

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF COLUMBIA GAS OF KENTUCKY,) CASE NO.
INC. FOR AN ADJUSTMENT IN RATES) 2009-00141

FIRST DATA REQUEST OF COMMISSION STAFF TO
THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than August 24, 2009. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

The AG shall make timely amendment to any prior response if he obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

the AG fails or refuses to furnish all or part of the requested information, he shall provide a written explanation of the specific grounds for his failure to completely and precisely respond. Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to pages 16–18 of the Direct Testimony and Exhibits of Robert J. Henkes (“Henkes Testimony”). Mr. Henkes recommends that a 25-year period be the basis for Columbia Gas of Kentucky’s (“Columbia”) weather normalization adjustment, citing the Commission’s approval of a 25-year period in the most recent gas rate case of Duke Energy Kentucky, Inc. (“Duke Energy,” formerly The Union Light, Heat and Power Company (“ULH&P”)).¹

a. Mr. Henkes participated in Case No. 2005-00042 on behalf of the AG. What time periods were proposed in that case by ULH&P and the AG as the basis for the company’s weather normalization adjustment?

b. The language in the December 22, 2005 Order authorizing the use of a 25-year period for ULH&P stated, “The Commission finds that the use of 25 years, a period that has been accepted in other cases, is appropriate in this instance.” (Emphasis added.) Given this specific language, explain in detail why Mr. Henkes assumes that it is now the Commission’s “ratemaking policy to weather normalize a

¹ Case No. 2005-00042, The Union Light, Heat and Power Company (Ky. PSC Dec. 22, 2005).

utility's sales for ratemaking purposes based on the most recent 25-year normalization period."

2. Refer to page 28 of the Henkes Testimony. Mr. Henkes states that Columbia's near-future uncollectible rate will average at a level lower than what the company proposed due to improving economic conditions and the impact of the residential late payment fee taking effect. Explain whether Mr. Henkes, on behalf of the AG, is suggesting that the residential late payment fee be approved by the Commission.

3. Refer to pages 40–44 of the Henkes Testimony regarding Columbia's income tax expense, specifically, Mr. Henkes' proposal to base Columbia's federal income expense on filing a consolidated income tax return. On page 43, Mr. Henkes cites the Commission's decision to reflect the use of a consolidated income tax filing in Case No. 2004-00103 involving Kentucky-American Water Company ("Kentucky-American").² Explain whether that is the only case of which Mr. Henkes is aware in which the Commission has required the recognition of a consolidated federal tax return.

4. Refer to the discussion on pages 45–52 of the Henkes Testimony regarding Columbia's proposed treatment of pension and other post-employment benefits expenses. Mr. Henkes opposes Columbia's request to defer the difference between its annual expenses and the amount included in its base rates for recovery through a separate rate rider. However, he accepts Columbia's proposed expense of \$1,772,186 for rate-making purposes, although he characterizes this as a "very high annual rate recovery level." This "very high" level is based solely on actuarial estimates

² Case No. 2004-00103, Kentucky-American Water Company (Ky. PSC Feb. 28, 2005).

for calendar year 2009. Explain why accepting this level of expense is not contradictory to the reasoning given by Mr. Henkes, on page 28 of his testimony, for why it is not reasonable to use the “high level” calendar year 2008 uncollectible rate to calculate his adjustment to Columbia’s uncollectible expenses.

5. Refer to pages 3–5 of the Direct Testimony of Michael J. Majoros, Jr. (“Majoros Testimony”). Mr. Majoros states that he is making three adjustments to Columbia’s proposed depreciation expense: (1) elimination of the proposed change to the Equal Life Group (“ELG”) procedure; (2) elimination of future inflation from the cost-of-removal component of Columbia’s proposed depreciation rates; and (3) removal of the portion of the depreciation reserve that relates to over-collections of the future cost of removal from the rate calculation.

a. It appears, based on his proposed adjustments, that Mr. Majoros proposes \$5,081,896 as Columbia’s adjusted test year depreciation expense, although this amount is only shown in total on Sch. RJ—13 to the Henkes Testimony. Provide a schedule, in the form used in Columbia’s response to AG Request No. 1-117, that is cited on page 10 of the Majoros Testimony and shows the derivation of the \$5,081,896 in annual depreciation expense.

b. Provide a modified version of the schedule provided in response to part a. of this request that does not reflect the impact of Mr. Majoros’ adjustment to eliminate the change to the ELG procedure but does reflect the impact of the other two adjustments he proposes.

c. Provide a modified version of the schedule provided in response to part a. of this request that reflects the impact of Mr. Majoros’ adjustment to eliminate the

change to the ELG procedure, but does not reflect the impact of the other two adjustments he proposes.

