COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| APPLICATION OF COLUMBIA GAS | ) | |
| OF KENTUCKY, INC. FOR AN | ) | CASE NO. 2016-00162 |
| ADJUSTMENT OF RATES | | |

**ATTORNEY GENERAL'S RESPONSES TO DISCOVERY REQUESTS**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and files the following responses to data requests in the above-styled matter.

Respectfully submitted,
ANDY BESHEAR
ATTORNEY GENERAL

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**WITNESS/RESPONDENT RESPONSIBLE**
**Lane Kollen**

**REQUEST No.1**
**Page 1 of 1**

Refer to the Direct Testimony and Exhibits of Lane Kollen ("Kollen Testimony"), page 4, Summary of Attorney General Recommendations table. Provide descriptions of all items included and the associated amounts for the recommended $7.315 million reduction on the line titled Reduce Requested O&M Expense Increase.

RESPONSE:

The $7.315 million is an overarching adjustment to reduce O&M expense to just and reasonable levels. Mr. Kollen explains the adjustment in his Direct Testimony at pages 5-8. Mr. Kollen also identified specific adjustments that could be adopted in support of or in lieu of the overarching adjustment.

**WITNESS/RESPONDENT RESPONSIBLE**
**Lane Kollen**

**REQUEST No.2**
**Page 1 of 1**

Refer to the Kollen Testimony, pages 5-8. Columbia Gas of Kentucky, Inc.'s ("Columbia") proposed test-year operation and maintenance ("O&M") expenses are identified as $44.170 million. Explain how $36.855 million was selected as the amount that Mr. Kollen has recommended for annual O&M expenses.

a. Refer to the Kollen Testimony, pages 11-13, and Exhibit__(LK-8). Given that Columbia's response to Commission Staff's First Request for Information, Item 33, showed an average actual employee headcount in 2015 of 142, explain why Mr. Kollen recommends an adjustment using a three-year-old forecasted headcount of 131.

RESPONSE:

Mr. Kollen started with the actual 2015 O&M expense of $34.455 million and added $1.2 million in escalation for each year 2016 and 2017 to quantify his recommendation of $36.855 million for 2017. Mr. Kollen states that "the average growth in actual O&M expense has been $1.2 million annually since 2011, according to the actual O&M expense shown on Schedule I-1 and page 9 of Mr. Noel's Direct Testimony" at page 6 of his Direct Testimony.

a. Mr. Kollen notes that the Company's actual headcount was 130 as recently as January 2015 at page 12 of his Direct Testimony. Mr. Kollen notes that the Company projected headcounts of 131 in Case No. 2013-0167 through 2016 at page 11 of his Direct Testimony. The Company has not justified an increase to 158 at the end of 2017. This is extraordinary growth when the Company's customer accounts and sales have been stagnant.

**WITNESS/RESPONDENT RESPONSIBLE**
**Lane Kollen**

**REQUEST No.3**
**Page 1 of 1**

Refer to the Kollen Testimony, page 10, where it states, "The Company has been subject to the Distribution Integrity Management requirements since 2011 and already complies with those requirements that are discussed at length by Company witness Mr. Cote."

a. Explain in detail the basis for stating that Columbia already complies with the requirements in its Distribution Integrity Management Plan ("DIMP").

b. Identify and describe the impact of all new regulations since 2011 affecting the DIMPs and Transmission Integrity Management Plans of gas distribution companies.

c. Identify all cases in which Mr. Kollen has been involved since 2011 involving DIMPs, a summary of the issues, and outcomes in each case, and a copy of all relevant information in those cases.

d. Identify and describe any other options Mr. Kollen is aware of that provide cost recovery related to DIMP compliance.

RESPONSE:

a. Refer to Direct Testimony of Mr. Miller at page 13. He states that Columbia has developed and filed its DIMP plan with the Commission. Refer to Direct Testimony of Ms. Cole at pages 3-6, wherein she describes the DIMP plan required to be developed by 8/02/2011 and how Columbia is addressing the top threats and risks identified in the DIMP plan. Refer also to Columbia's response to Staff 2-5, Staff 2-28, and Staff 3-5.

b. Mr. Kollen has not performed the requested analysis and did not rely on such analyses in forming his opinion.

c. Mr. Kollen has not specifically addressed DIMP requirements in any testimony.

d. The Company complies with DIMP requirements, according to its testimony and responses to discovery and did so in 2015. Mr. Kollen's recommendation to increase O&M expense annually by $1.2 million from 2015 actuals provides sufficient cost recovery to continue to comply with DIMP requirements.

