

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL )  
GAS COMPANY, INC. FOR AN ORDER )  
AUTHORIZING THE PURCHASE OF )  
ALL OF THE ISSUED AND OUTSTANDING )  
STOCK OF THE TRANEX CORPORATION )

CASE NO. 97-140

O R D E R

On July 21, 1997, Delta Natural Gas Company, Inc. ("Delta") filed a Motion for Rehearing of the Regulatory Accounting Issues addressed in the Commission's June 27, 1997 Order. The Motion specifically requests the Commission reconsider and accept Delta's proposed accounting treatment for recording the purchase of the TranEx Corporation ("TranEx"). Delta stated in its Motion that the accounting treatment required under the terms of the Order is not in accordance with generally accepted accounting principles and further is not in agreement with the terms agreed upon by Delta and TranEx. Delta further asserts that, absent modifications to the Commission's required accounting treatment, it will be required to maintain accounting records separately for financial and regulatory reporting purposes. In support of its motion, Delta filed a memorandum prepared by Arthur Andersen, LLP ("Arthur Andersen").

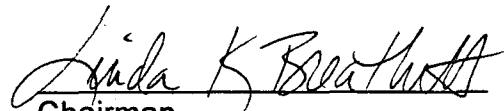
The Commission has reviewed the information provided by Delta and grants Delta its Motion for Rehearing on the Regulatory Accounting Issues. In order to facilitate the review of this issue, the Commission directs Delta to respond to the questions included herein as Appendix A within 20 days of the date of this Order.

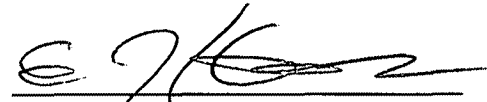
IT IS THEREFORE ORDERED that:

1. Delta's request for rehearing is hereby granted .
2. Delta shall file its responses to the questions attached herein as Appendix A within 20 days of the date of this Order.

Done at Frankfort, Kentucky, this 11th day of August, 1997.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-140 DATED AUGUST 11, 1997

1. Provide all authoritative documentation Delta has to support the proposed accounting treatment.
2. Explain how the treatment requested by Delta results in financial statement disclosure that accurately reflects the utility's regulated operations.
3. Explain how recording a credit acquisition adjustment on Delta's books properly reflects the value of the plant being purchased since the value of the intangible asset giving rise to the acquisition adjustment is derived from utility plant revenues.
4. Explain why Delta has not written down the non-current assets (with the exception of utility plant which must be maintained at original cost in accordance with the Uniform System of Accounts for Natural Gas Utilities ("USoA")) in accordance with paragraph 91 of Accounting Principles Board Opinion No. 16, Accounting for Business Combinations ("APB16"). Include all documentation to justify your response. Additionally, provide the entries that result from applying paragraph 91.
5. Discuss Delta's plans regarding TranEx once the lease between TranEx and Equitable Resources Energy Company expires. Additionally, discuss what impact Delta's proposed accounting treatment will have on its ability to go forward with its plans.
6. During an informal conference with Staff, Delta stated that if TranEx and Delta had not agreed to the Section 338 election referred to in Section 13 of the Stock Purchase Agreement, Delta would have been required to pay \$1,000,000 more for the company. Explain how the impact of this election is reflected in the purchase price and booked value of the plant.