

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES)
OF DELTA NATURAL GAS) CASE NO. 9059
COMPANY, INC.)

O R D E R

On December 21, 1984, the Commission issued an Order in this proceeding wherein it granted Delta Natural Gas Company, Inc., ("Delta") a rate increase in the amount of \$1,337,697. On January 10, 1985, Delta filed a motion for rehearing on eight of the issues discussed in the Commission's Order. On January 18, 1985, the Office of the Attorney General filed a response to Delta's motion wherein it recommended complete denial of the request for rehearing.

The first issue raised by Delta concerned the Commission's decision to limit Delta's expense for wages and salaries to the actual test year amounts, for rate-making purposes. Delta contends, contrary to the findings of the Commission's Order, that its post-test year wage and salary adjustments represent fixed, known and determinable amounts and are proper adjustments to actual test year expenses. The Order of December 21, 1984, expressed the Commission's concerns regarding Delta's post-test period adjustments and its overall level of compensation to employees. Delta's request for rehearing merely reiterated the

arguments raised in its brief which the Commission has previously considered. Therefore, rehearing on this issue is denied.

Delta requested rehearing on the issue of its adjustments to pension expense and right-of-way clearing expense which were filed 2 days prior to the hearing in this case. In its request for rehearing, Delta maintained that these adjustments reflect known and determinable amounts based on audited financial statements for its fiscal year ended June 30, 1984. The Commission does not dispute the basis for these adjustments; it does, however, continue to find that such out-of-period adjustments are not consistent with the matching concept of a historical test year. In addition, the Commission continues to be of the opinion that the adjustments themselves, or the intent of Delta to propose such adjustments, were not made known in a timely manner that would have afforded the parties to this case an adequate opportunity to consider these issues. Rehearing on this issue is, therefore, denied.

The third issue raised by Delta concerned the Commission's disallowance of the test year expense of \$45,583 incurred for an organizational and compensation study conducted for Delta by Stone & Webster Management Consultant, Inc. ("Stone & Webster"). In its Order of December 21, 1984, the Commission found this to be a non-recurring expense which, due to Delta's decision to record the full amount as an operating expense of the test period, would not impact future periods. In its motion for rehearing, Delta reiterated how it made use of the study and stated that it was limited in its accounting treatment of the cost of the study by Generally

Accepted Accounting Principles, specifically Statement of Financial Accounting Standards No. 71 that applies to regulated entities.

The Commission continues to be of the opinion that Delta should not be allowed to include the full amount of the study's cost as an expense for rate-making purposes. However, after reconsideration of this matter the Commission is of the opinion that amortization of the cost of the study, for rate-making purposes, is appropriate. The Commission remains convinced that, generally speaking, non-recurring expenses should not be considered for prospective rate recovery; however, in this instance the Commission recognizes the benefits of the study and the fact that the study was performed in response to the Commission's criticism of Delta in previous rate cases. Therefore, for rate-making purposes the Commission will recognize the amortization of this amount over a 3-year period which increases Delta's revenue award by \$15,194.

The fourth issue raised by Delta concerns the Commission's calculation of depreciation expense. Delta contends that the Commission erred in its calculation and understated depreciation expense by \$16,800. The Commission has reviewed this matter and agrees that the error in question was, in fact, made. Delta's revenue award, therefore, is increased by \$16,800.

Finally, Delta requested rehearing on four issues currently on appeal in Franklin Circuit Court in Delta Natural Gas Company, Inc. vs. Public Service Commission, No. 82-CI-1487 and 83-CI-0123.

These issues, which involve post-test year construction expenditures, accelerated recovery of excess tax deferrals, interest synchronization and plant acquisition adjustments, represent standard rate-making practices used by the Commission. Delta's petition for rehearing offered no new arguments on those issues, but, instead, incorporated the arguments presented in its current court case. Therefore, based on Delta's petition for rehearing, the Commission finds no reason to grant rehearing on these issues. However, the Commission, as evidenced by the separate opinions issued by two of the Commissioners, is interested in the issue of the rate-making treatment of Delta's plant acquisition adjustments and, therefore, will grant a rehearing on that matter. Therefore, Delta is hereby given 30 days in which to file testimony or present other proof on this matter in response to the concerns expressed in the separate opinions of Chairman Richard Heman and Commissioner Laura Murrell.

SUMMARY

Based on the issues presented in the petition for rehearing and the evidence of record and being advised, the Commission is of the opinion and finds that:

1. Delta's revenue award should be increased by \$31,994 to reflect the Commission's findings on issues 3 and 4 addressed herein.

2. The rates and charges in Appendix A will generate the additional revenue authorized herein.

3. A rehearing should be granted on the issue of the appropriate rate-making treatment for Delta's plant acquisition adjustment.

4. All other issues presented in Delta's motion for rehearing should be denied.

IT IS THEREFORE ORDERED that Delta's revenue award be increased by \$31,994 based upon Finding No. 1.


IT IS FURTHER ORDERED that the rates and charges in Appendix A shall, to the extent of their differences, supersede the rates authorized in the Commission's Order of December 21, 1984, and are hereby approved for service rendered by Delta on and after the date of this Order.

IT IS FURTHER ORDERED that Delta is granted rehearing on the issue of the appropriate rate-making treatment for its plant acquisition adjustment and that Delta shall file testimony or additional proof on this issue within 30 days from the date of this Order.

IT IS FURTHER ORDERED that all other issues presented in Delta's motion for rehearing be and they hereby are denied.

Done at Frankfort, Kentucky, this 30th day of January, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

AMENDED APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9059 DATED JANUARY 30, 1985

The following rates and charges are prescribed for the customers served by Delta Natural Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

The following rates and charges have incorporated all changes through PGA Case No. 8528-L:

RATES SCHEDULES

AVAILABILITY

Available for general use by residential, commercial, and industrial customers who purchase their entire natural gas requirements from Delta.

RATES

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total Rate</u>
	plus		equals
General Service			
Monthly Customer Charge			\$3.90
1 - 1,000 Mcf	\$1.9739	\$4.2948	\$6.2687 per Mcf
1,001 - 5,000 Mcf	1.8311	4.2948	6.1259 per Mcf
5,001 - 10,000 Mcf	1.5311	4.2948	5.8259 per Mcf
Over 10,000 Mcf	1.2311	4.2948	5.5259 per Mcf
Interruptible (2)			
1 - 1,000 Mcf	\$1.7239	\$4.2948	\$6.0187 per Mcf
1,001 - 5,000 Mcf	1.5811	4.2948	5.8759 per Mcf
5,001 - 10,000 Mcf	1.2811	4.2948	5.5759 per Mcf
Over 10,000 Mcf	0.9811	4.2948	5.2759 per Mcf