**WITNESS/RESPONDENT RESPONSIBLE**
**Lane Kollen**

**REQUEST No.4**
**Page 1 of 1**

Refer to the Kollen Testimony, pages 18-20. Explain how $16.326 million was selected as the amount that Mr. Kollen has recommended for annual NiSource Corporate Services Company management fee expense.

RESPONSE:

The effect of this recommendation on the revenue requirement is subsumed in Mr. Kollen's overarching recommendation to reduce the Company's requested O&M expense by $7.315 million. Mr. Kollen calculated this alternative adjustment by adding an annual 2% inflation for a period of 16 months, the number of months between the end of the base year ending and the end of the test year, to the base year amount of $15.901 million. See pages 18-20 of Mr. Kollen's Direct Testimony.

**WITNESS/RESPONDENT RESPONSIBLE**
**Lane Kollen**

**REQUEST No.5**
**Page 1 of 1**

Refer to the Kollen Testimony, pages 21-26 regarding Columbia's proposal for changing its depreciation rates from the Average Service Life ("ASL") procedure to the Equal Life Group ("ELG") procedure.

a. Identify all cases in which Mr. Kollen has been involved regarding proposed changes in depreciation rates from the ASL procedure to the ELG procedure, a summary of the issues and outcomes in each case, and a copy of all relevant information in those cases.

b. Refer to page 24 regarding the discussion of the accuracy of the ELG procedure versus the ASL procedure. Confirm that the ELG procedure results in depreciation rates that are higher in early years and decrease in later years, whereas straight line depreciation is typically utilized for ratemaking purposes.

c. Refer to page 24 where it states, "Second, although the ELG procedure requires a more refined stratification of the data, this stratification is itself the result of judgement and assumptions, which are subject to the discretion of the analyst and easily biased, whether intentionally or unintentionally." Identify and describe any judgements or assumptions utilized in the stratification of the data made by Columbia's analyst which Mr. Kollen found biased or otherwise questionable.

RESPONSE:

a. Mr. Kollen has not previously testified on depreciation rate changes resulting from the utilization of the ELG procedure instead of the ASL procedure.

b. Confirmed.

c. Mr. Kollen opposes the change to the ELG procedure and recommends that the Commission continue to use the ASL procedure. Consequently, Mr. Kollen did not attempt to modify or improve the ELG depreciation rates or identify biased or questionable judgments and assumptions in the ELG analyses performed by Mr. Spanos.

**WITNESS/RESPONDENT RESPONSIBLE**
**Lane Kollen**

**REQUEST No.6**
**Page 1 of 2**

Refer to the Kollen Testimony, pages 38-40, where, among other things, Mr. Kollen states that "the one-eighth O&M expense methodology" for determining an allowance for cash working capital is "outdated and inaccurate. The methodology is simple, but does not reflect the leads and lags in the Company's operating cash flows," and, "I recommend that the Commission set the Company's cash working capital at $0 in the absence of a properly performed lead/lag study, even though there is little doubt that it should be negative."

a. Mr. Kollen refers to lead/lag studies performed by NiSource utilities operating in other states resulting in negative cash working capital ("CWC") when properly adjusted." Explain whether any of these studies were "properly adjusted" in the jurisdictional commission's decision, or whether the adjustments which result in a negative CWC are adjustments made by Mr. Kollen or by his firm.

b. Identify all Kentucky cases in which Mr. Kollen filed testimony with the Commission wherein he opposed using the one-eighth O&M expense method to derive the allowance for CWC.

c. Identify any of the cases cited in response to part b. of this request in which the Commission adopted a recommendation by Mr. Kollen to use something other than the one-eighth O&M method to derive the CWC allowance.

d. Given his statement that "there is little doubt that it [Columbia's CWC] should be negative" explain why Mr. Kollen did not perform a lead/lag study in order to present a CWC allowance less than $0 for Columbia.

RESPONSE:

a. The adjustments were determined by Mr. Kollen.

b. Mr. Kollen addressed the one-eighth formula in Case No. 2000-386, a Louisville Gas and Electric Company environmental surcharge case, and in Case No. 2000-439, a Kentucky Utilities Company environmental surcharge case. Mr. Kollen also addressed the one-eighth formula in Case No. 2015-00343, a 2015 Rate Case filed by Atmos Energy Corporation. In the Atmos proceeding, Mr. Kollen cited lead/lag studies prepared by Atmos itself for other jurisdictions demonstrating conclusively that Atmos did not have a cash working capital requirement.

