COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.	))	CASE NO. 90-342

O R D E R

IT IS ORDERED that Delta Natural Gas Company, Inc. ("Delta") shall file the original and 12 copies of the following information with the Commission by April 3, 1991, with a copy to all parties of record. 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 ensure 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.

1. Provide a reconciliation between the net investment rate base and the capitalization for Kentucky jurisdictional operations only. Explain the reasons for the differences in the Kentucky

jurisdictional rate base and Kentucky jurisdictional capitalization and recompute the return on rate base and capital provided by the requested rate increase.

2. Explain the nature of the extension agreements disclosed in the response to Item 3 of the Commission's Order of February 6, 1991. Additionally, provide an explanation as to why the amounts associated with these extension agreements should not be accorded the same rate base treatment as the customer advances recorded in Account No. 252.

3. Concerning the Trial Balance provided in response to the Commission's November 20, 1990 Order, Item 8, provide an explanation of the purpose of the fuel stock propane. In addition, provide the volume of fuel stock propane on hand as of:

a. The test-year-end;

b. the end of each month during the test year; and

c. the end of the three previous fiscal years.

4. Concerning the response to Item 4 of the Commission's Order of February 6, 1991, provide a detailed analysis of the clearing accounts included in the prepayments as shown in Exhibit A of John Hall's January 11, 1991 prefiled testimony. Additionally, provide justification for including clearing account amounts in rate base.

5. Concerning the response to Item 10 of the Commission's Order of February 6, 1991, explain the basis for including Customer Deposits in the computation of the required Operating Income of $3,838,314.

6. Concerning the response to Item 12 of the Commission's Order of February 6, 1991, provide the following:

a. The accounting treatment accorded the interest income received from the officer.

b. The amount of interest income received from the officer in the test year.

c. A copy of the board minutes where the note was approved;

d. Explain how the 8 percent interest rate set forth in the note was established as the appropriate level of interest to be charged on the note outstanding to the officer; and

e. A detailed explanation of the allocation methodology, as well as the amounts allocated during the test year, related to the note receivable outstanding to the officer and the $1,000 per month that is forgiven the officer.

7. Concerning the response to Item 13 of the Commission's Order of February 6, 1991, provide the date the dividend was actually paid to the parent.

8. Concerning the response to Item 14 of the Commission's Order of February 6, 1991, provide the following:

a. The accounting treatment accorded the $2,110 in revenue received from non-utility property rental.

b. A copy of the property tax bills for the calendar years 1989 and 1990.

9. Concerning the response to Item 17 of the Commission's Order of February 6, 1991, subpart a, provide the test-year expense related to the following categories:

a. Incentives;

b. Cash rebates;

c. Venting and piping allowances.

10. Concerning the response to Item 18, subparts b, c, and e of the Commission's Order of February 6, 1991, explain the purpose of the leased Tranex line.

11. Concerning the Tranex lease, provide a detailed breakdown of the revenues received and expenses incurred during the test year relating to the Tranex line.

12. Concerning the response to Items 23 and 24 of the Commission's Order of February 6, 1991, provide the total amount allocated to each of Delta's subsidiaries. This total should be broken down to reflect the information originally requested in Items 23 and 24.

13. Provide a detailed breakdown of each of Delta's officer's total compensation for the test year including base salary and all benefits.

14. Identify each officer of Delta who also performs services for any or all of Delta's subsidiaries. In addition, describe the methodology and amounts of each officers' total compensation that was allocated to each subsidiary during the test year.

15. Concerning the response to Item 30 of the Commission's Order of February 6, 1991, provide the Balance Sheet for the Kentucky jurisdictional operations as of June 30, 1990 as was originally requested.

16. Concerning Delta's response to Item 6 of the Commission's Order of February 6, 1991, provide the following:

a. all workpapers supporting the payroll dollars and hours;

b. the salary or wage level for each employee or employee class at both the beginning of the test year and the end of the test year;

c. the percentage increase for each employee classification that occurred during the test year; and

d. a detailed explanation for the differences between the total payrolls shown at test-year-end, at June 30, 1990, and at July 1, 1990.

17. In response to Item 29 of the Commission's February 6, 1991 Order, Delta indicated that a number of accounts require adjustment to reflect Kentucky jurisdictional operations only. Provide a detailed analysis of each account that requires such an adjustment including the amount of the adjustment necessary and the justification for the adjustment.

18. Provide a complete detailed breakdown of the uses of the proceeds of the $6,850,000 in Notes Payable outstanding as of the end of the test year. Additionally, provide a copy of the letter of credit that Delta has used to fund this debt.

