RECEIVED
JUN 07 2007
PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS CO., INC. FOR AN ADJUSTMENT OF GAS RATES	)))	Case No. 2007-00089

ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits this Initial Request for Information to Delta Natural Gas Company, Inc. ["Delta"], to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If Delta objects to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(10) Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response.

Respectfully submitted,
GREGORY D. STUMBO
ATTORNEY GENERAL

DENNIS G. HOWARD, II
LAWRENCE W. COOK
ASSISTANT ATTORNEYS GENERAL
1024 CAPITAL CENTER DRIVE
SUITE 200
FRANKFORT KY 40601-8204
(502) 696-5453
FAX: (502) 573-8315

Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the Attorney General's Initial Requests For Information were served and filed by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct copy of the same, first class postage prepaid, to:

Hon. Robert M. Watt, III
Attorney At Law
STOLL KEENON OGDEN, PLLC
300 W. Vine St.
Ste. 2100
Lexington, KY 40507-1801

Honorable J. Gregory Cornett
Attorney at Law
Stoll Keenon Ogden, PLLC
2000 PNC Plaza
500 W. Jefferson St.
Louisville, KY 40202-2828

Mr. Glenn Jennings
Delta Natural Gas Co., Inc.
3617 Lexington Rd.
Winchester, KY 40391

all on this 7th day of June, 2007.

Assistant Attorney General

Attorney General's Initial Data Requests
to Delta Natural Gas Co.
Case No. 2007-00089

I. ACCOUNTING AND REVENUE REQUIREMENTS

1. Please provide all formal and informal responses to data requests of all other parties to this proceeding.

2. Please provide in Microsoft Excel or Excel compatible format, copies of all schedules and workpapers created in the process of filing the current rate increase request. This specifically includes all accounting schedules filed under Tab 27 (revenue requirements determination) and all related workpapers, as well as any other schedules and workpapers prepared in the course of the filing. Please provide files with all formulae intact, and provide any linked files.

3. Provide all workpapers, calculations and other support for the proposed Customer Rate Stabilization mechanism and the proposed Customer Conservation and Efficiency Program. Provide any calculations in Excel format, with all formulae intact.

4. Re. Jennings Direct Testimony, p. 6. Please provide a copy of the AGA study entitled "An Economic Analysis of Customer Response to Natural Gas Prices" as mentioned on that page.

5. Re. Jennings Direct Testimony, p. 7. Please list every instance in the past 20 years where a larger volume customer with alternative available fuels switched to those fuels. Describe the circumstances leading to the switch, as Delta understands them.

6. Re. Jennings Direct Testimony, p. 7. For each current large volume customer with available alternative fuels, please list the customer, the available fuels, and the current price and price trend for those fuels.

7. Re. Jennings Direct Testimony, p. 7. Please list every instance where Delta was "physically bypassed" or "threatened" regarding transportation. Provide the circumstances behind each instance.

8. Re. Jennings Direct Testimony, pp. 14-15. For each jurisdiction listed as having a mechanism similar to the proposed RS, please cite to each order, rule or statute allowing that mechanism.

9. Re. Jennings Direct Testimony, p. 15. Please provide all cost-benefit studies done comparing the costs of implementing using the proposed

CRS (to all parties involved) versus the costs of requesting rate increases through the normal rate case process.

10. Re. Jennings Direct Testimony, p. 15. Please list every adjustment made to director's compensation and number of directors in 2006 as mentioned on this page. Also, provide total compensation both before and after the changes.

11. Re. Brown Direct Testimony. Please provide all supporting workpapers and calculations underlying Mr. Brown's exhibits.

12. Re. Brown Direct Testimony, pp. 7-8. Please list any accounts that Delta believes might "trend down in subsequent years" and provide an explanation. Also, explain what "prudent costs" Mr. Brown believes the Commission might disallow, that caused him to include the statement on page 7, line 22 to page 8, line 2.

13. Re. Seelye Direct Testimony. Please provide all workpapers underlying Mr. Seelye's testimony on the Temperature Normalization adjustment and the Revenue Adjustment to reflect year-end customers.

14. Re. Seelye Direct Testimony. Please provide Exhibits 2 and 3 in Excel format with all formulae intact. Also, provide all workpapers underlying these exhibits.

15. Re. Tab 27, Schedules 4 and 6. What is the distinction between the $4,208,069 amount shown as Gas Stored Underground on Schedule 4, and included in the $182,191,298 Total Utility Plant in Service and the $9,879,627 13 month average Gas in Storage shown on Schedule 6? If they relate to the same gas, explain why the amounts differ, and why they appear to be included in ratebase twice.

16. Re. Tab 27, Schedule 4. Please provide a complete explanation and support for the Acquisition Adjustments shown on page 3 of the schedule.

17. Please reconcile the ratebase in this case with the ratebase in the most recent prior case, by element.

18. Please provide copies of December year-to-date financial, operating and/or statistical reports for 2004, 2005, 2006 and 2007 year to date.

19. Please provide a copy of the Board of Directors minutes for 2004, 2005,

2006 and 2007 to date.

20. Please explain in detail any major changes in accounting treatment for O&M expenses, retirements, replacements and removal costs instituted by the Company since 2002.

21. Please provide a copy of each out-of-period accounting adjustment (i.e., journal entry) recorded during the test year, and past the test year to the present, along with an explanation of each adjustment.

22. Please provide an analysis (description, dates and amounts) of any gains or losses on utility property sold in 2004, 2005, 2006 and 2007 to date.

23. Please provide a complete breakdown of other income, net, for 2004, 2005, 2006 and 2007 to date. Identify the jurisdictional portion of each element.

24. Provide the Company's 2004, 2005 and 2006 Annual Reports to the KY PSC.

25. Provide the monthly financial and operating reports for every month from December 2004 to the present.

26. Provide the twelve months-ending return on common equity for each month from January 2004 to the present.

27. Provide each and every statement or memorandum by management discussing the Company's level of earnings and/or return from January 2004 to the present.

28. Please provide the latest 3-year operating forecasts.

29. Please supply a copy of the latest Ten Year Demand Forecast.

30. Please list all year end closing accounting entries, both internal and those made by your external auditors, for 2004, 2005 and 2006.

31. List each change in accounting principles made by the Company during 2003, 2004, 2005, 2006 and 2007 to date.
    a. For each such change, state the revenue and/or expense or capital impact in this filing.

32. Please list all procedures the Company follows to ensure that there was a

proper assignment of costs to the test year and that the test year only includes charges incurred during the test period.

33. Provide an accounts payable register for the entire base year. This may also sometimes be referred to as a voucher/register, distribution journal and/or a subsidiary ledger.

34. Provide a copy of each adjusting entry proposed by the Company's independent Auditors in the two most recent audits of the Company. Include supporting documentation.

35. Provide a copy of the Company's two most recent management letters and recommendations received from the Company's independent auditors.

36. List each internal audit completed, scheduled, or in progress at the Company for 2004, 2005, 2006 and 2007. For each, list subject of audit, date of audit, date of report and title of report.

37. Provide a copy of the Company's most recent management and operations audit.

38. If applicable, list the expense associated with the most recent management audit. If the Company is amortizing the expense, list the amount of base and test period expense, the unamortized amount at December 31, 2004, 2005, 2006, and 2007 and state when the amortization will end.

39. List each proposed pro forma entry which was considered in this filing but not made and state the reason(s) why the entry was not made.

