

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA)
NATURAL GAS COMPANY, INC.) CASE NO. 9331

O R D E R

IT IS ORDERED that Delta Natural Gas Company, Inc., ("Delta") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record, by July 19, 1985, or within 2 weeks after the date of this Order, whichever is later. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. If neither the requested

information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

1. According to the response to Item No. 16 of the Commission's first data request, Delta stated on page 10 that Account No. 367--Transmission Mains, in the amount of \$6,156,808, and Account No. 376--Distribution Mains, in the amount of \$14,414,815, are each depreciated at a 3 percent rate, or 33-year useful life. Please provide the basis for the use of a 3 percent depreciation rate. Please provide a copy of any current depreciation studies in support of this rate. Please also provide a breakdown of each of the above accounts according to the kinds of pipe (uncoated steel pipe, coated steel pipe, and plastic pipe).

2. According to the prefiled testimony of Mr. Kohnle, Delta has proposed adjustments of \$91,454 and \$171,523 annually to operations and maintenance expenses for the normalization of test-period wages and for a proposed 5 percent merit wage increase. The Commission, in its Final Order in Case No. 9059, found adjustments of this nature: "...to represent speculative conditions which, due to the post-test period nature of the vacancies, violate the concepts of the historic test period and the matching of revenues and expenses." Please provide any evidence or reasoning which is contrary to the normalization adjustment of \$91,454 being speculative.

Please also provide any evidence or reasoning which is contrary to the merit wage increase of \$171,523 violating the concepts of the historic test period and the matching of revenues and expenses.

3. According to the response to Item No. 16 of the Commission's first data request, Delta stated on page 4 that the \$91,454 wage normalization adjustment was for annualization of payroll rates and personnel at March 31, 1985. Usually a corporation does not have all job positions filled throughout an entire year due to normal attrition and the seasonal nature of some positions. Please provide at test-period end wage rates the amount and time period of seasonal wage costs and the related benefits costs.

For non-seasonal personnel, please provide at test-period end wage rates the amount of annualized wage and benefit cost at the lowest level of job positions filled during the test period.

Please also provide for non-seasonal personnel the amount of annualized wage and benefits costs at test-period end wage rates for the highest level of job positions filled during the test period.

In the alternative, Delta may provide for non-seasonal personnel at test-period end wage and benefit rates the monthly wage and benefits costs for those job positions actually filled during the respective month.

4. In reference to Mr. Kohnle's prefiled testimony, the normalized income tax expense for the test period and the adjusted income tax expense stated in Exhibit A apparently do not consider permanent tax timing differences and/or State and Federal surtax exemptions. Please provide a schedule of all permanent differences, including gross amount and tax effect, between operating expense items per books and operating expense items per

test-period pro forma tax return. This schedule should include, if appropriate, but not limited to, the following items:

- a. Amortization of good will;
- b. Amortization of acquisition adjustments;
- c. Allocation of percentage depletion versus allocation of cost depletion; and
- d. Depreciation to salvage value under straight line depreciation versus tax depreciation to zero salvage.

Please also provide for the test period a schedule of all tax credits, amortizable, allocated or otherwise available, which create a permanent reduction in Federal or State income taxes. This schedule should include, if appropriate, but not necessarily limited to, the following items:

- a. Amortization of investment tax credits;
- b. Targeted job tax credits;
- c. Allocation of research activities credits;
- d. Special fuels credits;
- e. Credit for certain uses of gasoline and special fuels;
- f. Amortization of job development tax credits;
- g. Amortization of rehabilitation tax credits; and
- h. Credits for employee stock ownership plans.

5. In reference to pages 8 and 9 of Mr. Kohnle's prefiled testimony, it is stated that the 5 percent wage increase scheduled for July, 1985, "...is to provide for merit increases..." and that "...this increase will be allocated employee-by-employee depending upon evaluations and circumstances..." Pay raises of this nature

are usually awarded for exceptional service or cost savings. What cost savings or service improvements has Delta realized or expects to realize for which the pay increase is compensation? Please quantify all cost savings.

6. The information provided in response to Item No. 18 of the Commission's first request states that Customer Collection and Records, Account No. 9032, increased from approximately \$89,000 in the prior year to \$107,000 during the test period, or approximately 20 percent. Please provide a thorough explanation of the apparent 20 percent increase in this cost.

Please also provide a detailed explanation of the \$20,000 credit balance for April, 1983.

7. In reference to the same Commission item, Medical Coverage, Account No. 9264, increased from approximately \$180,000 to \$226,000, or an increase of approximately 25 percent. Please provide a thorough explanation of the 25 percent increase.

8. Director's fees have increased approximately 117 percent, from \$17,000 to \$37,000, during the test period. Please provide a thorough explanation of the necessity of this increase.

Please also provide for each director the dollar amount and description of fees, salary, benefits, or other compensation received during the test period.

9. Right-of-Way Clearing, Account No. 856, increased 317 percent, from \$17,000 to \$71,000, during the test period. Please provide a thorough explanation of the 317 percent increase of this cost.

10. Customer and Public Information, Account No. 9309, increased approximately 84 percent, from \$19,000 to \$35,000. Please provide a thorough explanation of the increase in this account.

Please also provide for August of the test period a breakdown of this account. This breakdown should include the vendor, a description of the asset or service acquired, the business purpose and the dollar amount. Like items individually less than \$50 may be grouped together with analogous information as requested above.

11. Meters and Regulators Other, Account No. 8932, increased approximately 38 percent, from \$47,000 to \$65,000, during the test period. Please provide a narrative thoroughly explaining the necessity of the \$18,000 increase.

Please also provide an explanation of the \$10,000 credit balance in April, 1983.

12. According to page 7 of the response to Item No. 16 of the Commission's first data request, Delta is requesting \$156,332 in additional revenue, or \$311,692 annually for insurance costs. Please provide for the three policies listed the individual costs during the test period.

Please also provide for the liability coverage effective March 9, 1985, and the renewal premiums effective May 5, 1985; a comparison of the terms and price of these items as accepted and the terms and prices of policies rejected.

13. Provide detailed specific examples of the benefits to customers from the capital expenditures to replace or upgrade

existing facilities as stated on page 10 of Mr. Jennings' testimony.

14. Identify the industrial customers that the company has lost to alternative fuels during the last 2 years. Identify the alternate fuel these customers are using. Provide information on any efforts that were made to keep these customers on the Delta Natural Gas Company's system. (Mr. Jennings' testimony, page 17.)

15. Does Delta own directly or through an affiliate any natural gas reserves in Kentucky? If so, identify field, reserve capacity and reliability of reserve estimate. (Mr. Jennings' testimony, page 14.)

16. Identify the three customers of Delta Resources, Inc., and the services that they are being provided. (Mr. Jennings' testimony, page 19.)

17. Provide workpapers showing the calculation of the 9.74 percent imbedded cost of fixed rate long-term debt, shown on page 9 of Mr. Hall's prefiled testimony.

18. Provide workpapers showing the calculation of the 12 percent cost of variable rate long-term debt, also shown on page 9.

19. Provide the workpapers used to calculate the average price per share and the average retention ratio, as shown in Hall Exhibit B-1.

20. Why hasn't Delta proposed a weather adjustment in this case?

21. Refer to Kohnle Exhibit A; provide a breakdown of the \$30,181,156 per book operating revenue.

22. Refer to Notice Exhibits B-2 and B-3; what is the proposed rate in the first block of the General Service Schedule?

Done at Frankfort, Kentucky, this 10th day of July, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Hemmings
For the Commission

ATTEST:

Secretary