. Confirm that the amounts on lines 1 and 2 of the schedule, as taken from Attachment 3 of the response to Item 61 of AG's Second Request for Information, are from Atmos' Fiscal Year 2012 and are not from its forecasted test period, as the heading on the exhibit indicates.

RESPONSE:

Confirmed.

It was Mr. Ostrander's original understanding that the 2012 amounts were the same amounts included in the forecasted test period for LTIP. It now appears that the LTIP amounts on lines 1 and 2 should be removed from this adjustment, because the forecasted amounts for LTIP are already included in the Restricted Stock Plan amounts in lines 6 to 8. Please see attached revised Exhibit BCO-2, Schedule A-8.

Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 8
Page 1 of 1

Refer to pages 46-47 of the Ostrander Testimony. With the test year in this case being the 12 months ending November 30, 2014, explain why Mr. Ostrander used the estimated savings for 2015 rather than 2014 to calculate the first part of his proposed adjustment for Customer Service System savings.

RESPONSE:

Atmos' 2015 estimated CSS savings are from the Board of Directors presentation on August 4, 2010, and subsequent to that 2010 date the Company changed its deployment strategy from a 2-stage to a single stage approach, and the total CSS implementation costs increased from $47 million (Atmos' response to OAG 1-97, Attachment 1, page 3, Evaluation Summary) and then the costs increased to $64 million, then to $72 million, and then to the final amount of $78.9 million (total increase of $31.9 million from $47 million to $78.9 million). The original 2015 savings are better matched with the subsequent increased implementation costs of $31.9 million (or $14.9 million at the very minimum, increasing from $64 million to $78.9 million) because the original 2015 savings would not have anticipated these increased implementation costs. Because the implementation costs increased, the anticipated related savings should have also increased.

Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 9
Page 1 of 1

Refer to page 47, lines 2-5 of the Ostrander Testimony and Exhibit BCO- 2, Schedule A-9, line 27. Identify the document(s) in the record of this case and the specific page(s) of the document(s) from which Mr. Ostrander obtained the original estimated capital spend amount of $47 million in the testimony and on the exhibit.

RESPONSE:

See Atmos' response to OAG 1-97, Attachment 1, page 3, Evaluation Summary.

Data Requests Relating to Testimony of Bion C. Ostrander

WITNESS RESPONSIBLE:
Bion Ostrander

QUESTION No. 10
Page 1 of 2

Refer to page 49, lines 11-19 of the Ostrander Testimony. Mr. Ostrander states that he has no concerns regarding the typical tax impact of depreciation timing differences that are recorded as a credit and used as an offset to rate base. He then states that a Net Operating Loss Carry-forward "is the opposite" and "is included as a debit" and is "an offset to the typical credit balance in the accumulated deferred income tax account and it causes an increase in rate base." Explain whether there is a reason, other than that it causes an increase in rate base, why Mr. Ostrander proposes an adjustment to remove Atmos' Net Operating Loss Carry-forward from rate base.

RESPONSE:

The statement included in Staff's Question which asks if there are reasons for Mr. Ostrander's adjustment "other than it causes an increase in rate base" is not a statement included in Mr. Ostrander's testimony and is not an accurate representation of his testimony. Rather, it is Atmos' direct testimony that does not even raise this issue or explain the reasons why the accumulated deferred tax impact of the Net Operating Loss Carry-forward should be used to increase rate base. Mr. Ostrander believes an adjustment is appropriate to remove the accumulated deferred tax impact of the Net Operating Loss Carry-forward from rate base because its inclusion is not a reasonable reading or interpretation of the tax code/Treasury Regulations. Please see Mr. Ostrander's responsive testimony at pages 52 through 59, where he explains numerous reasons supporting his adjustment.

Mr. Ostrander's citations at pages 52 and 53 are factual; there is no specific requirement for including a NOLC ADIT in rate base (as part of tax depreciation normalization) per Treasury Regulations. This is not Mr. Ostrander's "interpretation" of the tax code/Treasury Regulations, that is the specific and plain reading of the tax code. Any other reading of the tax code that tries to infer or argue for a NOLC ADIT, or attempts to insert the words "NOLC ADIT" or some similar meaning would be an interpretation and not a pure reading of the tax code.

Also, Treasury Regulations only relate to federal tax normalization and does not require tax normalization of book-tax timing differences for state purposes, and thus Atmos' calculation of a state calculated NOLC ADIT is not reasonable (Ostrander, pages 53 and 54).

Data Requests Relating to Testimony of Glenn A. Watkins

WITNESS RESPONSIBLE:
Glenn Watkins

QUESTION No. 11
Page 1 of 1

Refer to page 11 of the Direct Testimony and Schedules of Glenn A. Watkins ("Watkins Testimony"). Starting at line 16, Mr. Watkins states that "[t]he Peak and Average approach is the most fair and equitable method to assign natural gas distribution mains costs to the various customer classes." Provide all analysis and documents relied upon in making this statement.

RESPONSE:

Please refer to Mr. Watkins' Direct Testimony, page 11, line 11 through page 19, line 7.

Data Requests Relating to Testimony of Glenn A. Watkins

WITNESS RESPONSIBLE:
Glenn Watkins

QUESTION No. 12
Page 1 of 1

Refer to the Watkins Testimony, page 45. Provide the rates for all customer classes that would result from the allocations proposed in Table 9, assuming that the entire amount of Atmos's proposed increase were approved by the Commission.

RESPONSE:

Mr. Watkins has not performed the requested calculations.

Data Requests Relating to Testimony of Glenn A. Watkins

WITNESS RESPONSIBLE:
Glenn Watkins

QUESTION No. 13
Page 1 of 1

Refer to the Watkins Testimony, page 46, lines 12-21, wherein Mr. Watkins states that his customer cost analysis supports a residential customer charge of between $5.23 and $9.26 and wherein he recommends there be no increase to the residential customer charge. Refer also to page 2 of 86 of Atmos' revised cost of service study ("COSS") filed in response to Item 19 of Commission Staffs Third Request for Information which supports a residential customer charge of $20.46. Provide the same type of information that appears on this page using Mr. Watkins's peak and average COSS.

RESPONSE:

Mr. Watkins does not endorse or support the Company's methodology nor has he performed the requested calculations.

Data Requests Relating to Testimony of Glenn A. Watkins

WITNESS RESPONSIBLE:
Glenn Watkins

QUESTION No. 14
Page 1 of 1

Atmos's proposed Margin Loss Rider is discussed on pages 48-49 of the Watkins Testimony, but there is no discussion of the other automatic recovery rider proposed by Atmos, the System Development Rider ("SDR"). Describe the position of the AG with regard to the proposed SDR.

RESPONSE:

Mr. Watkins did not address this topic as part of his engagement with the OAG and thus defers to the OAG on this issue.

Data Requests Relating to Testimony of Glenn A. Watkins

WITNESS RESPONSIBLE:
Glenn Watkins

QUESTION No. 15
Page 1 of 1

Provide Mr. Watkins's peak and average COSS in Excel spreadsheet format with the formulas intact and unprotected and all rows and columns accessible. The spreadsheets should show all steps of the COSS separately (functionalization, classification, and allocation).

RESPONSE:

Please see attached.

Data Requests Relating to Testimony of Glenn A. Watkins

WITNESS RESPONSIBLE:
Glenn Watkins

QUESTION No. 16
Page 1 of 1

Refer to Schedule GAW-3 which was filed under seal. State why the amounts in column 5, Annual MCF, are shown as dollar amounts.

RESPONSE:

This is a formatting error. There should be no dollar signs in Column (5) of Schedule GAW-3.