d. Provide a modified version of the schedule provided in response to part a. of this request that does not reflect the impact of Mr. Majoros' adjustment to eliminate future inflation from the cost-of-removal component of Columbia's depreciation rates but does reflect the impact of the other two adjustments he proposes.

e. Provide a modified version of the schedule provided in response to part a. of this request that reflects the impact of Mr. Majoros' adjustment to eliminate future inflation from the cost-of-removal component of Columbia's depreciation rates but does not reflect the impact of the other two adjustments he proposes.

f. Provide a modified version of the schedule provided in response to part a. of this request that does not reflect the impact of Mr. Majoros' adjustment to remove the portion of the depreciation reserve that relates to over-collections of the future cost of removal but does reflect the impact of his other two adjustments.

g. Provide a modified version of the schedule provided in response to part a. of this request that reflects the impact of Mr. Majoros' adjustment to remove the portion of the depreciation reserve that relates to over-collections of the future cost of removal but does not reflect the impact of the other two adjustments he proposes.

6. Refer to pages 6–9 of the Majoros Testimony, which identify several cases in which Mr. Majoros testified for the AG on depreciation, the most recent Columbia rate

case, Case No. 2007-00008,³ and a case of Duke Energy, Case No. 2001-00092,⁴ in which he did not testify for the AG. Mr. Majoros identifies several cases in which Mr. John Spanos testified for a utility and proposed the use of the ELG procedure. All these cases resulted in settlements that did not incorporate Mr. Spanos' proposal, except Case No. 2001-00092, which was not settled. That case resulted in Duke Energy implementing the ELG procedure. Mr. Majoros recommends that the Commission "not consider ULH&P's use of ELG to be established as a precedent." Explain whether it is Mr. Majoros' position that there is more precedential value in the cases that were settled in which ELG was not adopted than the one contested case, Case No. 2001-00092, in which ELG was adopted.

7. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony") at page 11 and Exhibit_JRW-3, page 1 of 5. Provide the underlying data in an Excel spreadsheet for both panels.

8. Refer to the Woolridge Testimony at pages 13–14 and Exhibit_JRW-3, page 5 of 5. The discussion does not seem to match what is illustrated in the exhibit panel. Both the S&P 500 Index and the gas stock performance appear to be at low points in March 2009. After February 2009, the gas stock performance appears to be negative in relation to its July 2008 value. Discuss whether the contention that gas stocks have held up well in relation to the S&P 500 Index remains valid.

³ Case No. 2007-00008, Columbia Gas of Kentucky, Inc. (Ky. PSC Aug. 29, 2007).

⁴ Case No. 2001-00092, The Union Light, Heat and Power Company (Ky. PSC Jan. 31, 2002).

9. Refer to the Woolridge Testimony at page 14. Provide a copy of the McKinsey quarterly report referenced in footnote 1.

10. Refer to the Woolridge Testimony at page 15 and Exhibit_JRW-4. Explain whether any of the companies in the proxy group are involved in current merger activity.

11. Refer to the Woolridge Testimony at page 17. Explain why a capital structure other than what is reflected in Columbia's test year should be adopted by the Commission.

12. Refer to the Woolridge Testimony at page 21. Provide a copy of the Benjamin Esty study referenced in footnote 3.

13. Refer to the Woolridge Testimony at pages 34–35 and Exhibit_JRW-10, page 3 of 7.

a. Explain why blending the mean and median values of ten- and five-year averages produces a meaningful estimate of growth rates.

b. Explain how blending projected estimates of earnings, dividends, and book value growth rates into a single number provides a meaningful estimate of growth rates.

14. Refer to the Woolridge Testimony at pages 47–48. Explain why PEGAIN would not be expected to have some increase as the economy and corporate EPS recover and the stock market begins to recover its lost value.

15. Refer to the Woolridge Testimony at Exhibit_(JRW-11), page 5 of 11. Some of the exhibit entries are almost eight years old, which means the actual work may have been conducted more than eight years ago. For each exhibit entry that was

published prior to 2008, provide an explanation of why it is still valid for use in a current risk premium analysis.

16. Refer to the Woolridge Testimony at Exhibit_(JRW-11), page 6 of 11. The exhibit references a number of recent studies. It is not clear whether the purpose and results of the studies were intended to be directly comparable to one another or to be used as they have been in the context of a regulated utility rate case.

