COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY, INC. FOR AN ADJUSTMENT OF GAS RATES	))	CASE NO. 2009-00202

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

The Attorney General of the Commonwealth of Kentucky, 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 November 9, 2009. Responses to requests for information shall be appropriately bound, tabbed and indexed. Careful attention shall be given to copied material to ensure that it is legible. 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 it 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, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

1. Refer to pages 22–25 of the Direct Testimony and Exhibits of Robert J. Henkes ("Henkes Testimony") where Mr. Henkes discusses his adjustment to the level of property tax expense included in the forecasted test period of Duke Energy Kentucky, Inc. ("Duke Kentucky"). Explain how Mr. Henkes determined that his actual-to-initial property tax ratio of 74.4 percent should be applied to the $3,651,216 he identifies as the estimated initial tax level rather than the $3,428,458 Duke Kentucky proposes for ratemaking purposes.

2. Refer to page 37 of the Henkes Testimony and Sch. RJH-17. The testimony indicates that AG witness Michael J. Majoros recommends reducing Duke Kentucky's forecasted test-year depreciation expense by $4,072,673, which, according to the exhibit, is based on a recommended depreciation expense level of $7,585,154. While this amount appears on Exhibit_(MJM-1) to the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Testimony"), the heading of that exhibit indicates that the period to which the exhibit applies ends December 31, 2008, not January 31, 2011, which is the end of Duke Energy's forecasted test period.

a. Clarify whether the amount of the proposed depreciation adjustment is correct and reflects Mr. Majoros' recommended depreciation expense for the forecasted test period.

b. If Exhibit_(MJM-1) is based on Duke Kentucky's forecasted test period and is merely mislabeled, identify and describe which of Mr. Majoros' adjustments to Duke Kentucky's proposed depreciation expense are incorporated into the exhibit.

3. Refer to pages 3–4 of the Majoros Testimony where Mr. Majoros states that he is making three adjustments to Duke Kentucky's calculation of depreciation expense. Two adjustments identified on page 3 are (1) to use the Average Service Life Group ("ALG") procedure rather than the Equal Life Group ("ELG") procedure and (2) to eliminate future inflation from the cost-of-removal component of Duke Kentucky's depreciation rates. Explain whether the third adjustment is the reclassification mentioned on page 4, lines 21--22 of the testimony, is identified elsewhere in the testimony, or was inadvertently omitted from the testimony.

4. Refer to page 4 of the Majoros Testimony, specifically, his references to the unemployment rates in the counties served by Duke Kentucky.

a. Explain whether Mr. Majoros is attempting to show a relationship between depreciation rates and unemployment rates.

b. Explain whether any of Mr. Majoros' recommendations concerning the appropriate depreciation rates for Duke Kentucky would be different if the local rates of unemployment were substantially less, rather than greater, than the national average unemployment rate.

c. Provide the relevant text and identification of any Majoros testimony on depreciation or depreciation-related issues over the past 20 years in which he cited local unemployment rates in support of his recommendations.

5. Refer to lines 1–3 and the table on page 6 of the Majoros Testimony, plus Exhibit_(MJM-1). The testimony text indicates that the exhibit is Duke Kentucky witness John Spanos' "calculation of his own proposals using ALG rather than ELG." Under the heading "Spanos ALG" the table shows depreciation expense of $8,072,806. However, in the exhibit, using what is identified as "Attorney General's Recommended Rate," the total depreciation expense is shown as $7,585,154. Provide a detailed explanation for the discrepancies between the testimony and the exhibit along with a schedule, in the same format as the exhibit, which shows the derivation of the depreciation expense shown in the table.

6. Refer to pages 7–8 of the Majoros Testimony in which Mr. Majoros discusses the history of Duke Kentucky's use of the ELG procedure and cases before this Commission in which ELG was proposed and in which he participated.

a. Explain the relevance to this proceeding of the Commission's approval of the ELG procedure for Duke Kentucky having occurred in a case, Case No. 2001-00092,[1] in which Mr. Majoros did not testify.

b. Mr. Majoros references the recent rate cases of Louisville Gas and Electric Company and Kentucky Utilities Company which were settled and in which he testified against the use of the ELG procedure. The settlement agreements in those cases specifically required the continuation of the ALG procedure. Identify all cases in which Mr. Majoros participated and in which use of the ELG procedure was an issue

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

before the Commission when the case did not result in a settlement under which the ALG procedure was to be continued.

7. Refer to pages 9–13 of the Majoros Testimony where Mr. Majoros discusses his proposed "cost of removal inflation adjustment." Provide a list of all cases before state regulatory commissions in which Mr. Majoros has presented similar recommendations on cost of removal and identify in which of those cases the commission adopted his recommendations.

8. Refer to pages 19–24 of the Majoros Testimony in which he discusses the implications of Statement of Financial Accounting Standards 142, non-legal Asset Retirement Obligations ("ARO"), and related creation of a regulatory liability. Identify any prior Kentucky cases in which Mr. Majoros submitted similar testimony on these same issues.

