



COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

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ATTORNEY GENERAL

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FRANKFORT, KY 40601-8204

July 30, 2004

Drop Box
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JUL 30 2004

**PUBLIC SERVICE
COMMISSION**

Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Re: An Adjustment of the Rates of Delta Natural Gas Company, Inc., PSC Case No.
2004-00067

Dear Ms. O'Donnell,

Submitted herewith are ten pages of prior testimonies of Robert Henkes that should have been included in the attachment to the Response of the Attorney General to the first data request of Delta Natural Gas Company Inc. in the filing made by the Attorney General on July 29th. Because of the volume of the attachment to question one, only one copy was filed, to be kept with the original. Therefore, only one copy of this filing is made.

This letter serves to indicate that the pages have also been served on Robert M. Watt, III, on Leslye Bowman and on John Hall. The pages have been faxed to Mr. Watt to arrive on the same day as the Responses filed yesterday and sent by overnight mail and have been sent to all others by regular mail.

Sincerely,

A handwritten signature in black ink, appearing to read "Elizabeth E. Blackford".

Elizabeth E. Blackford
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204
(502) 696-5453

cc. Robert M. Watt III
Leslye Bowman
John Hall



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JUL 30 2004

**PUBLIC SERVICE
COMMISSION**

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF)
DELMARVA POWER & LIGHT COMPANY,)
D/B/A CONECTIV POWER DELIVERY, FOR)
A CHANGE IN ITS NATURAL GAS BASE)
RATES (FILED MARCH 31, 2003))

PSC DOCKET NO. 03-127

DIRECT TESTIMONY
OF
ROBERT J. HENKES
ON BEHALF OF
COMMISSION STAFF

AUGUST 15, 2003

AGA - Dues

**Delmarva Power & Light Company
PSC Docket No. 03-127
Direct Testimony of Robert J. Henkes**

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***Henkes Direct Testimony
PSC Docket No. 03-127***

Miscellaneous Expense Adjustments

2
3
4 Q. PLEASE EXPLAIN EACH OF THE MISCELLANEOUS EXPENSE
5 ADJUSTMENTS OUTLINED ON SCHEDULE RJEI-20.

6 A. The first expense adjustment concerns the Company's proposed removal of a portion of its
7 American Gas Association ("AGA") dues. The test year AGA dues amount to \$97,323 and
8 the Company has removed \$2,102 from these test year dues based on its claim that 2.16%
9 of AGA's annual funds is devoted to lobbying activities. Staff believes 15.43%, or \$15,017
10 of the test year AGA dues should be removed. Staff bases this belief on its review of the
11 response to DPA-63. Page III-2 of this document shows that 15.43% of AGA's funding is
12 devoted to "Public Affairs" activities, which activities are described on page III-3 as
13 "provides members with information on legislative developments; prepares testimony,
14 comments, and filings regarding legislative activities; lobbies on behalf of the industry." In
15 addition, pages III-10 through III-14 of this same document show a long list of political
16 contributions⁷ that are part of the Public Affairs activities (Cost Center 03). Thus, Staff
17 believes that the portion of the test year AGA dues devoted to the funding of all Public
18 Affairs activities should be removed for ratemaking purposes as these activities are not
19 appropriately chargeable to the ratepayers.

20
21  The second expense adjustment concerns the recommended removal of the portion

⁷ For example, contributions to American Legislative Exchange Council; Center for the Study of the Presidency; Christmas in April; Congressional Black Caucus Foundation; Democratic Congressional Campaign Committee; Democratic Governor's Association; Democratic National Committee; Senatorial Campaign Committee; National

Henkes Direct Testimony
PSC Docket No. 03-127

2 of test year AGA dues devoted to the funding of AGA's Media Communication. Page III-2
3 of the response to DPA-63 shows that 8.91% of AGA's funding relates to Media
4 Communications. This equates to the removal of \$8,671 (8.91% x \$97,323) from the test
5 year AGA dues. Media Communication activities are described in summary form on page
6 III-3 and listed in more detail in section IV of the response to DPA-63. Essentially, Media
7 Communications include (1) institutional advertising to enhance the image of the gas
8 industry; (2) general promotional advertising to promote the use of natural gas over other
9 resources; and (3) gas-fired equipment promotions, including residential equipment such as
10 boilers, furnaces, ranges, water heaters; commercial and industrial gas equipment; and
11 promotions of Power Generation gas equipment. Staff does not believe that these types of
12 generalized, nationwide goodwill and promotional activities to enhance the gas industry and
13 market various gas-fired equipment is of any specific and direct benefit to the ratepayers in
14 DPL's service territory. Staff therefore recommends that the \$8,671 portion of the test year
15 AGA dues be removed for ratemaking purposes in this case.