19. Concerning Delta's response to the Attorney General's ("AG") first data request, Item 14, provide all workpapers supporting the actual short-term interest rates provided.

20. In light of Delta's response to Item 14 of the AG's first data request, explain why Delta used 10 percent as its cost

of short-term debt in computing its cost of capital in John Hall's prefiled testimony, Exhibit B.

21. Provide a detailed analysis of the test-year interest expense totalling $1,733,672 as shown in John Hall's prefiled testimony, Exhibit D. In addition, reconcile this amount with the amounts disclosed in Item 2 of the Commission's November 20, 1990 Order.

22. Concerning Delta's regulated and nonregulated businesses, identify all allocated costs, the portion allocated to each company, complete details of the methods of allocation and justification for the amount and the method used.

23. Provide an explanation of how Delta accounts for intercompany sales or transfers of assets. Include with this explanation a copy of any policies or procedures established by Delta to ensure that inappropriate transfers or purchases from an affiliate are not made.

24. Explain Delta's policy regarding dividend payments. This explanation should include a copy of any written policy Delta has established to safeguard the utility's capital structure.

25. In response to Item 37 of the Commission's Order dated February 6, 1991, Delta shows 48,815 bills in the "Other" rate classification. Provide a breakdown of these bills by number of commercial and industrial bills.

26. Notice Exhibit D shows normalized Mcf volumes for the total general service rate classification. Provide the normalized Mcf sales broken down by residential, commercial, and industrial customers.

27. In response to Item 43 of the February 6, 1991 Order, Delta stated that its allocation of revenue within rate blocks was primarily a factor of meeting market demands. Explain why providing declining block rates with greater rate breaks is preferable for meeting market demands as opposed to establishing different rate schedules for each of the various rate classes, e.g., residential, commercial, and industrial.

28. In response to the February 6, 1991 Order, Delta has provided its shareholders' report. Pages 5-6 include a discussion of gas leases purchased by Enpro. Provide the date Enpro purchased these leases. Also provide the price of the gas supplied to Delta from these leases immediately prior to the purchase by Enpro.

29. In response to Item 43 of the Commission's Order dated February 6, 1991, it is stated that, (1) current Interruptible volumes at the current Interruptible rates produced an average margin of $1.588 per Mcf, and (2) the cost-of-service study demonstrated that the fully-allocated rates should produce an average margin of $0.893 per Mcf for the Interruptible class. Explain fully how each of these "margins" were determined or calculated. Provide supporting workpapers.

30. Provide a complete explanation and an example of the phrase, "[t]he difference between the revenues generated by the proposed interruptible rate and the revenues suggested by the cost of service study were thus credited to the General Services class," as stated in response to Item 43 of the Commission's Order dated February 6, 1991.

31. In response to Item 43 of the February 6, 1991 Order, Delta states that it is proposing to move 50 percent in the direction of cost-based rates. With reference to this proposal, provide workpapers detailing how one-half of the difference between the margin for current rates and the margin for fully allocated rates for the interruptible class ($0.3475) was used to determine proposed rates.

32. Reconcile the difference between long-term debt at June 30, 1990 shown as $13,014,002 in Delta's response to the Commission's Order dated November 20, 1990, Item I and $12,383,977 in the Direct Testimony of John F. Hall, Exhibit B.

33. Reconcile the difference between short-term debt at June 30, 1990 shown as $6,850,000 in Delta's response to the Commission's Order dated November 20, 1990, Item 1 and $6,518,393 in the Direct Testimony of John F. Hall, Exhibit B.

34. Reconcile the difference between common equity at June 30, 1990 shown as $15,369,126 in Delta's response to the Commission's Order dated November 20, 1990 and $14,625,110 in the Direct Testimony of John F. Hall, Exhibit B.

35. Reconcile the difference between customer deposits at June 30, 1990 shown as $370,115 in Delta's response to the Commission's Order dated November 20, 1990 and $352,198 in the Direct Testimony of John F. Hall, Exhibit B.

36. Reference the Direct Testimony of John F. Hall, Exhibit B. Why has Delta included customer deposits as a component of its capital structure? Is Delta aware of any other instances where

the Commission has included customer deposits as a component of a utility's capital structure?

37. Reference the Direct Testimony of John F. Hall. Why is the Federal Energy Regulatory Commission's benchmark growth rate an appropriate estimate of the average investor's growth expectations for Delta?

38. Reference the Direct Testimony of John F. Hall. Provide an explanation of the derivation of the amount of the adjustment to the dividend yield for issuance costs.

Done at Frankfort, Kentucky, this 20th day of March, 1991.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director