9. Refer to pages 26–27 of the Majoros Testimony where he provides his opinion on the impact of the United States moving from Generally Accepted Accounting Principles to International Financial Reporting Standards in the future. Identify all U.S. regulatory proceedings in which Mr. Majoros has filed similar testimony and the final commission orders in those proceedings.

10. Refer to pages 30–31 of the Majoros Testimony, specifically, to the references to the Pennsylvania utilities and the New Jersey utility cases in which Mr. Majoros cites the regulatory liability treatment or the amortization of non-legal AROs.

a. Verify whether the decisions by the Pennsylvania Public Utility Commission affecting the utilities identified by Mr. Majoros occurred in cases in which he testified in favor of treatment generally consistent with what was approved.

b. Verify whether the New Jersey cases cited by Mr. Majoros, which resulted in settlements, were cases in which he testified on behalf of the New Jersey Rate Counsel/Advocate.

c. Identify commissions other than those in Pennsylvania and New Jersey that have accepted Mr. Majoros' recommendations regarding the treatment of non-legal AROs for ratemaking purposes. For all cases related to such acceptances, provide Mr. Majoros' testimony and the commission orders.

11. Refer to Exhibit_(MJM-10). Provide a modified version of the exhibit based on the continued use of the ELG procedure, but which reflects the impact of Mr. Majoros' adjustment to eliminate future inflation from the cost-of-removal component of Duke Kentucky's depreciation rates.

12. Refer to pages 13–14 and footnote 1 of the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"). Provide the December 2008 Dobbs, Jang and Koeller study referenced in the footnote.

13. Refer to Exhibit_JRW-3, page 1 of 5, to the Woolridge Testimony. Provide the underlying data in an Excel spreadsheet for both panels.

14. Refer to pages 14–15 and Exhibit_JRW-4 of the Woolridge Testimony. Provide the most recent company profiles as published in the Value Line Investment Survey.

15. Refer to page 21 of the Woolridge Testimony. Provide the Benjamin Esty study referenced in footnote 3.

16. Refer to pages 32–35 and Exhibit_JRW-10, pages 3–4 of the Woolridge Testimony.

a. Explain why blending the 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.

17. Refer to pages 43–44 and Exhibit_JRW-11, pages 5–6, of the Woolridge Testimony. Provide copies of the papers referenced in footnote 11.

18. Refer to Exhibit_JRW-11, page 5 of 11, of the Woolridge Testimony. A few 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 entry that was published prior to 2008, explain why it is still valid for use in current risk-premium analysis.

19. Refer to Exhibit_JRW-11, page 6 of 11, of the Woolridge Testimony, which references several recent studies. It is not clear that either the purpose or the results of the studies were intended to be directly comparable to one another or to be used as they have been within the context of a regulated utility rate case.

a. Provide each study listed on page 6.

b. Explain why it is appropriate to use geometric means in calculating equity risk premiums in the context of this case.

c. Explain the appropriateness of using 1.94 percent as a credible measure of an equity risk premium in the context of this rate case.

d. If the Ibbotson Stocks, Bonds, Bills, and Inflation yearbook 2009 contains any discussion of estimating and using the ex ante approaches and/or a discussion comparing the ex ante and historical approaches to calculating risk premiums, provide those discussions.

20. Refer to Exhibit_JRW-11, page 11 of 11, of the Woolridge Testimony. Provide the table in Excel spreadsheet form with all formulas intact and unprotected.

21. Refer to page 9 of the Direct Testimony of Glenn A. Watkins ("Watkins Testimony"). Starting at line 18, Mr. Watkins provides a quote from Dr. James Bonbright's Principles of Public Utility Rates as follows:

> . . . there remains a choice as to the unit of service to which the uniform rate shall be applied. Among a variety of alternatives, three receive closest consideration: a uniform charge per customer; a uniform charge per unit of energy (kilowatt-hour); and a uniform charge per unit of the customer's maximum monthly kilowatt demand.
>
> Uniformity of charge per customer (say, $10 per month for any desired quantity of service) has charm in avoiding metering costs. Nevertheless, it is soon rejected because of its utter failure to recognize either cost differences or value-of-service differences between large and small customers.

Given that Duke Kentucky will retain a volumetric delivery charge and recover its gas commodity costs through a volumetric charge under its proposal, explain how the quote, which deals with using one of the three uniform rates to the exclusion of the other two, is applicable in this case.

22. Refer to page 18 of the Watkins Testimony. Mr. Watkins states that a "surcharge" mechanism within base rates may not be legal. Confirm that Mr. Watkins supports Duke Energy's proposal to include the gas-cost portion of uncollectible expense through the gas-cost-recovery mechanism.

23. Refer to the Watkins Testimony, Schedule GAW_4.

a. Refer to either page 1 or 2. Under the Operation and Maintenance Expenses section, explain how the "Total Customer Account Excl. Uncoll." of $2,346,354 was calculated.

b. Refer to pages 1 and 2. Under the Revenue Requirement section, explain how the "Interest" and "Equity Return" amounts were calculated.

c. Refer to either page 1 or 2. Under the Revenue Requirement section, explain how the uncollectible percentage of .3042 percent was calculated.

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DATED OCT 2 6 2009

cc: All parties

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