COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR APPROVAL OF A REVISED GAS COST RECOVERY TARIFF	)))	CASE NO. 2011-00147

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION TO DELTA NATURAL GAS COMPANY, INC.

Delta Natural Gas Company, Inc. ("Delta"), pursuant to 807 KAR 5:001, is to file with the Commission the original and six copies of the following information, with a copy to all parties of record. The information requested herein is due within 20 days from the date of this request. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Delta shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Delta fails or refuses to furnish all or part of the requested information, Delta shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to Delta's response to Item 1 of Commission Staff's First Request for Information ("Staff's First Request").

a. Explain in detail how Delta determined that it finances its gas cost under-recoveries through all sources of capital. Provide the results of any analyses performed by Delta in making this determination.

b. A review of the monthly balance sheets filed with the Commission by Delta shows that, from January 1, 2007 to June 30, 2011, Delta's common equity gradually increased, from \$54.2 million to \$63.8 million, while its long-term debt steadily decreased, from \$58.7 million to \$56.7 million. Over that same period, Delta's short-term debt balance ranged from a high of \$30.7 million in November 2008 to a low of (\$11.5) million in April 2011. Delta's short-term debt balances were consistently larger from October 2007 through January 2009, when its Expected Gas Cost ("EGC") was typically \$10 or more per Mcf and its Quarterly Gas Cost ("QGC") (over) and under-recoveries ranged from (\$2,040,000) to \$6,570,000. Given (1) the apparent disconnect between Delta's gas cost over- and under-recoveries and its equity and long-term debt balances, and (2) the apparent relationship between those over- and under-recoveries and its short-term debt balances, explain why it is Delta's position that it uses all sources of capital to finance its over- and under-recoveries.

2. Refer to Delta's response to Item 2 of Staff's First Request. Explain how Delta has "modified the design of the control originally proposed in Wesolosky Testimony." Is this referring to the limitation identified in the last two bullets at the end of the response to Item 6, which discusses limiting the adjustment to the lesser of the difference between the current EGC and the prior quarter's QGC or 10 percent of the current EGC?

a. If yes, explain the rationale of this limiter and the choice of parameters.

b. If no, explain the modification in detail.

3. Confirm that the "sizable uncollectible gas cost balance" referenced in the third paragraph of the response to Item 2 is actually the "unrecovered" gas cost balance.

4. Item 3 of Staff's First Request asked if Delta was aware of any other Kentucky gas distribution company proposing or receiving Commission approval for a carrying cost adjustment in its Gas Cost Recovery ("GCR") tariff. Delta responded that it was not aware of any Kentucky gas distribution company that had received such approval. It also cited two Commission Orders, one suggesting a revision of the Gas Cost Adjustment ("GCA") clause to include gas cost under-recovery carrying cost, the other suggesting that Delta look to its GCA mechanism to address the gas cost under-recovery issue.

a. Explain whether Delta is familiar with the Commission's Order in Administrative Case No. 384,[1] which addressed the issue of carrying charges on over- and under-recoveries of gas cost, saying:

> We conclude that recovery of carrying charges is permissible but only if the LDC extends the recovery period of the AA component of its GCA by an additional 12 months. In essence, the total dollar amount of the over- or under-recoveries would be spread over 2 years of sales volumes rather than 1 year, as is presently the case . . . .
>
> The Commission finds that the recovery of carrying charges on over- and under-recoveries should be an option for the LDCs, but only in conjunction with an extension of the period over which the over- or under-recoveries are charged to ratepayers.[2]

Given this Commission finding, explain whether Delta would propose a revision in its GCR carrying cost adjustment.

b. Delta indicated it was not aware of another utility receiving approval of a carrying cost adjustment, but it did not address whether it was aware of another utility having proposed a carrying cost adjustment. Was Delta unaware of the request in Case No. 2002-00293[3] in which Columbia Gas of Kentucky, Inc. made proposals to add a carrying cost adjustment using its short-term debt cost for both a 24-month period and a 36-month period and that both proposals were denied by the Commission?

5. Refer to Delta's response to Item 4 of Staff's First Request.

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[1] Administrative Case No. 384, An Investigation of Increasing Wholesale Natural Gas Prices and the Impacts of Such Increases on the Retail Customers Served by Kentucky's Jurisdictional Natural Gas Distribution Companies (Ky. PSC Jul. 17, 2001).

[2] Id. at 15.

[3] Case No. 2002-00293, Purchased Gas Adjustment of Columbia Gas of Kentucky, Inc. (Ky. PSC Aug. 29, 2003).

a. Explain whether Delta has considered changing the Actual Adjustment ("AA") calculation to use calendar month purchase volumes adjusted for system line loss in place of jurisdictional sales volumes in determining the Unit Book Cost of Gas for each month for which the monthly cost difference is being calculated.

(1) If it has, explain why the historical sales method was deemed superior to that method.

(2) If no, explain why not.

b. The last sentence of the response indicates that Delta's analysis showed that gas cost under-recoveries are primarily "a function of the calculation and amortization of the EGC." Explain this statement in light of the response to Item 5, specifically the calculation of the Unit Book Cost of Gas for August, September, and October 2010, which, as shown in Attachment II, Schedule IV, is calculated as $17.0769, $13.0073, and $21.0219 per Mcf, respectively.[4]

6. Refer to Delta's response to Item 5 of Staff's First Request.

a. Explain the discrepancy between the "as filed" AA calculation for February, March, and April 2011 and Delta's GCR filing in Case No. 2011-00214.[5] Confirm that the AA filed in Case No. 2011-00214 was correct.

[4] Delta Case Nos. 2005-00547 and 2010-00127 were also suspended due to the same issue of relatively high per unit book cost of gas as shown in the Actual Adjustment calculations of those GCR filings.

[5] Case No. 2011-00214, Purchase Gas Adjustment Filing of Delta Natural Gas Company, Inc. (Ky. PSC Jul. 5, 2011).

b. Show the effect of the proposed GCR carrying cost on the revised GCR calculations included in Item 5.

c. Provide the calculations resulting in the reduced volumes in the Mcf Purchases column in the revised EGC calculations for the prior six GCR filings.

7. Refer to Delta's response to Item 6 of Staff's First Request, which states, "If the goal of the mechanism is to recover actual gas costs, while minimizing over/under-recovery, it is counter intuitive to reduce rates when you are in an under-recovery position and raise rates when you are in an over-recovery position."

a. Explain whether Delta is referring to the EGC when it discusses the goal of "the mechanism."

b. Explain whether the results of the revised AA calculation for the three months ending April 2011 are necessarily intuitive, i.e. that Delta refund $.6633 to its customers as opposed to refunding $.3284 per Mcf (as filed in Delta's last GCR filing, Case No. 2011-00214) due to an EGC adjusted for the proposed control.

c. Explain whether it would be intuitive to calculate monthly cost differences for the example months of February, March, and April 2011 by dividing the Supply Cost per Books by the Supply Volume per Books, adjusted for system line loss to calculate the Unit Book Cost of Gas. Using monthly Mcf purchase volumes provided in Case No. 2011-00214, February calculated sales would be 425,022 Mcf derived from 433,165 purchase volumes (using a system average line loss of 1.88 percent), as opposed to the 689,367 Mcf sales reported in Delta's filing.[6]

[6] Using Mcf purchase volumes reported for March and April 2011, calculated sales for those months using the same method would be 717,365 and 229,328, respectively.

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cc: Parties of Record

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