**REQUEST No.6**
**Page 2 of 2**

c. In Case Nos. 2000-386 and 2000-439 referenced in subpart b, the Commission used the one-eighth formula because it determined that KIUC did not provide a "lead/lag study or other analysis demonstrating that KU does not have a cash working capital requirement." The Atmos case was settled and the issue was not fully litigated or decided upon.

d. Mr. Kollen did not believe that it was necessary to do so. NiSource prepared multiple lead/lag studies and submitted them in other jurisdictions. Columbia Gas provided these studies in response to AG discovery in this proceeding. Once errors in some of those studies were corrected, every one of the studies prepared by NiSource indicates negative cash working capital. This was true over multiple test years and in all jurisdictions where NiSource submitted these working capital studies. In Mr. Kollen's experience, it is necessary for the utility to perform the lead/lag study due to the necessity to sample the lead and lag days on O&M and other cash expenses. In addition, in Mr. Kollen's experience, where the utility refuses to provide a lead/lag study and the regulator does not use the one eighth formula, the regulator will use $0 in lieu of a negative amount. Mr. Kollen also would note that it was Columbia Gas's decision not to provide a lead/lag study in this proceeding. That decision should not be rewarded, particularly when Columbia Gas does provide such studies in other jurisdictions and could have provided such a study in this proceeding, but chose not to do so. Nevertheless, there is sufficient evidence, based on the lead/lag studies that are available in response to discovery in this proceeding and that are part of the record in this proceeding, that Columbia Gas has negative cash working capital. An allowance of $0 is reasonable given that evidence.

**WITNESS/RESPONDENT RESPONSIBLE**
**Lane Kollen**

**REQUEST No.7**
**Page 1 of 1**

Refer to the Kollen Testimony, page 48, line 19, and page 49, lines 1 and 2, which state, "The proposed AMRP rider tariff language suggests that there would be a change in accounting if the Commission adopts the Company's proposal to include the costs of plastic pipe in the AMRP and to recover the costs through the AMRP rider." Identify the specific language in Columbia's proposed Accelerated Main Replacement Program tariff this statement is referencing.

RESPONSE:

Mr. Kollen states at page 48 of his Direct Testimony:

> Neither the present nor the proposed AMRP rider tariff language include a provision for recovering O&M expense. The AMRP rider tariff language includes a provision for "Reduction for savings in Account No. 887 -Maintenance of Mains." The proposed AMRP rider tariff language suggests that there would be a change in accounting if the Commission adopts the Company's proposal to include the costs of plastic pipe in the AMRP and to recover the costs through the AMRP rider.

Mr. Kollen concluded that because neither the present nor the proposed AMRP rider tariff language include a provision for recovering O&M expense, it appears that the Company would no longer expense the costs to replace sections of 50 foot or less as it presently does.

**WITNESS/RESPONDENT RESPONSIBLE**
**Lane Kollen**

**REQUEST No.8**
**Page 1 of 1**

State whether the AG is aware that the Commission approved the request of Louisville Gas and Electric Company to include the replacement of Aldyl-A plastic pipe in its Gas Line Tracker in Case No. 2015-00360.[1]

RESPONSE:

Yes. However, it should be noted that LG&E's application in that proceeding was unopposed and that LG&E specifically identified approximately 13.7 miles of main and 1,152 services that made use of Aldyl-A pipe and identified approximately 2.2 miles and 26 services that were being replaced in conjunction with other projects. LG&E proposed that the remaining 11.5 miles of Aldyl-A mains and 1,126 Aldyl-A services be included in the GLT over a specific two-year period. Columbia Gas does not propose a specific or comprehensive replacement plan. Columbia Gas proposes a change in the form of recovery. However, it does not reflect any reduction in costs in the base revenue requirement.

[1] Case No. 2015-00360, Application of Louisville Gas and Electric Company for Approval of Revised Rates to be Recovered Through Its Gas Line Tracker Beginning with the First Billing Cycle for January, 2016 (Ky. PSC Jan. 28, 2016).

**WITNESS/RESPONDENT RESPONSIBLE**
**Richard A. Baudino**

**REQUEST No.9**
**Page 1 of 1**

Refer to the Direct Testimony and Exhibits of Richard A. Baudino ("Baudino Testimony"), page 10. State whether any information contained in the most current (September 2, 2016) issue of the Value Line Investment Survey causes any change in the calculations, testimony, or recommendation with regard to Return on Equity for Columbia.

RESPONSE:

Nothing in the September 2, 2016 issue of the Value Line Investment Survey would cause a change in the calculations, testimony, or recommendations provided by Mr. Baudino.