16 The third expense adjustment concerns the removal of \$23,500 for institutional
17 advertising expenses that are included in the test year expenses. Attachment No. 2 of the
18 response to DPA-70 contains copies of the institutional advertising campaign making up the
19 \$23,500. From Staff's review of the documentation contained in Attachment No. 2, it is
20 clear that the primary purpose of the campaign is to enhance the image of Conectiv Power
21 Delivery as a reliable power supplier and to picture the employees of CPD as good citizens
22 who are making contributions to local or statewide communities and causes. In Staff's

Foundation for Women Legislators; Republican Governors Association; Senatorial Trust; and many more.

SC Docket No. JS-127
 Test Year Ending 9/30/02

Sch. RJH-20

DELMARVA POWER AND LIGHT COMPANY - GAS
MISCELLANEOUS EXPENSE ADJUSTMENTS

	DP&L - Gas (1)	Adjustment	Staff
1. Removal of Portion of AGA Dues Devoted to Lobbying and Legislative Activities	\$ (2,102)	\$ (12,915)	\$ (15,017) (2)
2. Removal of Portion of AGA Dues Devoted to Media Communications	-	(8,671)	(8,671) (3)
3. Removal of Institutional Advertising Expenses Included in the Test Year	-	(23,500)	(23,500) (4)
4. Removal of Donation Expenses in the Test Year	-	(61,614)	(61,614) (5)
5. Removal of Long Term Incentive Pay Expenses	-	(24,415)	(24,415) (6)
6. Total Miscellaneous Expense Adjustments		\$(131,115)	
6. Impact on Income Taxes @ 40.655%		53,305	
7. Increase in Operating Income		<u>\$ 77,810</u>	

(1) DP&L Schedule No. 3-G

(2) Per response to DPA-63, page III-2:

Public Affairs' portion of annual AGA expenditures: $15.43\% \times \$97,323$ (Test Year AGA Dues) = \$15,017

(3) Per response to DPA-63, page III-2:

Media Communications portion of annual AGA expenditures: $8.81\% \times \$97,323$ (Test Year AGA Dues) = \$8,671

(4) Response to DFA-70

(5) Per response to PSC-A-82:

Donation expenses included in test year Public Relations expenses:	\$ 1,026,899
Delaware Gas Retail Distribution allocator:	6%
Test year donation expenses - DP&L Gas	<u>\$ 61,614</u>

(6) Per response to PSC-A-77, p.1: $(\$4,078 \times 11.55\%) + (\$527,761 \times 39.28\% \times 11.55\%) = \$24,415$

BEFORE THE STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW

I/M/O THE PETITION OF PUBLIC SERVICE)
ELECTRIC & GAS COMPANY FOR APPROVAL) BPU DOCKET NO. GR01050328
OF AN INCREASE IN GAS RATES AND FOR) OAL DOCKET NO. PUC-5052-01
CHARGES IN THE TARIFF FOR GAS SERVICE)

I/M/O THE PETITION OF PUBLIC SERVICE)
ELECTRIC & GAS COMPANY FOR AUTHORITY) BPU DOCKET NO. GR01050297
TO REVISE ITS GAS PROPERTY DEPRECIATION) OAL DOCKET NO. PUC-5016-01
RATES)

DIRECT TESTIMONY OF ROBERT J. HENKES
ON BEHALF OF
THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE

AGA - Dues

BLOSSOM A. PERETZ, ESQ.
RATEPAYER ADVOCATE

Division of the Ratepayer Advocate
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August 23, 2001

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
 EPE Docket No. GR01050328
 G&E Docket No. PUC-05052-01
 Direct Testimony of Robert J. Henkes

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1 the projected "6+6" test year expense amount of \$1.1 million. This same response also seems
2 to suggest that the corrected "6+6" test year expense amount should be \$732,450, but that even
3 this amount should be allocated to other expense accounts. Since the response to RAR-A-118
4 is not clear as to what the correct Account 924 - Property Insurance amount for the test year
5 should be after all proper allocations are performed, I have reflected the actual Account 924 -
6 Property Insurance expenses of \$215,537 for the most recent 12-month period for which actual
7 data are available at this time, the 12 months ended March 31, 2001. This recommended
8 expense number should be updated with actual Account 924 - Property Insurance expenses for
9 the full actual test year once such information has become available. As shown on Schedule
10 RJH-21, my recommendation increases the Company's proposed pro forma test year income
11 by \$535,000.