40. Please provide, in Microsoft Excel or Excel compatible format, the year-end balances from December 31, 2004 through December 31, 2006, and the 13-month December 31, 2006 average total jurisdictional balances for the following:
    a. Plant in Service (by category, both total and depreciable)
    b. CWIP
    c. Construction completed not classified
    d. Accumulated Depreciation (by categories provided in part a, above)
    e. Plant Held for Future Use
    f. Customer Contributions in Aid of Construction
    g. Customer Advances
    h. Prepayments (by type)

i. Materials and Supplies - Operating by category
j. Materials and Supplies - Undistributed Stores Expense
k. Other Current Assets (by type)
l. Other Deferred Charges (by type)
m. Accumulated Deferred Income Taxes - Depreciation
n. Accumulated Deferred Income Taxes - Other (by type)
o. Miscellaneous Reserves (by type)
p. Retirement Work in Progress (by plant category)

41. Please provide an explanation of all items included in the following accounts (by subaccount if any) and provide the appropriate jurisdictional amounts for the year ended December 31, 2004, December 31, 2005, December 31, 2006:
    a. Other Accounts Receivable
    b. Accrued Utility Revenues
    c. Miscellaneous Deferred Debits
    d. Miscellaneous current and accrued liabilities
    e. Other Deferred Credits

42. Please provide a comparison by month, or if not available, by quarter, of budgeted versus actual retirements for each month of 2004, 2005, 2006 and 2007. Please explain any significant variations.

43. Indicate the treatment of customer discounts for prompt payment of bills and budget billing accounts interest payments or income in the revenue portion of the cash working capital calculation.

44. Did Delta conduct a lead-lag study for purposes of this rate case? If yes, please provide the study and all supporting workpapers. If not, please explain why not.

45. Indicate the average period of time between rendering of service to customers to meter reading date (by type of customer if different), meter reading to billing date, and billing date to receipt of payment for Kentucky jurisdictional customers, if known; otherwise for total company if known.

46. Provide for each month from December 2005 to the present, the following by customer class on a jurisdictional basis (if not available by class, provide on a total jurisdictional basis):
    a. monthly revenues

b. accounts receivable (aging and amounts) net of uncollectibles

47. Provide for each year 2004, 2005, 2006 and 2007 the total dollar write-offs to uncollectibles reserve with and without subsequent recoveries.

48. Indicate any contractor retentions being held by the Company or for the Company during 2004, 2005, 2006 and 2007 in relation to a major construction project or acquisition.

49. Customer Advances.
    a. What is the ratemaking treatment for customer advances proposed by the Company in its filing? Where is such proposal found in the filing?
    b. Provide the monthly level of customer advances for the period December 2005 thru July 2007.
    c. Provide the monthly interest expense paid by the Company on customer advances for the same period.

50. Customer Deposits.
    a. What is the ratemaking treatment for customer deposits proposed by the Company? Where is such proposal found in the filing?
    b. Provide the monthly level of customer deposits for the period December 2005 thru 2007 to date.
    c. Provide the monthly interest expense paid by the Company on customer deposits for the same period.

51. Customer Deposits.
    a. What is the contractual interest rate on customer deposits?
    b. Identify the tariff or statute that establishes the interest rate.
    c. Does the Company accrue interest on inactive customer deposits?
    d. How often is interest on customer deposits paid?
    e. Is interest on customer deposits paid by check, in the form of a bill credit, or credited as an addition to the customer deposit balance?
    f. What is the Company's policy on customer deposits for collection, refund, and use as an offset against an uncollectible balance?
    g. Provide a copy of the Company's policy(s) relating to customer deposits.

52. For the test year and the preceding two years, has the Company sold any property which had formerly been included in Plant Held for Future Use or devoted to utility service? If so, for each sale, describe the property sold; state whether, when and in what manner it had been included in rate base; show the details of how the gain or loss was calculated; indicate when the sale occurred; explain how and whether the Company is amortizing such gain or loss; and show how such amortization was computed.

53. The following questions are related to the Company's policies regarding accounting for CWIP, plant in service and depreciation:
    a. For each item of CWIP which the Company has transferred into utility plant in service for purposes of this filing, has a full 12 months of depreciation expense been included in the cost of service?
    b. For each item of CWIP which the company has transferred into utility plant in service for the purposes of this filing, has an amount representing a full 12 months of depreciation expense been added to the total accumulated depreciation by which rate base is reduced?
    c. Provide the same information as requested in subsection b. above for the deferred taxes related to the depreciation timing differences.

54. For major plant construction projects representing plant additions costing more than $5 million added during 2005, 2006 and 2007 to date please state the following:
    a. Description of project.
    b. Any economic feasibility studies done in a relationship to the project.
    c. Any related cost savings achieved as a result of adding the addition.
    d. Whether the project was for replacement, for new growth, environmental, or other.
    e. Description of why the project was necessary.

55. Explain in detail the Company's procedure for accruing AFUDC and provide examples of AFUDC accrued during 2004, 2005, 2006 and 2007. Discuss specifically how the Company computes the AFUDC rate, computes AFUDC monthly, adjusts AFUDC for the impact of the Alternative Minimum Tax and for interest that is capitalized for federal

income tax purposes. Show examples of each calculation. Also provide references to PSC Orders which authorize or approve the calculation methods used by the Company.

56. List all revenue, expense and rate base amounts by account included in the test year relating to any Company owned or leased airport, airplane and helicopter facilities, if applicable.

57. Identify how much of the Company's materials and supplies balance at December 31, 2005, December 31, 2006 and 2007 to date is related to construction activities.

58. Please provide a copy of the corporate federal tax returns and supporting "M"schedules for 2004, 2005 and 2006.

59. Please provide detailed calculations of federal income taxes and state income taxes (budgeted and/or actual) for the following accounting periods:
    a. the year ended December 31, 2005 (actual);
    b. the year ended 2006 (actual).

60. Please provide workpapers detailing the calculation of each statutory addition and deduction used in arriving at taxable income in the above calculation. Also provide a narrative explanation of the effect of each statutory addition and deduction on tax and/or book income, and the Internal Revenue Code Section or Treasury Regulation calling for the adjustment.

61. For 2005 and 2006, please provide a copy of the U.S. Corporation Income Tax Return, and the Kentucky Corporate Income Tax Return and all other Kentucky Tax Returns. If separate returns were not prepared, please provide the detailed worksheets that were used to prepare the consolidated return.

62. Please provide the following information regarding deferred income taxes:
    a. Calculation of all timing differences reflected in DFIT; show book amount and tax amount; indicate when amounts were included in book and in tax returns;
    b. Tax rate applied to each timing difference;
    c. Calculation of actual DFIT;

d. If different, reconcile book amount per cost of service and book amount in DFIT calculation. Identify and quantify all reconciling items.

e. For each year 2001 through 2007 the gross and net additions to deferred taxes. Please breakdown such additions within each year by sub-account, providing the number and name for each account and sub-account. For each item by year, please reconcile the gross to net additions and explain how that reconciliation was derived.

f. For 2006 and 2007 (to date) please provide information requested in (e) above for each month.

63. Please provide a Consolidated Tax Savings calculation by year for each year 2004 through 2006.

64. Provide the following effective (reflecting all consolidated tax savings) tax rates for 2004, 2005, 2006 and 2007 and a derivation thereof:

    a. Federal Income
    b. Kentucky Income

65. Please state whether the Company has or will file a consolidated federal or state tax return for 2005, 2006 and 2007 and if so, list those companies which will be included in the consolidated return.

