

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL)
GAS COMPANY, INC. FOR A CERTIFICATE)
OF CONVENIENCE AND NECESSITY TO) CASE NO. 91-022
CONSTRUCT A NATURAL GAS DISTRIBUTION)
SYSTEM IN BEATTYVILLE, KENTUCKY)

O R D E R

On January 18, 1991, Delta Gas Company, Inc. ("Delta") filed with the Commission its application seeking a Certificate of Convenience and Necessity to construct a natural gas transmission and distribution system to provide gas to Beattyville, Kentucky.

The Commission by Order entered March 27, 1991 granted Delta a Certificate of Convenience and Necessity to construct the gas transmission and distribution system in Beattyville, Kentucky.

On February 20, 1992, Delta filed with the Commission its motion for confirmation of the Commission's March 27, 1991 Order indicating the cost of constructing the Beattyville gas system is substantially increased from its original cost estimate of \$808,750 to \$1,500,000. Additional information is needed in order to consider Delta's motion for confirmation of the Commission's March 27, 1991 Order.

IT IS THEREFORE ORDERED that within 10 days of the date of this Order Delta shall file 7 copies of the following information:

1. One copy of each of the bids received by Delta from the construction contractors for the construction of the Beattyville gas system.

2. A breakdown of the estimated cost for the construction of the transmission and distribution systems separately. The breakdown should include the following:

- a. Design and engineering.
- b. Site preparation and easement.
- c. Material costs derived from vendor's quotations.
- d. Labor costs broken down to man hours and hourly rate.
- e. Other costs.

3. A list of the industrial and commercial customers. Explain how the estimated gas usage for the industrial customers was determined.

4. A chronological schedule for the construction of the transmission and distribution systems.

5. State whether the increase in total costs is caused by any variations in the scope of this project. If so, explain fully.

6. With reference to Delta's motion to the Commission dated February 20, 1992, provide the necessary information for the following:

- a. The inflation rate increase that accounted for the increase in the cost of the project.
- b. The nature of the complications in the river crossing and the cost increase resulting from these complications.
- c. Provide a copy of the project design and engineering, if available.

7. Provide the financial and technical information in your feasibility studies for the Beattyville gas project.

8. In light of the \$3,514 revised incremental net income estimated by Delta to be generated by the proposed expansion, provide an estimate of the payback period for this project. Include with this response all workpapers and assumptions.

9. In light of the revised capital cost of this proposed project, provide an estimate of the incremental rate of return on equity resulting from this proposed expansion. Include with this response all workpapers and assumptions.

10. In the original response to Item 3 filed by Delta on February 28, 1991 to the Commission's February 15, 1991 Order, Delta computed interest cost to reflect both the cost of debt and equity. However, in the motion filed by Delta on February 20, 1992, Delta computed interest on only 50 percent of the capital cost of the project. Provide a detailed narrative explanation for the discrepancy between the two filings. Include with this response an analysis and narrative explanation of the impact of imputing a return on the equity investment made by Delta on this proposed project.

11. Based on your responses to Items 1-3 above, explain how the proposed expansion is economically feasible and in the best interests of the utility and its existing consumers.

12. With reference to revised Item 3 received on February 20, 1992, provide supporting workpapers for the following:

a. The 2.7 percent average used in deriving the incremental depreciation charge.

b. The other taxes of \$8,050.

c. The 9 percent interest rate used in deriving the estimated interest charge of \$51,750.

Done at Frankfort, Kentucky, this 16th day of March, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director