

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF COLUMBIA GAS )  
OF KENTUCKY, INC. FOR AN ADJUSTMENT OF ) CASE NO. 2024-00092  
RATES; APPROVAL OF DEPRECIATION STUDY; )  
APPROVAL OF TARIFF REVISIONS; AND OTHER )  
RELIEF )

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**THE ATTORNEY GENERAL’S RESPONSE TO THE COMMISSION STAFF’S FIRST  
REQUEST FOR INFORMATION**

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The Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (“Attorney General”), submits the following response to the Commission Staff’s First Request for Information in the above-styled matter.

Respectfully submitted,

RUSSELL COLEMAN  
ATTORNEY GENERAL



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*Certificate of Service and Filing*

Pursuant to the Commission's Orders and in accord with all other applicable law, Counsel certifies that the foregoing electronic filing was transmitted to the Commission on September 11, 2024, and there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 11<sup>th</sup> day of September, 2024,

*Angela M. Aoad*

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Assistant Attorney General

WITNESS RESPONSIBLE:  
JOHN DEFEVER

QUESTION NO. 1  
Page 1 of 2

Refer to the Direct Testimony of John Defever (Defever Direct Testimony), pages 6 –7. Explain why utilizing the cash-working capital component from the lead lag study is more reasonable than utilizing the 1/8 O&M expense calculation.

RESPONSE:

To understand why utilization of a lead lag study is more reasonable than the 1/8 O&M method it is necessary to understand what cash working capital represents. A timing gap occurs between when the Company provides a service and when it receives payment for that service. During this period additional investor cash is sometimes necessary to bridge that gap and cover day-to-day cash requirements. Cash working capital is the additional investment necessary to cover that gap.

A lead lag study directly addresses this issue. A lead lag study measures the length of time between the provision of service and the receipt of payment, as well as the timing of the incurrence of costs related to the provision of service and payment by the utility. A lead lag study is more reasonable as it is more directly related to the Company's actual cash working capital needs, if any.

On the other hand, the 1/8 O&M method is a rudimentary tool, in which the Company simply multiplies projected O&M expenses by 1/8. One issue with this approach is that it is based on the flawed assumption that a Company's actual requirement for cash working capital will be 1/8 of its O&M expenses. In fact, quite the opposite is true as indicated in the pending case, because according to the Company's lead lag study the Company's cash working capital is a negative \$9,746,343, with the Company requesting \$0 in cash working capital allowance. Another issue is that the 1/8 O&M method will always produce a positive cash working capital requirement. As such, the use of this method could result in a significant level of cash working capital when, in fact, no cash working capital is needed or even a negative cash working capital is warranted. The pending case is a perfect example of how the 1/8 O&M method is flawed. If the 1/8 O&M method were utilized, rate base which customers pay a return on would be increased by \$6,608,321. However, based upon the lead lag study, rate base should be decreased by almost \$10 million. Thus, the use of the 1/8 O&M method is insufficient to determine if cash working capital is even necessary, let alone the amount required, if any. As a lead lag study more directly addresses the cash working requirement it can be considered more appropriate than the 1/8 O&M method, which is more of a rough "back of the envelope" calculation.

It should also be noted, as discussed in my direct testimony, that the Commission directed the Company to perform a lead lag study.<sup>1</sup> Presumably, the Commission intended for the lead lag study to not simply be performed but utilized in determining the cash working capital.

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<sup>1</sup> Direct Testimony of John Defever ("Defever Testimony") at 6.

WITNESS RESPONSIBLE:  
JOHN DEFEVER

QUESTION NO. 1  
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In the pending case, the fact that the lead lag study produced significantly different results than the 1/8 O&M method further undermines confidence in the reliability of the 1/8 O&M method. Again, as noted in my direct testimony, the Commission, “has long stated that the most accurate way to determine the amount of CWC component of rate base is a lead-lag study.”<sup>2</sup>

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<sup>2</sup> *Id.* at 7.

WITNESS RESPONSIBLE:  
JOHN DEFEVER

QUESTION NO. 2  
Page 1 of 1

Refer to Defever Direct Testimony, pages 11–12 and 15–16. Explain why Connecticut is used as a comparable jurisdiction when it appears that at least some of the exclusions are governed by a statute or rule.

RESPONSE:

On pages 11 – 12 of my direct testimony, I cite to a specific Connecticut order which reduces rate base to reflect customer deposits. I am not aware of a statute in Connecticut dictating this approach. I cite to cases from Connecticut primarily because I have been involved in numerous cases in that jurisdiction and am therefore aware of the results of many cases that have taken place in that state.

On pages 15 – 16 of my direct testimony, I cite to specific Acts in Connecticut and Colorado prohibiting the recovery from ratepayers of expenses related to the use of owned, leased, or chartered aircraft by the Company's board of directors and officers. I recognize that these are Acts and not orders from utility commissions. However, I cite to them as examples of the recognition that such expenses should not be recovered from ratepayers.

WITNESSES RESPONSIBLE:  
JOHN DEFEVER

QUESTION NO. 3  
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Refer to the Defever Direct Testimony, page 25. Explain whether direct labor includes contract labor.

RESPONSE:


The Company's response to the Commission Staff's First Request for Information, Item 38 does not specify whether direct labor includes contract labor so I cannot provide the answer to that question. However, in general, direct labor does not usually include contract labor.

AFFIDAVIT

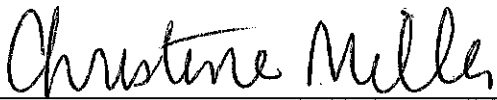
STATE OF MICHIGAN )

COUNTY OF WAYNE )

John Defever, Senior Regulatory Consultant, being duly sworn, states that his responses to discovery in the above referenced case are true and accurate to the best of his knowledge, information and belief.

  
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John Defever

Sworn to and subscribed before me on this 11<sup>th</sup> day of September 2024.

  
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Notary Public

CHRISTINE MILLER  
NOTARY PUBLIC, STATE OF MI  
COUNTY OF WAYNE  
MY COMMISSION EXPIRES Nov 8, 2028  
ACTING IN COUNTY OF

*Wayne*