66. Please list the name and business function of all Company subsidiaries and separately list those which are included in this case for ratemaking purposes.

67. Please provide worksheets which reconcile book and tax income and tax liability on the books and on the tax return for 2004, 2005 and 2006.

68. Please list and explain in detail the allocation methods used to allocate state and federal tax liability and tax credits between the Company and its subsidiaries. Please provide worksheets which show a detailed derivation of the allocations for 2004, 2005, 2006 and 2007. The derivation should include separate listing of contributions, indebtedness cost, NOL (current, carryforwards and carrybacks), each credit by type (such as the investment tax credit, jobs credit), intercompany transactions.

69. Please list all typical intercompany transactions which are taxed by the federal government in the year of the transaction or the following year if a separate return is filed, but on which the tax is deferred if a consolidated

return is filed. For each transaction please identify it by company, and type of transaction, and gain (loss) (deferred or not). Please provide the book treatment of each account.

70. Separately for 2004, 2005 and 2006 list all intercompany transactions which would be taxed by the federal government in that year if a separate return was filed, but will not be taxed that year because a consolidated return was filed. For each transaction please identify it by company, type of transaction, and gain (loss) (deferred or note). Please provide the book treatment of each amount.

71. Please list all typical intercompany transactions which are taxed by State government in the year of the transaction or the following year if a separate return is filed, but on which the tax is deferred if a consolidated return is filed. For each transaction please identify it by company, and type of transaction, and gain (loss) (deferred or not). Please provide the book treatment of each amount.

72. Separately for 2004, 2005 and 2006 please list all intercompany transactions which would be taxed by State government in that year if a separate return was filed, but will not be taxed that year because a consolidated return was filed. For each transaction please identify it by company, type of transaction, and gain (loss) (deferred or not). Please provide the book treatment of each amount.

73. Please provide worksheets which derive the gross revenue and pre-tax accounting income and federal taxable income (loss), on a consolidated basis and on a separate return basis for each year for 2004, 2005 and 2006.

74. Please provide worksheets which derive the gross revenue and pre-tax accounting income and State taxable income (loss), on a consolidated basis and on a separate return basis for 2004, 2005 and 2006. Include in the worksheets a detailed reconciliation of book and tax income.

75. Please provide for each year from 2000 through 2006 the gross and net additions to deferred taxes. Please breakdown such additions within each year by sub-account, providing the number and name for each account and sub-account.
    a. For each item by year please reconcile the gross to net additions and explain how that reconciliation was derived.

76. Please provide detailed worksheets showing the derivation of "excess tax

over book depreciation" for 2005, 2006 and 2007 to date.

77. Please provide the beginning and ending balances for 2005, 2006 and 2007 for Accumulated Deferred Income Taxes and Provisions for Deferred Income Taxes broken down by sub-account with the name and number of each sub-account.

78. Please provide the following amounts for 2005, 2006 and 2007:
    a. Income tax expense, current, deferred, deferred-credit, investment tax credit deferred and investment tax credit amortized from prior years. Identify by Uniform System Account number.
    b. Identify the benefit giving rise to each charge, as shown in the example below.
    c. Separate federal and state amounts.
    d. Cite the order or ruling on which the Company bases rate treatment of these benefits (normalized or flow-through). Note rate treatment (normalized or flow-through).
    e. State the accumulated total for each as it appears on the test year balance sheets. Identify by Uniform System Account Number.
    f. State the rate base treatment of each item (e.g. deducted from rate base, cost-free capital, treated as equity, etc.).
    g. Cite the order or ruling on which the Company bases treatment identified in f.

79. Please provide a detailed derivation of 2005, 2006 and 2007 research and development credits, including:
    a. a list of all research, development and experimentation expenditures, and for each item provide:
    b. separately the amounts payable to inside and outside contractors:
    c. the amount payable in the test year;
    d. the total expenditures to be expensed in determining federal taxable income;
    e. the total expenditures qualifying for the R & E credit under I.R.C. paragraph 44f.

80. Identify all net operating loss carrybacks and carryforwards for Delta Gas and each subsidiary for 2004, 2005, 2006 and 2007.

81. What amount of Delta Gas interest expense for tax purposes and

separately for book purposes was allocated to Kentucky regulated operations on a combined and intrastate basis during the test year? Please explain and provide a reconciliation of the difference.

82. Regarding the investment tax credit, please provide the amount of 3%, 4%, 7%, 10%, and 11% credits the company generated, booked for ratemaking purposes, and/or used as a credit against federal tax liability for each year from 2004 through 2007 and the derivation of each of those amounts.

83. For each distinct tax-timing difference for which the Company has provided deferred taxes, please identify the amount of excess deferred income taxes (i.e. deferred taxes accrued by the Company at federal tax rates higher than the current corporate tax rate; the excess is the difference over the current rate) existing on the Company's books at December 31, 2006 which <u>can</u> be flowed back to ratepayers on an accelerated basis (i.e. such amortization is not prohibited by the normalization requirements of the Internal Revenue Code). Show how these amounts are calculated.

84. Will the amount of investment tax credits utilized be increased if the Company is granted its requested rate increase in these proceedings? If not, why not? If so, provide calculations showing the Company's best estimate as to how much ITC will be utilized.

85. Provide detailed descriptions of any IRS audit, settlements with the Internal Revenue Service, or audit adjustments made during the three years ending December 31, 2006.

86. Provide a copy of any and all revenue ruling requests, IRS responses, and correspondence between the Company and the IRS during the ten years ending December 31, 2006.

87. List total property taxes and property tax refunds or abatements each year, for the test year and the most recent three years for which actual information is available. Describe and show the accounting treatment accorded to each item, showing journal entries, dates, accounts, amounts and descriptions.

88. List all amounts of property taxes under dispute at December 31, 2006, and indicate the tax year and the taxing district to which each relates.

89. List all property tax refunds, by geographical area and taxing authority, by year, received in the most recent three years through 2006.

90. Please explain and provide all workpapers and source documents supporting the derivation of the taxable bases for Kentucky income and property taxes for 2005, 2006, and forecasted for the year ended December 31, 2007.

91. Provide full supporting documentation, workpapers and correspondence associated with refunds of any and all taxes other than income taxes received in 2004, 2005 and 2006. Indicate which accounts were affected and the associated dollar amounts. Also describe how the Company intends to treat this item for rate case purposes

92. Please state whether any settlements, penalties or interest resulting from audits by taxing authorities are included in expense per books in 2005, 2006 and 2007 to date. If so, provide full details including the periods and issues resolved, the dollar amounts of settlement by issue, the taxing authority penalty or interest by issue, the taxing authority involved, the date of settlement, the current status of the payment, and the final resolution of the matter or status of the protest if unresolved.

93. Provide hard copies of all workpapers underlying the Delta Depreciation Study (Seelye Exhibit 11).

94. Please refer to Appendix B of the Depreciation Study. For the accounts for which only a rate is shown (no expense), does the Company intend to collect depreciation expense for these accounts? Also, for each of these accounts, provide an explanation as to how the rate was selected.

95. Provide all information obtained by Mr. Seelye and The Prime Group, LLC. from Company operating personnel, and separately, financial management personnel relative to current operations and future expectations in the preparation of the study.

