

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS COMPANY) CASE NO.
INC. FOR AN ADJUSTMENT OF RATES) 2004-00067

SECOND DATA REQUEST OF COMMISSION STAFF
TO DELTA NATURAL GAS COMPANY, INC.

Delta Natural Gas Company, Inc. ("Delta") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due on May 27, 2004. 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 person 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, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the Application, Financial Exhibits, Section 6(8), page 6 of 8.
 - a. Explain why Delta has raised the dividend rate twice during the time period shown.
 - b. Given Delta's financial condition, explain why the increases were reasonable.

c. Provide Delta's payout ratio for the test year and for each year since its last rate case.

2. Refer to the Application, Tab No. 9. Explain whether increases of 56.25 percent in the residential customer charge and 60 percent in the large non-residential customer charge are consistent with the concept of gradualism.

3. Refer to the Application, Tab No. 24. Provide detailed calculations of the average monthly bills and the increases presented in the exhibit.

4. Refer to the Application, Tab No. 26. Explain in detail the basis and need for the Correction Factor.

5. Refer to the Application, Tab No. 27, Schedule 7 and Tab No. 28. Explain the difference in the rate base numbers as shown in each response.

6. Refer to the Application, Tab No. 27.

a. Refer to Hall WP-4.1. Provide all workpapers supporting the determination of the annual salaries and wages and the pro forma capitalized wages and subsidiary allocation amounts. At a minimum, the workpapers for salaried employees should include test-year-end salary and any overtime hours. The workpapers for the hourly employees need to include test-year regular and overtime hours worked and test-year-end hourly wage rates by employee. Use of a generic employee identifier is acceptable to protect employee identity.

b. Refer to Schedule 6.

(1) Provide all workpapers supporting the determination of payroll taxes percent of payroll and pro forma payroll adjustment.

(2) Identify the taxes that are included in line 2, Payroll Taxes (A/C 1.408.03).

7. Refer to the Direct Testimony of John F. Hall (“Hall Testimony”), page 3 and the Application, Tab 7. Delta proposes a new tariff to collect \$.003 per Mcf to maintain its contribution level to the Gas Technology Institute for Research and Development (“GTIR&D”).

a. Describe the benefit that Delta expects to receive from GTIR&D through this contribution.

b. Describe the benefit that Delta expects its customers to receive from the contribution.

c. Will the GTIR&D rider appear as a separate line item on customers’ bills? If no, explain why the rider will not appear as a separate line item.

d. The proposed tariff states that Delta will report the amounts remitted to GTIR&D to the Commission on an annual basis. Explain what form the report will take.

e. Provide the amount of the contributions paid to GTIR&D in each of the previous 4 years.

8. Refer to the Hall Testimony, page 5, lines 9 through 11. Explain why the interest on customer deposits was removed from interest expense and included as an operating expense. Also indicate whether this treatment is consistent with previous Commission decisions, and provide citations to any previous Commission Orders authorizing this treatment.

9. Refer to the Direct Testimony of Martin J. Blake (“Blake Testimony”), page 9 and Exhibits MJB-3 and MJB-4. Dr. Blake provides two reasons why he believes that Delta has been unable to earn its allowed Return on Equity (“ROE”), Delta’s low percentage of equity and its predominately rural service territory.

a. For the companies listed in MJB-3, provide the earned ROE for each company for the 12-month period used in the exhibit.

b. Was Dr. Blake able to identify any other factors, such as weather, that had a major effect on Delta’s ability to earn its allowed ROE? If yes, provide a list of the additional factors and a description of the effect of each on Delta’s ability to earn its allowed ROE.

10. Refer to the Blake Testimony, page 11.

a. Dr. Blake states that Delta has increased its equity percentage since the last rate case, but that it is still below the average percentage equity for natural gas distribution companies. Explain specifically what actions Delta has taken that increased its equity percentage.

b. Dr. Blake states that Delta can only improve its equity position if the Commission allows a high enough ROE to accommodate long-term improvement in its equity ratio. Explain specifically what actions Delta plans to take if it is awarded the ROE recommended by Dr. Blake, and describe how those actions will improve its equity percentage.

11. Refer to the Blake Testimony, page 13. Dr. Blake discusses Delta’s predominantly rural service area, and states that rural customers tend to have a lower

annual usage and a larger proportion of temperature sensitive load than urban customers.

a. Provide any reports, studies, or other documentation upon which Dr. Blake relied in making this statement.

b. In Dr. Blake's opinion, why do rural customers have a lower annual usage compared to urban customers?