12 - Miscellaneous Expense Adjustments

13 Q. PLEASE EXPLAIN THE INCOME ADJUSTMENT FOR MISCELLANEOUS EXPENSE
14 ADJUSTMENTS YOU SHOW ON SCHEDULE RJH-4, LINE 16.

15 A. As shown in more detail on Schedule RJH-22, the overall miscellaneous expense adjustment
16 amount is \$508,000, consisting of 9 different test year expense removal adjustments each of
17 which I will now discuss.

18 The first adjustment concerns the removal of certain public relations expenses included
19 in the test year which are classified by the Company as "community affair activity" expenses.
20 The total test year amount for these expenses is \$219,000, as shown in the response to RAR-A-

1 55. From this response one can also see that these activities primarily consist of such items
2 as philanthropic activities, employee volunteer activities, summer concerts for the Newark
3 community, promotional materials, community assistance in raising money for projects, and
4 seminars on school violence. I recommend that these expenses be removed for rate making
5 purposes as they are related to activities that have nothing to do with the provision of safe and
6 adequate gas service. I also believe that these type of expenses represent contributions by
7 PSE&G for which the New Jersey Supreme Court ruled, in its recent Charitable Contributions
8 decision dated July 25, 2001, that they may not be subsidized by the utility's captive
9 ratepayers.

10 The second and third adjustments concern the removal of all "institutional" advertising
11 expenses included in the test year. Specifically, the advertising expenses included in Account
12 930.1 - General Advertising are for image creation and goodwill building activities that have
13 as their main purpose to promote PSE&G as a good corporate citizen. In addition, the
14 Company has confirmed in response to SRA-43(c) that a portion of its American Gas
15 Association ("AGA") dues is being used for national advertising and is not specifically focused
16 to New Jersey or PSE&G's service territory. The Board has a rate making policy to disallow
17 such so-called "institutional" advertising.

18 The fourth, fifth and sixth adjustments concern the removal of all lobbying expenses
19 included in the test year expenses. The inclusion of these lobbying expenses in the test year
20 above-the-line expenses is confirmed by the Company in its responses to SRA-43 and RAR-A-
21 51.

22 The seventh adjustment concerns the removal from the test year of expenses associated

**PUBLIC SERVICE ELECTRIC AND GAS COMPANY
MISCELLANEOUS EXPENSE ADJUSTMENTS
(\$000)**

1. Removal of All Test Year Public Relations Expenses	(\$219)	Response to RAR-A-55
2. Remove Account 930.1 Institutional Advertising Expenses	(21)	Sch. RCK-14R
3. Removal of AGA Institutional Advertising	(5)	Response to SRA-43 C
4. Removal of AGA Lobbying Expenses	(16)	Response to SRA-43 B
5. Removal of NJUA Lobbying Expenses	(4)	(1)
6. Removal of Lobbying Expenses in Account 923	(120)	Response to RAR-A-51
7. Removal of Financial Services Expenses for PSE&G's Top Officers	(35)	Response to RAR-A-48
8. Remove EPRI Expenses Allocated to Gas Operations	(62)	Response to RAR-A-121
9. Remove Donation Expenses Allocated From PSEG	(26)	(2)
10. Total Miscellaneous Expense Removals	(508)	
11. Combined Income Tax Impact @40.85%	208	
12. Recommended Increase In Operating Income	<u>\$301</u>	

(1) Average lobbying percentage of 12% x test year gas NJUA dues of \$33,360 = \$4,003

(2) Per response to RAR-A-119:

- Liberty Science Center	\$25
- N.J. Aquarium	25
- Other Donations	37
- Total:	<u>\$87</u>
- Utility Allocator	66.60%
- Gas Allocator	45.00%
- PSE&G's gas allocated expense	<u>\$28</u>



COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

ALBERT B. CHANDLER III
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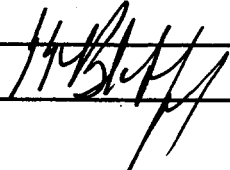
Office of Rate Intervention
Tel: (502) 696-5453
Fax: (502) 573-8315

Fax Transmittal

Date: 7/30/04
To: Robert M. Watt III
Agency: Stou Keenon Park
Fax Number: 859. 253. 1093 Total Pages (Including Cover): _____
From: Betsy Blackford

If you do not receive the total number of pages as shown above, please contact Jeanette at (502) 696-5453.

Hard Copy Will Follow:

COMMENTS: Bob- attached are two more sets of Hentes testimonials responsive to Question 1 of Delta's requests to the AG


****CONFIDENTIAL FACSIMILE COMMUNICATION****

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