96. Please provide all notes taken during any meetings with Company personnel regarding the study. Identify by name and title, all Delta Gas ("Delta" or "the Company") personnel who provided the information, and explain the extent of their participation and the information they provided.

97. Identify all plant tours taken during the preparation of the Depreciation Study.

a. Identify those in attendance and their titles and job descriptions.
b. Provide all conversation notes taken during the tour.
c. Provide all photographs and images taken during the tour.

98. Provide all internal and external audit reports, management letters, consultants' reports etc. which address in any way, the Company's property accounting and/or depreciation practices.

99. Please provide copies of all Board of Director's minutes and internal management meeting minutes in which the subject of the Company's depreciation rates or retirement unit costs were discussed.

100. Provide copies of all internal correspondence which deals in any way with the Company's retirement unit costs, depreciation rates, and/or the Depreciation Study.

101. Provide copies of all external correspondence, including correspondence with Mr. Seelye and The Prime Group, LLC., which deals in any way with the Company's retirement unit costs, depreciation rates, and/or the Depreciation Study.

102. Provide copies of all industry statistics available to Mr. Seelye and/or the Company relating to company depreciation rates.

103. Identify all industry statistics upon which Mr. Seelye relied in formulating the depreciation proposals (See Seelye Exhibit 11, p. 1).

104. Which accounting method is reflected in the life studies; "location-life" or "cradle-to-grave"?

105. What is impact of the accounting method used, i.e., "location-life or "cradle-to-grave" on the lives calculated in the Depreciation Study?

106. Provide explanatory examples of the debits and credits relating to customer advances and contributions-in-aid of construction.

107. Provide explanatory examples of the debits and credits relating to the accounts for which depreciation is charged to clearing accounts.

108. Provide a copy of the Company's current capitalization policy. If the policy has changed at all since 2000, provide a copy of all prior policies in effect during any portion of that period.

109. Identify and explain all changes since the last depreciation study which might affect depreciation rates.

110. Please provide the most recent Asset Management Plan for Delta.

111. Please provide on diskette or CD all tabulations included in the Depreciation Study and all data necessary to recreate in their entirety, all analyses and calculations performed for the preparation of the study. Please provide this and all electronic data in Excel (or .txt format if appropriate), with all formulae intact. Please provide any record layouts necessary to interpret the data. Please include in the response electronic spreadsheet copies of all of the schedules and/or tables included in the Depreciation Study, with all formulae intact.

112. Is amortization accounting being proposed for any accounts? If so, please list the accounts and provide Mr. Seelye's amortization calculations and workpapers in electronic format (Excel) with all formulae intact.

113. For each plant account, and for each year since the inception of the account up to and including 2006, please provide the following standard depreciation study data as identified at pages 30-33 of the August 1996 NARUC Public Utility Depreciation Practices Manual ("NARUC Manual"). Provide the data in electronic format (Excel or .txt). Provide aged vintage data if available. Use the codes identified for each type of data, unless the Company regularly uses other codes. In those circumstances, identify and explain the Company's coding system.

Code	Data Type
9	Addition
0	Ordinary Retirement
1	Reimbursement
2	Sale
3	Transfer – In
4	Transfer – Out
5	Acquisition
6	Adjustment
7	Final retirement of life span

	property (see NARUC Manual, Chapter X)
8	Balance at Study Date
	Initial Balance of Installation

114. If the depreciation study data provided in response to the preceding question is not the exact set of data used for the depreciation study submitted in this case, explain all differences and reconcile the amounts provided to those used in the case.

115. If not provided elsewhere, provide the cost of removal and gross salvage data used in the Depreciation Study net salvage calculation. If this data differs from that reflected on the Company's books, please explain the differences and provide a reconciliation. Please provide this data in electronic (Excel or .txt) format.

116. Please provide sample copies of the Continuing Property Records from which the plant data used in the study were drawn. Please provide a sample for each account in the study.

117. Provide the following annual accumulated depreciation amounts for all plant accounts for the last 15 years (up to, and including, 2006). If the requested data is not available for the last 15 years, provide the data for as many years as are available. Please provide data in both hard copy and electronic format (Excel or .txt).
    a. Beginning and ending reserve balances,
    b. Annual depreciation expense,
    c. Annual retirements,
    d. Annual cost of removal and gross salvage,
    e. Annual third party reimbursements.

118. Please provide a comparison of the annual cost of removal and gross salvage amounts shown on Delta's federal tax returns with the corresponding book amounts, for the last 5 years. Provide the annual deferred tax expense associated with each of the differences. Also, provide the beginning and ending accumulated deferred tax balances and state whether they are rate base additions or rate base deductions.

119. Provide a summary of annual maintenance expense by USOA account (for all accounts) for the last 10 years. If the requested data is not available for

the last 10 years, provide the data for as many years as are available. Please provide data in both hard copy and electronic format.

120. Explain what consideration, if any, was given to annual maintenance expense data in Mr. Seelye's estimation of service lives, dispersion patterns and net salvage.

121. If not provided elsewhere, provide the calculation of the rates proposed in the Depreciation Study (Appendix B) in electronic format (Excel) with all formulae intact.

122. Please provide the proposed depreciation rates, split into three separate components: capital recovery, gross salvage and cost of removal.

123. Please provide a calculation of the theoretical reserves reflecting both Mr. Seelye's proposed procedures and the existing procedures. Provide these calculations in electronic format (Excel) with all formulae intact and include all supporting calculations and workpapers.

124. Does the Company maintain its book reserve by plant account? If not, explain why not.

125. If the Company does not maintain its book reserve by plant account, provide the calculation of the book reserve shown in the depreciation study.

126. Was reciprocal, harmonic, or ELG weighting used in any of the depreciation rate calculations? If yes, please provide all calculations using direct weighting. Also, provide this in hardcopy and electronic format (Excel).

127. If applicable, calculate all depreciation rates using the same weighting procedure used in the current depreciation rates, i.e., the same procedure used the last time depreciation rates were calculated.

128. If not provided elsewhere, please provide all remaining life calculations resulting from the depreciation study in electronic format (Excel) with all formulae intact.

129. If not provided elsewhere, provide electronic (Excel) versions of the net salvage studies prepared during the course of the depreciation study, with all formulae intact.

130. If not provided elsewhere, please provide all workpapers supporting terminal net salvage (decommissioning) estimates for each account for which terminal net salvage is a factor. Include any decommissioning studies relied upon, and explain how the results of those studies were incorporated into the net salvage estimate proposed by Mr. Seelye. Please include all calculations in electronic format (Excel), with all formulae intact.

131. Do Mr. Seelye's net salvage recommendations, including any terminal net salvage estimates, incorporate inflation expected to be incurred in the future? If yes, please explain fully how this inflation is factored into each recommendation, and provide supporting calculations in electronic format (Excel). If not, please provide support showing no future inflation was included.

132. If Mr. Seelye's net salvage recommendations include inflation expected to be incurred in the future, please provide the net present value of Mr. Seelye's net salvage recommendations.

133. Does Mr. Seelye agree that including inflation expected to be incurred in the future in net salvage estimates results in charging today's ratepayers for tomorrow's inflation? Please explain why or why not.

134. Does Mr. Seelye believe that including future inflation in net salvage estimates falls under the "known and measurable" standard usually followed in rate cases? Please explain why or why not.

135. On an account-by-account basis, for each of the five years ending 2006, explain whether the gross salvage and cost of removal incurred was normal or abnormal and why.