12. Refer to the Blake Testimony, page 14. Dr. Blake recommends that the Commission incorporate a leverage premium into the rate of return to account for the significant adverse impact that Delta's lower equity ratio imposes on its ability to earn its allowed rate of return.

a. Explain how increasing the ROE award to incorporate this leverage premium would operate as an incentive for Delta to improve its equity position.

b. Provide a copy of the article from *Public Utilities Fortnightly* quoted on page 14.

13. Refer to the Blake Testimony, pages 15 and 16. Dr. Blake discusses competition that Delta experiences from Kentucky Utilities Company ("KU") as a result of KU's low electric rates.

a. Does Delta know of customers it has lost to KU since December 1999, the time of Delta's last rate case? If yes, provide a list of the customers that Delta has lost to KU during that period.

b. Explain how increasing rates further by incorporating leverage and size premiums will help Delta compete against alternative heating sources such as KU.

c. Provide a copy of the article by Fama and French quoted on pages 15 and 16.

14. Refer to the Blake Testimony, pages 16 and 17. Dr. Blake discusses the volatility of gas prices since Delta's last rate case and the effect on Delta of having to fund under-recoveries and deferred gas costs.

a. If Delta revised its Gas Cost Recovery clause to include carrying costs on under-recoveries, would this help mitigate the need to finance under-recoveries with short-term financing? Explain the response.

b. The Union Light, Heat and Power Company ("ULH&P") has expressed a similar concern regarding under-recoveries of gas costs. Is Delta aware that the Commission has approved a 30-month trial whereby ULH&P would file monthly Gas Cost Adjustments in order to help reduce under-recoveries?

15. Refer to the Blake Testimony, pages 18 and 19, and Exhibit MJB 7.

a. Explain why developing a range for the Discounted Cash Flow analysis using the annual high and low stock price during 2003 is more appropriate than using an average stock price over a shorter period of time.

b. Explain why using Delta's earnings growth rate is more appropriate than using Delta's dividend growth rate.

16. Refer to the Blake Testimony, Exhibits MJB-2 through MJB-11. Provide a copy of the source documents referenced in the exhibits.

17. Refer to the Direct Testimony of William Steven Seelye ("Seelye Testimony"). Provide an electronic copy of all exhibits, workpapers, etc.

18. Refer to the Seelye Testimony, pages 16-17. Mr. Seelye discusses the use of the zero-intercept methodology in the cost-of-service studies submitted in Louisville Gas and Electric Company's last two base rate cases and in ULH&P's last gas base rate case. Explain what method Delta employed in its last cost-of-service study.

19. Refer to the Seelye Testimony, page 23 and Seelye Exhibit 8. Delta lost 420 customers between December 31, 2002 and December 31, 2003, the majority being residential customers. In Mr. Seelye's opinion, what accounts for the loss of these customers?

20. Refer to the Seelye Testimony, page 24 and the Application, Tab 8. Delta is proposing to increase the reconnection charge from \$40 to \$48. Provide the cost justification for the increase. Include all workpapers, assumptions, etc.

21. Refer to the Seelye Testimony, page 26. Mr. Seelye discusses the need to keep rates competitive for large commercial and industrial customers. He states that it benefits small commercial and residential customers to retain larger customers because they help defray the fixed costs that smaller customers would otherwise have to incur. Since the majority of the customers lost in 2003 were residential and small commercial, provide Mr. Seelye's opinion of the effect the requested increase will have on Delta retaining its residential and small commercial customers.

22. Refer to the Seelye Testimony, Exhibit 7.

a. Explain why the depreciation study makes no reference to the Statement of Financial Accounting Standards ("SFAS") No. 143 or to the Federal Energy Regulatory Commission's ("FERC") Order 631.

b. Describe the impacts of SFAS No. 143 and FERC Order 631 on Delta's depreciation expense.

23. Refer to Delta's Response to Commission Staff's First Data Request dated March 17, 2004 ("Staff's First Request"), Item 16, page 1 of 2. Describe the reason(s) for the change in the account balances between December 31, 2002 and December 31, 2003 for Account No. 107, Construction Work in Progress.