**WITNESS/RESPONDENT RESPONSIBLE**
**Richard A. Baudino**

**REQUEST No.10**
**Page 1 of 2**

Refer to the Baudino Testimony, pages 16-17. Describe the specific risks of Columbia with regard to the three major categories of business risk identified, and indicate how Columbia contributes specifically to, or tends to alleviate, those risks for NiSource, Inc.

RESPONSE:

The purpose of Mr. Baudino's testimony was to provide a general overview of major risk factors, not specifically apply or evaluate these terms to Columbia Gas and/or NiSource. Mr. Baudino provides the following responses within that context.

a. Volatility of the firm's sales. Sales volatility may be defined as fluctuations in a firm's sales over time. The more a company's sales fluctuate due to economic factors, the greater the business risk, other things being equal.

b. Long-term demand for its product. Long-term demand generally refers to the period of time that consumers will continue to desire to consume or utilize a company's product or service. The long-term demand for electricity, for example, is strong since it is a necessity.

c. The amount of operating leverage. Operating leverage refers to the amount of fixed costs in a firm's cost structure. The more fixed costs are part of a firm's cost structure, the higher the operating leverage and the more that a firm's income will be affected by fluctuations in sales volumes.

d. Quality of management. With respect to regulated public utilities, quality of management generally refers to whether management has acted responsibly and prudently in the provision of service and just and reasonable rates to its ratepayers.

e. Quality of regulation. In *New Regulatory Finance*, page 43, Dr. Roger Morin refers to regulatory risk as "the quality and consistency of regulation applied to a given regulated utility, and specifically to the fairness and reasonableness of rate awards." In addition, the quality of regulation is considered and evaluated by bond rating agencies, the Value Line Investment Survey, and the Regulatory Research Associates.

**REQUEST No.10**
**Page 2 of 2**

In addition, please refer to Mr. Baudino's discussion on page 12, line 12 through page 14 for a general discussion of NiSource and Columbia Gas as a low-risk gas distribution company "that adds revenue and earnings stability to NiSource."

**WITNESS/RESPONDENT RESPONSIBLE**
**Richard A. Baudino**

**REQUEST No.11**
**Page 1 of 1**

Refer to the Baudino Testimony, page 20. Explain why a period shorter than six months is not used to calculate a more current dividend yield.

RESPONSE:

Mr. Baudino uses a 6-month period to calculate the current dividend yield because this period of time can smooth out daily fluctuations in stock prices that may not be representative of the current dividend yield. A six-month period is also short enough not to contain stale data.

**WITNESS/RESPONDENT RESPONSIBLE**
**Richard A. Baudino**

**REQUEST No.12**
**Page 1 of 1**

Refer to the Baudino Testimony, pages 22-23 and Exhibit RAB-4.

a. Explain why the current dividend yield is multiplied by one plus one half the expected growth rate ("g") instead of simply multiplying by g.

b. Explain why median values are included in evaluating investor expected growth rates.

c. Explain whether the internal growth rates as shown in column (3) in the table at the top of Exhibit RAB-4 are used in calculating the expected dividend yields in the table at the bottom of that Exhibit.

RESPONSE:

a. The purpose of using 1 plus one-half the growth rate is to estimate the expected dividend for the next period, D1. Using one-half the growth rate essentially estimates the mid-point of the dividend for the next period and assumes that the dividend is increased at mid-year, rather than at the beginning of the year.

b. The median value for expected growth rates is a very important measure of the central tendency of a data set because it is not affected by either excessively high or low values. The median and mean results should be used together to estimate the investor expected growth rates for the group.

c. Mr. Baudino did not use the internal growth rates in his DCF analyses.

**WITNESS/RESPONDENT RESPONSIBLE**
**Richard A. Baudino**

**REQUEST No.13**
**Page 1 of 1**

Provide Exhibits RAB-3 through RAB-6 to the Baudino Testimony in Excel spreadsheet format, with all cells unprotected and with individual formulas or equations accessible in all cells so the calculations can be followed.

RESPONSE:

Refer to the attached spreadsheet "Baudino Columbia Gas ROE Analysis and Exhibits"

**AFFIDAVIT**

STATE OF GEORGIA )

COUNTY OF FULTON )

RICHARD A. BAUDINO, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Richard A. Baudino

Richard A. Baudino

Sworn to and subscribed before me on this
30th day of September 20 16.

Jessica K. I

Notary Public

JESSICA K INMAN
MY COMMISSION EXPIRES
NOTARY
PUBLIC
JULY 31, 2019
CHEROKEE COUNTY, GEORGIA