136. Explain, and provide examples of, the Company's retirement unit cost procedures for each account. Identify all changes to retirement unit costs which have occurred over the years.

137. Were any retirements, classified as sales or reimbursements, excluded to the extent to which the salvage receipt represents recovery of original cost? If yes:
    a. Provide, by account, the annual retirements and the related salvage that has been excluded for the 10 years ending 2006.

b. Provide the Commission Orders and Decisions approving the exclusion of these retirements.
c. Demonstrate how the retirements were excluded from the life studies.

138. Explain the Company's procedures for gross salvage and cost of removal.

139. Explain how cost of removal relating to replacements is allocated between cost of removal and new additions. Provide copies of actual source documents showing this allocation.

140. Does Delta agree that, in the case of a replacement, Delta has control over how much of the cost of the replacement is assigned to the retirement as cost of removal, and how much is capitalized to plant-in-service? Please explain the answer fully.

141. Please provide all manuals, guidelines, memoranda or other documentation that deals with the Company's policies on the assignment of capital costs and net salvage with regard to the replacement of retired plant. Also, please provide a sample workorder for a replacement project, showing these cost assignments.

142. Identify and explain the Company's expectations with respect to future removal requirements and markets for retired equipment and materials. Please provide the basis for these expectations.

143. Please provide the Company's construction and capital budgets for the years 2007-2011 inclusive. Please identify all retirements, replacements, new additions and cost of removal reflected in these budgets. Please provide by account where available and explain how the cost estimates are derived for these items.

144. Provide narrative explanations of the Company's aging and pricing procedures.

145. Explain how the Company accounts for third party reimbursements and how they are reflected in the depreciation study.

146. If third-party reimbursements were excluded from the net salvage studies, was the related retirement also excluded from the life studies?

147. If not provided in the workpapers, please provide the ranking of best-fit life/curve combinations for each account. If the service life indications resulting from the analyses are not the best-fit life/curves, please explain how they were selected.

148. For any accounts where Mr. Seelye did not base his service life/curve selection on the results of his SPR analysis, explain why he did not. Also, explain in detail how those service life/curve combinations were selected.

149. Provide copies of any and all actuarial and semi-actuarial studies prepared by the Company since the last depreciation study.

150. Identify and explain all Company programs which might affect plant lives.

151. Provide all internal life extension studies prepared by the Company. Life extension refers to any program, maintenance or capital, designed to extend lives and/or increase capacity of its existing plant-in-service. Identify the functions to which these studies relate.

152. Provide the following information for all final retirements for the last 15 years. If requested data is not available for the last 15 years, provide the data for as many years as are available.
    a. Date of retirement
    b. Amount of retirement
    c. Account
    d. Reason for retirement
    e. Whether or not retirement was excluded from historical interim retirement rate studies.

153. Was the life span methodology utilized in the prior study? If so, please provide a comparison, by account and location, of the probable retirement year forecasted in the prior study, with the probable retirement year forecasted in the Depreciation Study.

154. Please provide the specific calculation of each probable retirement year in the Depreciation Study. Also, please provide the installation date for each location.

155. Do the life span analyses include interim additions? If so, please provide a detailed explanation of how and why interim additions are included.

156. Identify all circumstances unique to Kentucky which influence or have an impact on the life span estimates.

157. For all accounts and locations for which Mr. Seelye is proposing the life span method, provide the following information to support Mr. Seelye's final retirement dates. Please respond to each item.
    a. Economic studies. (NARUC, p. 146)
    b. Retirement plans. (NARUC, p. 146)
    c. Forecasts. (NARUC, p. 146)
    d. Studies of technological obsolescence. (NARUC, p. 146)
    e. Studies of adequacy of capacity. (NARUC, p. 146)
    f. Studies of competitive pressure. (NARUC, p. 146)
    g. Relationships of type of construction to remaining life span.
    h. Relationship of attained age to remaining life span.
    i. Relationship of observed features and conditions at the time of field visits to remaining life span.
    j. Relationship of specific plans of management to remaining life span.

158. If not provided in the response to the immediately proceeding question, please provide the source for the life spans selected by Mr. Seelye.

159. Refer to the discussion of Account 305 in Seelye Exhibit 11. Why does the discussion refer to current rate of 2.20% (also shown on Appendix B) and then propose future use of a different "existing" rate of 4.00%? Which rate is Mr. Seelye proposing for future balances? If he is proposing 4.00%, what is the source of that rate?

160. Refer to the discussion of Accounts 351 through 356 in Seelye Exhibit 11. What is the source of the 32 year remaining life chosen for these account?

161. Refer to the discussion of Account 257 in Seelye Exhibit 11. What is the source of the 26 year remaining life chosen for this account?

162. Refer to the discussion of Account 392 in Seelye Exhibit 11. What is the source of the 2.5 year remaining life chosen for this account?

163. Refer to the discussion of Accounts 399.2 and 399.3 in Seelye Exhibit 11. If not provide elsewhere, please provide all support for the "expected rate of obsolescence" relied upon in choosing the rates for these accounts.

164. Provide all manuals, guidelines, memoranda or other documentation that deals with the Company's policies with regard to the physical removal of retired mains and, separately, services from the ground as opposed to capping these pipes and leaving them in place.

165. Explain the process by which the labor associated with Mains and Services replacement projects is split between the new asset and cost of removal.

166. Provide a summary of the last 20 years of Mains and Services additions. Identify on a year-by-year basis the new additions vs. replacement additions. Explain any anticipated changes to these proportions.

167. Provide a summary of all Main and Service Replacement projects during 2005. Separately identify all major costs, including the removal of the existing Main and/or Service.

168. Provide a narrative explanation of a typical Main and Service replacement project.

169. Identify all Main and Service additions during 2005, and indicate whether they were replacements, new additions or other. Explain the "other" category.

170. Provide a sample work order showing the retirement of a gas main.

171. Provide a copy of the Company's most recent prior depreciation study and the Order(s) establishing the present deprecation rates.

172. Please provide a calculation of the current depreciation rates in electronic format (Excel) with all formulae intact. Show all parameters used, and provide a source for those rates and underlying parameters. If the rates and parameters are not the same as approved in the most recent prior case, please explain why not. Also, if there are any differences in the account numbers used, please provide a reconciliation.

173. Identify and explain all changes between the current study and the most recent prior study.

174. Please explain any changes in procedures, methods or techniques used to calculate the existing depreciation rates and those used to calculate the rates proposed in Mr. Seelye's Depreciation Study.

175. Provide a table summarizing separately by account the depreciation expense changes caused by life changes, net salvage changes, and other changes. Provide additional explanations of the "other changes."

176. Please provide the <u>current</u> depreciation rates, split into three separate components: capital recovery, gross salvage and cost of removal.

177. Provide the Company's FERC Form 2 reports for the years 2002 - 2005.

178. Reconcile the plant and reserve balances used to calculate the rates in the Depreciation Study with the plant balances shown in the Company's FERC Form 2 report for 2006.

179. Provide depreciation studies submitted to FERC during the last 10 years and all related correspondence including any approvals and disapprovals.

180. Identify and provide the parameters, methods, procedures and techniques that underlie the depreciation rates the Company uses for FERC reporting and ratemaking versus those used for intrastate reporting and ratemaking. Also, provide a comparison of the actual calculation of the depreciation rates used for FERC ratemaking and reporting versus those used for intrastate ratemaking and reporting.