24. Refer to Staff's First Request, Item 18. For each revenue account listed below, describe the reason(s) for the change in the account balance between December 31, 2002 and December 31, 2003:

- a. Account No. 1480010 – GS Rate Sales Residential, page 1 of 3.
- b. Account No. 1480020 – GS Rate Sales Other Commercial, page 1 of 3.
- c. Account No. 1480030 – GS Rate Sales Industrial, page 1 of 3.
- d. Account No. 1480040 – GS Rate Sales Small Commercial, page 1 of 3.
- e. Account No. 1480060 – WNA Residential, page 1 of 3.
- f. Account No. 1480070 – WNA Small Non-Residential, page 1 of 3.
- g. Account No. 1481030 – Interruptible Rate Industrial, page 2 of 3.
- h. Account No. 1488010 – Collection Revenue, page 2 of 3.

25. Refer to Staff's First Request, Item 20. For each expense account listed below, describe the reason(s) for the change in the account balance between December 31, 2002 and December 31, 2003:

- a. Account No. 1403000 – Depreciation Expense, page 1 of 127.

- b. Account No. 1410000 – Deferred Income Taxes, page 12 of 127.
- c. Account No. 1427000 – Interest on Long-Term Debt, page 20 of 127.
- d. Account No. 1428000 – Amortization of Debt Expenses, page 21 of 127.
- e. Account No. 1431020 – Interest on Short-Term Debt, page 23 of 127.
- f. Account No. 1754020 – Compressor Station Miscellaneous, page 28 of 127.
- g. Account No. 1803000 – Purchased Gas, page 33 of 127.
- h. Account No. 1821000 – CM Purification of Natural Gas, page 38 of 127.
- i. Account No. 1832020 – CM Maintenance of Reservoirs and Wells – Miscellaneous, page 43 of 127.
- j. Account No. 1880030 – Operations Office Miscellaneous, page 53 of 127.
- k. Account No. 1880040 – Fees Training Schools, page 54 of 127.
- l. Account No. 1887010 – Mnt. Trans. & Dist. Mains Payroll, page 60 of 127.
- m. Account No. 1900030 – Small Tools and Work Equipment, page 71 of 127.
- n. Account No. 1903020 – Customer Collections and Records, page 73 of 127.

- o. Account No. 1904000 – Uncollectible Accounts, page 74 of 127.
- p. Account No. 1920010 – Administrative Payroll, page 76 of 127.
- q. Account No. 1921050 – Small Supply Items, page 81 of 127.
- r. Account No. 1921060 – Miscellaneous Other Items, page 82 of 127.
- s. Account No. 1921300 – Computer Equipment Operations, page 95 of 127.
- t. Account No. 1922000 – Expenses Transferred – page 96 of 127.
- u. Account No. 1923020 – Outside Services Accounting, page 98 of 127.
- v. Account No. 1923040 – Outside Services Other, page 100 of 127.
- w. Account No. 1923050 – Outside Services Computer, page 101 of 127.
- x. Account No. 1924000 – Insurance, page 102 of 127.
- y. Account No. 1926010 – Time Off Payroll, page 103 of 127.
- z. Account No. 1926020 – Pension, page 104 of 127.
- aa. Account No. 1926030 – Employee 401K Plan, page 105 of 127.
- bb. Account No. 1926040 – Medical Coverage, page 106 of 127.
- cc. Account No. 1930010 – Director Fees and Expenses, page 112 of 127.
- dd. Account No. 1932050 – Maintenance Computer Equipment, page 127 of 127.

26. Refer to Staff's First Request, Item 21. Provide the requested information for each of the 4 previous calendar years.

27. Is Delta eligible to file consolidated income tax returns? If yes, provide Delta's effective Kentucky income tax rate for each of the last 4 tax years.

28. Refer to Staff's First Request, Item 27. Concerning Directors' Fees and Expenses,

a. Provide Delta's policies specifying the compensation of directors and a schedule of standard directors' fees, per diems, and other compensation in effect during the test year. If changes occurred during the test year, indicate the effective date and the reason for the changes.

b. Identify the nature and purpose of the payment made to each director on August 19, 2003 as shown on pages 1 through 6 of 25.

c. Identify the nature and purpose of the expense item shown on page 1 of 25, line 1. Explain why this expense should be included for rate-making purposes.

29. Refer to Staff's First Request, Item 27, page 8 of 25, lines 197 through 200. Describe the nature and purpose of the expenses identified as Incentives.

30. Refer to Staff's First Request, Item 27, pages 10 through 12 of 25, lines 227 through 277. Describe the nature and purpose of these expenses and explain why these expenses should be included for rate-making purposes.

31. Refer to Staff's First Request, Item 27, pages 20 through 23 of 25, lines 481 through 568. Describe the nature and purpose of these expenses and explain why these expenses should be included for rate-making purposes.