- a. Provide a copy of each study listed on page 6 of the Exhibit.
- b. Explain why it is appropriate to use geometric means in calculating equity risk premiums.
- c. Provide a description of the appropriateness of using 1.94 percent as a credible measure of an equity risk premium in the context of this rate case.
- d. Provide any discussions that the Ibbotson SBBI yearbook 2009 may contain of estimating and using the *ex ante* approaches and/or comparing the *ex ante* and historical approaches to calculating risk premiums.

17. Refer to the Woolridge Testimony at page 53. Provide a copy of the study cited in footnote 18.

18. Refer to the tables on page 6 and the bottom of page 17 of the Direct Testimony of Glenn Watkins (“Watkins Testimony”). Mr. Watkins used the rates of return from Columbia’s cost-of-service studies filed in its application. Explain why the rates of return from the revised cost-of-service studies filed in response to Item 50 of the Commission Staff’s Second Data Request were not used.

19. Refer to page 8 of the Watkins Testimony. Mr. Watkins states that there is no reasonable basis to allocate any portion of distribution mains as customer-related.

Explain why Mr. Watkins, apparently, does not believe that the number of distribution mains physically required to provide service is, to some extent, influenced by the number of customers on the system.

20. Refer to pages 15 and 16 of the Watkins Testimony.

a. Starting at line 19 on page 15, Mr. Watkins discusses a “correction” to Columbia’s cost-of-service studies. Explain whether Columbia made this correction in its response to Item 50 of the Commission Staff’s Second Data Request.

b. On page 16, line 1, clarify whether Mr. Watkins intended to refer to Account 876 rather than Account 376.

21. Refer to page 16 of the Watkins Testimony. Explain more fully why it is reasonable to weight IUS, DS-ML/SC, and DS/IS customers by 365.

22. Refer to pages 17 and 19 of the Watkins Testimony. The table on page 17 shows that Mr. Watkins calculated a 7.84 percent rate of return for the GS-Other class and 5.57 percent for the DS/IS class. Page 19 shows a recommended increase of \$1,614,000 for the GS-Other class and \$1,179,800 for the DS/IS class, if Columbia’s proposed increase is approved. Given that both of these classes’ returns are above the total company return of 5.17 percent, explain why the GS-Other class should receive one-half and the DS/IS class should receive the full amount of the company-wide percentage increase in base rate revenues.

23. Refer to the table on page 21 of the Watkins Testimony. Confirm that, for the DS/IS class, the OAG column should show \$1,179.8 rather than \$11,179.8.

24. Refer to page 25 of the Watkins Testimony.

a. Do any of the companies that make up the Value Line group of natural gas utility companies have some kind of revenue-stabilizing mechanism(s) in place? Address each company individually.

b. To which of the country's "largest LDCs" is Mr. Watkins referring, beginning on line 12? If specific companies are referenced, state which companies, when they last had rate increases, the levels of their current rates and their rate designs, and whether they have any revenue-stabilizing mechanism(s) in place.

25. Refer to page 36 of the Watkins Testimony. Line 6 contains Mr. Watkins' recommendation that Columbia's proposed increase in the reconnection fee for non-payment of bills be cut in half. Is the AG recommending a reconnection fee of \$42.50 as opposed to \$60?

26. Refer to pages 38–42 of the Watkins Testimony.

a. Explain whether Mr. Watkins is aware of whether KRS 278.509 requires a showing of extraordinary circumstances in order for a regulated utility to be allowed recovery of investment in natural gas pipeline replacement programs.

b. Explain whether Mr. Watkins is aware of whether recovery of investment in natural gas pipeline replacement programs by means other than through base rates is permitted under KRS 278.509.

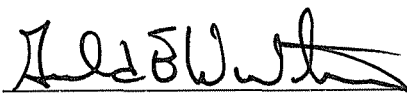
27. Refer to page 44 of the Watkins Testimony. Beginning on line 16, Mr. Watkins states his disagreement with the inclusion of natural gas fireplaces and/or gas logs in Columbia's proposed high-efficiency rebate program. Mr. Watkins states that these devices are used largely for aesthetic and recreational purposes and should not

be included. Explain whether it is Mr. Watkins' contention that a customer with an efficient gas log fireplace would not use it for space heating purposes.

28. Refer to page 45 of the Watkins Testimony. As a matter of clarification, is the AG aware that DSM cost recovery has been approved on a volumetric basis only for Delta Natural Gas Company, Louisville Gas and Electric Company, Atmos Energy Corporation, and Duke Energy Kentucky?

29. Provide Schedule GAW_2 electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

30. Refer to Schedule GAW_5. Under the Revenue Requirement section of this schedule, explain how Interest of \$934,454 and Equity Return of \$1,654,090 were calculated.


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DATED AUG 12 2009

cc: All Parties

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