181. Provide a comparison by plant account of the annual FERC versus intrastate depreciation rates for the last 20 years.

182. Provide copies of all correspondence between the Company and the FERC concerning any life extension plan or maintenance program, or any request to treat retirement units or minor items of property differently than as prescribed by the FERC USOA.

183. Provide any and all internal studies and correspondence concerning the Company's implementation of FASB Statement No. 143 and FIN 47.

184. Provide complete copies of all correspondence with the following parties regarding the Company's implementation of FASB Statement No. 143 and FIN 47:
    a. External auditors and other public accounting firms.
    b. Consultants
    c. External counsel
    d. Federal and State regulatory agencies
    e. Internal Revenue Service

185. Regarding FASB Statement No. 143 and FIN 47, on a plant account-by-plant account basis, please identify any and all "legal obligations" associated with the retirement of the assets contained in the account that result from the acquisition, construction, development and (or) the normal operation of the assets in the account. For the purposes of this question, use the definition of a "legal obligation" provided in FASB Statement No. 143: "an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract under the doctrine of promissory estoppel."

186. For any asset retirement obligations identified above, provide the "fair value" of the obligation. For the purposes of the question, fair value means "the amount at which that liability could be settled in a current [not future] transaction between willing parties, that is, other than in a forced or liquidation transaction." Provide all assumptions and calculations underlying these amounts.

187. Provide complete copies of all Board of Director's minutes and internal management meeting minutes during the past five years in which any or all of the following subjects were discussed: the Company's depreciation rates; retirement unit costs; SFAS No. 143; and FIN 47.

188. Please provide the accounting entries (debits and credits) used to implement SFAS No. 143 and FIN 47, along with all workpapers supporting those entries. Please provide all these workpapers and calculations in electronic format (Excel) with all formulae intact.

189. Refer to page 39 of Delta's December 31, 2006 Form 10-K. Provide all workpapers supporting the calculation of the $850 thousand (2005) and $880 thousand (2006) regulatory liabilities for cost of removal. Please provide all these workpapers and calculations in electronic format (Excel) with all formulae intact. Provide the amounts on an account-by-account basis, and also provide the portion of those amounts that are related to Kentucky jurisdictional operations.

190. Provide the calculation of Delta's regulatory liability for cost of removal as of December 31, 2006. Please provide this on an account-by-account basis, in Excel format, with all formulae intact. Indicate how much of each amount relates to Kentucky jurisdictional operations.

191. Provide an analysis of the regulatory liability for cost of removal since inception identifying and explaining each debit and credit entry and amount.

192. What impact did the application of FIN 47 have upon the proposed depreciation rates and expense in this rate case? Provide all workpapers supporting the answer.

193. Provide Delta's projection of the annual year-end balance in the regulatory liability for cost of removal shown in its Annual Report, for the next 20 years. If not available for the next twenty years provide for as many years into the future that the projection is available. If this projection has not been made, please explain why not.
    a. For this projection assume that all of Delta's proposed depreciation rates are approved as requested. Provide in hard copy and in electronic format with all formulae intact.
    b. Explain all assumptions used to make this projection.

194. Provide the calculation of the annual amount of future net salvage incorporated into Delta's existing depreciation rates and in its proposed depreciation rates by account. If the amount is reduced by the total amount of non-legal AROs included in year-end accumulated depreciation, show that calculation.

195. With respect to the Regulatory Liability relating to asset cost of removal which you reclassified out of accumulated depreciation:
    a. Do you agree that this constitutes a regulatory liability for regulatory purposes in Kentucky? If not, please explain why not.
    b. Do you agree that this amount is a refundable obligation to ratepayers until it is spent on its intended purpose (cost of removal)? If not, why not?
    c. Please explain the repayment provisions associated with this regulatory liability.
    d. Explain when you expect to spend this money for cost of removal.
    e. Explain what you have done with this money as you have collected it. If you say that you have spent it on plant additions, please prove it.
    f. Identify and explain all other similar examples of Delta's advance collections of estimated future costs for which it does not have a legal obligation.

g. Does Delta agree that the Kentucky Public Service Commission will never know whether or not Delta will actually spend all of this money for cost of removal until and if Delta goes out of business? If not, why not?

h. Does Delta believe that amounts recorded in accumulated depreciation represent capital recovery? If not, why not?

i. Whose capital is reflected in accumulated depreciation – shareholders' or ratepayers'?

196. For all accounts for which Delta has collected removal costs not related to AROs, but instead recorded a regulatory liability, please provide the fair value of the related asset retirement cost as of December 31, 2003; December 31, 2004, December 31, 2005 and December 31, 2006. For the purposes of this question, assume that Delta has legal AROs for these accounts, and use the life and dispersion assumptions reflected in Mr. Seelye's depreciation study.

197. Please provide a copy of the Company's five-year (or shorter if 5 years is not prepared) operating and capital budgets prepared in 2004, 2005 and 2006.

198. For the budgets supplied in response to the preceding question, please provide a description of all variations from actual expense levels which are due to known and certain changes, providing supporting documentation. Indicate all variations from actual levels which result from the application of inflation or escalation factors. In those instances where inflation or escalation factors were utilized, explain the derivation of the factors used in each case. If a single factor was used, a summary description will suffice.

199. Please indicate, if known and quantifiable, any anticipated changes in jurisdictional allocation factors and the impacts thereof on the 2006 test year.

200. Indicate the number of and expenses related to temporary or seasonal employees included in 2004, 2005 and 2006 jurisdictional expenses.

201. Please provide jurisdictional totals and amounts by payee, and an explanation of the services provided, for all amounts charged to outside services during 2004, 2005 and 2006.

202. Please provide copies of any studies or analyses prepared by or for the

Company regarding the level of the Company's wages compared to the wages paid by other utilities, service companies, or any other entity.

203. Please provide the FICA wage base dollars included in total wages paid for the year ended December 31, 2005 and 2006.

204. Please provide the FICA wage base anticipated for the base and test years and explain its derivation.

205. Please provide a copy of the Company's most recent pension plan and post-retirement benefits actuarial studies.

206. Please provide a copy of all incentive compensation/bonus plans and provide the level of related bonus payments included in cost of service.

207. Please provide the percent of wages, employee benefits, overheads by type, employment taxes and other expenses charged to O&M on the basis of labor dollars (by the various labor categories, if possible) for 2004, 2005 and 2006. Please indicate the causes of any differences between the percentages (over 3 percent) from year to year.

208. Please provide a copy of the most recent Salary Administration Program.

209. State whether the filing includes any provision for corporate performance awards. If so, list the dollar amount for each program. Identify into which accounts and in what amounts it has been accrued.

210. List the amount accrued for compensated absences by month from January, 2004 through the present. Show amounts separately for banked sick time, for accrued vacation and for banked vacation. Indicate which accounts were affected and the associated dollar amounts.

211. Does overtime include normal pay plus premium or just premium? Identify the level of premium pay for 2005, 2006 and 2007 to date.

212. Please provide a copy of any Company labor productivity analyses which have been performed during the past three years.