32. Refer to Staff's First Request, Item 28. For each gas plant account listed below, describe the reason(s) for the change in the account balance between January 1, 2003 and December 31, 2003:

- a. Account No. 35002 – Storage – Rights of Way, line 14, page 1 of 2.
- b. Account No. 35400 – Compressor Station Equipment, line 23, page 1 of 2.
- c. Account No. 36700 – Mains, line 32, page 1 of 2.
- d. Account No. 36800 – Compressor Station Equipment, line 33, page 1 of 2.
- e. Account No. 37100 – Other Equipment, line 35, page 1 of 2.
- f. Account No. 37600 – Mains, line 39, page 2 of 2.
- g. Account No. 38000 – Services, line 42, page 2 of 2.
- h. Account No. 38100 – Meters, line 43, page 2 of 2.
- i. Account No. 39000 – Structures and Improvements, line 49, page 2 of 2.
- j. Account No. 39902 – Computer Software, line 60, page 2 of 2.
- k. Account No. 39903 – Computer Hardware, line 61, page 2 of 2.

33. Refer to Staff's First Request, Item 28. Concerning the professional expenses for legal services,

- a. Describe the nature of the expenses described as "General" for Stoll, Keenon & Park, LLP.
- b. For the following items, to the extent possible, identify the nature of the expense and state whether the expense is recurring:

(1) Fulbright & Jaworski, check no. 210596, Columbia small customer group.

(2) Stoll, Keenon & Park, LLP, check no. 211311 and 212069, Appeal – Miles; check no. 212069, Alleghany Energy; check no. 216740, Sarbanes Oxley, 10K and General; check no. 216740, employee benefits; check no. 216856, FAS 143, deed correction, 10K; check no. 216856, HIPPA matters; check no. 217634, stock transfer, Clay City franchise.

(3) Coy, Gilbert & Gilbert, check no. 213096, Retainer fee.

34. Refer to Staff's First Request, Item 28. Concerning the professional expenses for accounting services,

a. Explain the nature of the expense for Farmer & Humble, 2003 Services.

b. Explain the nature of the expenses associated with Sarbanes Oxley and indicate whether the expenses are recurring.

c. Describe the nature of the expense item shown as Accrual for Professional Fees of \$1,374.

35. Refer to Staff's First Request, Item 28. Concerning the professional expenses for other services,

a. Explain why Delta is utilizing four different paging services.

b. Describe the nature of the expense with the following vendors and indicate whether the expense is of a recurring nature:

(1) Capital Link Consultants, Consulting.

(2) Thomas A. Kohnle, Consulting.

- (3) Nancy C. Lethgo, Consulting.
- (4) Tennessee Gas SGS Customer Group, Consulting.
- (5) Eunice Yarber, Consulting.

36. Refer to Staff's First Request, Item 28. Concerning the professional expenses for computer services, describe the nature of the expense and whether the expense is of a recurring nature for the following items:

- a. Cotton and Allen PSC, unbilled revenue project.
- b. Group 1 Software, barcoding maintenance.
- c. IBM, hardware maintenance.
- d. Intrasource, annual hardware maintenance.
- e. Knowledgelake, Inc., software annual maintenance.
- f. Orcom Solutions, Inc., extended support.
- g. Source Imaging LLC, scanning services.
- h. Intrasource, \$6,538, no description given.

37. Refer to Staff's First Request, Item 30.

- a. Did Delta allocate a portion of the employee taxes and benefits as part of the lobbying expenses?
- b. If yes to part (a), provide the calculations and the amount of the allocation.
- c. If no to part (a), explain why Delta did not allocate a portion of the employee taxes and benefits to the lobbying expenses.

38. Refer to Staff's First Request, Item 36. Does the schedule provided reflect the last pay period in the calendar year referenced instead of the entire test year? If the

schedule does not reflect a full year, resubmit the schedule with the originally requested information for the test year.

39. Refer to Staff's First Request, Item 42. The response shows salary increases between 11.2 percent and 19.6 percent for the test year. Provide the reason(s) why the increases were given and explain why the increases were reasonable given Delta's financial condition.

40. Refer to Staff's First Request, Item 46. Provide a description of each benefit provided to Delta's employees. Include all coverage limits and eligibility requirements.

41. Refer to Staff's First Request, Item 50.

a. Provide the calculations to support the entry shown for Item 50(b). Include all assumptions, workpapers, and documents used to prepare the calculation.

b. Explain why Delta is seeking a return on SFAS No. 143 adoption costs by including the costs in the rate base.



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DATED May 11, 2004

cc: All Parties