213. With regard to pension expense:
    a. Please provide the most recent actuarial study.

b. Please identify the amount of pension expense included in 2004, 2005 and 2006. Also please provide workpapers showing the derivation of these amounts.

c. Please state whether the pension expense provided in part b, includes interest charges or earnings based on the time of payment. If yes, please identify the amount and provide workpapers or supporting documentation.

d. Please state the frequency with which pension contributions are made and the relationship of the payment date(s) to the period for which the contribution is being made. If the pension contributions are paid to the parent or service company, please identify both Company payment date(s) and the date(s) on which the contribution is actually made by the affiliate.

e. Please identify where pension expense has been included in the last working capital study and how the pension contribution date was recognized in determining the lag days for that category.

f. Please describe and quantify the effects FASB 87 and 88 would have on the pension plans for the Company for 2004, 2005 and 2006 if fully reflected.

214. What rate of interest is the Company currently earning on its pension plan fund balance?

215. Has the Company considered reducing the amount of post retirement health care, dental and life insurance coverage? If yes, provide details of any proposed reductions. If no, provide an explanation of why not.

216. Provide a complete copy of any and all actuarial reports prepared by or for the Company during the past three years concerning the cost of post retirement benefits other than pensions.

217. Post Retirement benefits other than pensions (OPEB's).

a. Please provide complete workpapers showing the derivation of OPEB expense for 2005, 2006 and 2007 to date.

b. Please show all assumptions and the basis of all calculations.

218. List expense amounts for workers compensation insurance and claims for each year 2004, 2005, 2006 and 2007 to date. Indicate in which expense accounts these items are recorded.

219. Please state whether any amounts have been booked during the test year by the Company for the liability created pursuant to any employment severance compensation agreements.

220. List employee relocation expense for the base and test years and the previous three years. Indicate annually the amounts and accounts in which such expense is recorded.

221. Provide a complete copy of the Company's policy with respect to employee relocation, including full details as to cost reimbursement.

222. List each athletic and employee association to which the Company contributes and the associated amounts for the test year and preceding year. State how the Company has treated these expenses in the test year.

223. List the dollar value of discounts for service and merchandise the Company provides to employees. Provide for the test year. Show in what accounts and amounts such expense was recorded. What employees are eligible to receive such discounts?

224. List all Company owned automobiles, other than service vehicles, and state the Company's policy for charging employees for the personal use of these automobiles and the Company policy of reporting the personal usage of these automobiles for Federal income tax purposes.

225. Does the Company maintain any recreational sites for the use of the public and/or Company employees? If so, please:
    a. Identify each site and the type of recreational facility.
    b. State whether each site is for public use or exclusively for employee use.
    c. For each site identified in (a) above, state the amount of expense incurred during the test year to maintain it.

226. For the test year list all payments made for employee gifts, employee awards, employee luncheons and dinners, employee picnics and all other similar type items. For each, list the dollar amount paid, the payee, the account charged and state the purpose. Provide copies of invoices which exceed $5,000.

227. Identify all expenses incurred during the test year for athletic events, tickets, sky boxes and all sporting activities.
    a. Specifically identify the activity and dollar amount.

b. Provide copies of paid vouchers and invoices supporting these expenditures.

228. Does the Company or any affiliates employ chauffeurs? If so, identify the expenses included in the test year.

229. Please list all steps the Company has taken to reduce the cost of medical insurance.
   a. Does the Company's insurance coverage require a coordination of benefits and, if so, how does it function?
   b. Does the Company plan require a co-pay percentage by the employee? If so, what is the percentage and has it increased over the past three years? State the various levels over the past three years.

230. With regard to research and development (R&D) expenditures, please provide:
   a. A monthly breakdown of the R&D expenses by project included in 2004, 2005 and 2006.
   b. A comparison of actual vs. budgeted expenditures for 2004, 2005, 2006 and 2007 to date.
   c. A detailed explanation of the causes of any increase from 2005 levels to 2006 levels and from 2006 to the 2007 budgeted level and why such an increase is necessary and reasonable.
   d. A summary description of each of the R&D projects identified and the benefit to be derived by ratepayers.
   e. Please provide the costs by project for each year of 2005, 2006 and 2007 to date.

231. With regard to R&D projects, does Delta's regulated operations realize any royalties, profits from commercialization, or other forms or reimbursement or funding? If yes, please identify the amounts of all such items in 2005, 2006 and 2007 to date.

232. With regard to all capital and expense accounts included in the filing, please provide:
   a. A monthly breakdown of the expense by capital project and/or expense account included in 2005, 2006 and 2007 to date.
   b. A comparison of actual vs. budgeted expenditures for 2005, 2006 and 2007 to date.

c. A detailed explanation of the causes of any increase from 2005 levels to 2006 levels and from 2006 to the 2007 level and why such an increase is necessary and reasonable.
d. A summary description of each of the capital projects identified and the benefit to be derived by ratepayers.
e. Please provide the costs by project for each year of 2005, 2006 and 2007 to date.

233. For each advertising expense over $10,000 recorded by the Company during the test year, state the payee, amount, date and purpose. Also provide a copy of the associated invoice and a copy of (or if a non-print ad, the text of) each advertisement.

234. Are there any advertising costs being incurred by the Company which cannot be identified with a specific advertisement? If so, please itemize and describe each such cost, and list the associated amounts for each year 2005, 2006 and 2007.

235. Break down the Company's advertising expense for the test year into its components, i.e., labor, overhead, materials and fees to agencies, etc.

236. Does the Company have any studies as to the effectiveness of its advertising and marketing programs? If so, describe by name, date and contents each study the Company has. Provide a copy of all such studies in the last three years.

237. Please list the trend in advertising expense per dollar of revenue for the five year period ending with 2007. If the Company has not made this calculation, please supply the information necessary to make it.

238. Please provide a listing of and a copy of any and all Commission Orders the Company has reviewed or relied upon in preparation of its filing in this case concerning the ratemaking treatment of costs for each distinct type of advertising expense it incurs, including but not limited to these categories: (1) sales or promotional, (2) institutional, (3) conservation related, (4) rate case, and (5) other.

239. List any antitrust expense included in the test year.

240. Does the Company's proposed rate increase include any claim for attrition or suppression of sales?
a. If so, please reference where this is presented.

b. Provide a complete copy of any and all attrition studies or analyses prepared by or for the Company during the period 2003 through 2006.

241. Explain the method used by the Company to project uncollectibles for the test year. Include an explanation of all assumptions used and a detailed explanation, including examples, of whether and how historical data was used in making this projection.

242. Please list by customer and amount and by year for the period 2003 through 2007 any uncollectible accounts which have been written off and which exceeded $10,000,000.

243. List and describe in detail any cost-saving programs implemented 2004 through the present.

a. For each program listed in response to this request, show the anticipated and achieved savings. Include calculations of savings amounts and explain any assumptions used in such calculations.

b. Provide the cost-benefit analyses for each such program.

c. Show the impact of any such cost-saving programs on the test year.

244. Provide a complete explanation of any and all expense reduction goals (cost savings programs) the Company has concerning the development of the 2004, 2005, 2006 and 2007 budgets.

245. List for the test year, the amount of country club initiation fees, stock purchase payments, if applicable, annual dues and expenses which were paid and to what account these fees were charged.

a. For each payment list the individual whose name the membership is in or who uses the club, his (her) title, and name of the country club.

246. Provide a copy of the Annual Report of EEI/AGA and every other organization of which Company was/is a dues-paying member during 2005, 2006 and 2007 when available.

247. Provide a copy of the formula used to compute, and the actual calculation of the Company's EEI/AGA dues in 2004, 2005, 2006 and 2007. Also, provide a complete copy of invoices received from EEI/AGA for dues for these years.

248. Has the Company included in test year operating expense any amount for EEI/AGA Media Communications? If so, state the amount, indicate in which account this has been recorded, and provide a citation to any and all Commission Orders or other authority upon which the Company is relying for the inclusion of such expense in the test year.

249. Is the Company relying upon any NARUC reports or other studies for the exclusion from or inclusion in rates of a portion of its EEI/AGA dues? If so, please provide a copy of such report and indicate how the report's recommendations have been included in its filing.

250. List all travel and entertainment expenses incurred in the test year by Company employees in relation to EEI/AGA and other industry association activities. Show amounts, descriptions, person, job title and reason for the expense. Provide a copy of employee time and expense reports and invoices documenting such expenses.

251. Do any of the Company's personnel actively participate on Committees and/or any other work for any industry organization to which the Company belongs?
    a. If so, state specifically which employees participate, how they are compensated for their time (amount and source of compensation), and the purpose and accomplishments of any such association related work.
    b. List any and all reimbursements received from industry associations, for work performed for such organizations by Company employees.

252. Please provide copies of all expense reports (or similar documents) which exceed $1,000 submitted by Company officers during 2005, 2006 and 2007 to date for reimbursement of business or personal expenses.

253. For each injury and damage claim, where the settlement exceeded $10,000 for the years 2005, 2006 and 2007 to date, list by year each such claim, the basis for the claim, the dollar amount of the claim paid and the associated legal fees.

254. State the amount of injuries and damages expense for each of the last three years.

255. Itemize each component of insurance expense included in the base and

test years, and provide comparative information for 2005 and 2006. Indicate the accounts and amounts in which each item of insurance expense is recorded.

a. For any component of the Company's insurance expense which has fluctuated by more than 10% or $10,000 from one year to the next, provide an explanation as to the cause of such fluctuation.

256. Itemize the legal services expenses included in 2005, 2006 and 2007 for rate case related work. For each distinct item state: payee; amount; account; purpose; docket, case, or proceeding reference; and describe briefly the nature of the case or legal service received.

257. Please itemize the amount of non-rate case legal expense for 2005, 2006 and 2007 to date. For each distinct item over $5,000 show payee, amount, account and indicate what services were performed and what the subject matter of the services was.

a. Provide copies of all invoices which exceed $10,000. This should be the complete document including a complete description of work performed.

258. List all fees during the test year, the previous two years and 2007 to date for maintaining lines of credit. List such fees for each line of credit which the Company maintains. Indicate in which account such fees are recorded.

259. Does the Company employ a fringe-benefit or overhead factor to assign overhead costs to specific projects? If so, state what these factors were in 2005 and 2006 and show in detail how they were calculated.

260. List and describe all maintenance programs and expenses which have been deferred into the test year from prior years, and for each item, explain the Company's reason for such deferral.

261. List all merchandise-related revenue, expense and rate base items included in the test year by account and amount.

262. List each abnormal or non recurring charge or credit which occurred during 2005, 2006 and 2007 to date, and which exceeded $10,000.00.

a. For each such charge or credit, state the basis and dollar magnitude of each.

b. Provide copies of invoices, journal entries or other documentation to support each abnormal or non recurring item.

263. Itemize all expenses over $5,000 recorded by the Company during 2005, 2006 and 2007 to date in General Office Expense and Miscellaneous Expense. For each, state the payee, amount, date, purpose and subaccount. Also provide a copy of the associated invoice for amounts over $10,000.00.

264. List by account the Company's annual O&M expenses for the ten years ending 2006, plus 2007 to date. For each account having a variance over the prior year exceeding 10%, explain the cause of such variance, listing and describing each significant causative item and the associated dollar amount.

265. Penalties and fines. List and describe any and all penalties and fines in the base and test years and the preceding three years. Indicate in which account each such item was recorded.

266. List all productivity savings expected to be realized by the Company as a result of increased employee experience.

267. List each facility, location and asset which is included as rental expense. For each item include a description, the annual or monthly rental rate, the account and amount included in the base and test year expense.

268. Please list storm damage expense for each year for the 10-year period ending with 2006.

269. Provide, by year, all affiliated operating expenses charged to Kentucky regulated operations for the 10 years ending 2006.

270. Provide detailed support for any Management Fees included in the filing. Provide this in Microsoft Excel or compatible format. Include total charges incurred by each corporate department and the amount each of these departments allocated to Kentucky regulated operations. Also include the number of employees in each department and the method used to allocate charges for each department.

271. Provide a general ledger listing or similar report of all transactions that comprise any corporate charges allocated to regulated operations.

II. COST OF CAPITAL

The following questions pertain to the testimony of Mr. Blake:

272. With reference to page 1, lines 6-24, please provide copies of the three previous testimonies in which Mr. Blake provided a return on equity recommendations. Please provide direct, rebuttal, and surrebuttal testimony, as well as all associated exhibits and schedules.

273. With reference to page 6, lines 1-9, please provide copies of all studies performed by Mr. Blake that compare Delta to industry norms in terms of size, payout ratio, interest coverage, equity ratio. Please provide the data used in the studies in hard copy and electronic formats (Microsoft Excel), with all data and equations left intact.

274. With reference to page 9, lines 14-17, please provide copies of all studies performed by Mr. Blake or others that support the statement regarding the assurance of earning a fair and reasonable rate of return.

275. With reference to page 11, lines 4-16, please provide copies of all empirical studies performed by Mr. Blake or others that demonstrate (1) the four issues raised by Mr. Blake are the actual reasons that Delta has been unable to earn its allowed rate of return, and (2) Delta's inability to control costs was not the reason that the Company was unable to earn its allowed rate of return.

276. With reference to page 11, lines 17-27, please provide copies of all materials used by Mr. Blake and published by Edward Jones.

277. With reference to page 11, lines 17-27, please provide copies of all empirical studies performed by Mr. Blake which demonstrate whether Delta uses more or less short-term debt than the other gas companies covered by Edward Jones.

278. With reference to page 13, lines 8-14, please provide copies of all empirical studies performed by Mr. Blake which demonstrate that, for gas distribution companies, having a low equity ratio results in a lower earned return and an inability to earn its allowed return.

279. With reference to page 15, lines 9-27, please provide copies of all empirical studies performed by Mr. Blake or others which demonstrate that gas companies which serve predominantly rural customers (1) earn lower returns and (2) are riskier, than other gas companies.

280. With reference to page 16, lines 3-8, please provide copies of all empirical studies performed by Mr. Blake that Delta's business risk is influenced by its service territory.

281. With reference to pages 21-22, please (1) list all regulatory cases (by name, docket number, and filing date) in which Mr. Blake has provided rate of return testimony and proposed his market value – book value capitalization adjustment , (2) indicate all cases (by name, docket number, and date) in which a regulatory commission has adopted Mr. Blake's market value – book value capitalization adjustment in arriving at an overall rate of return, and (3) provide copies of the 'Rate of Return' section of the Commission's decisions for all cases in which a regulatory commission has adopted the adjustment.

282. With reference to pages 21-22, please (1) list all regulatory cases (by name, docket number, and filing date) in which Mr. Blake supported a market value – book value capitalization adjustment to a DCF equity cost rate while a Commissioner of the New Mexico Public Service Commission, (2) provide copies of the 'Rate of Return' section of the Commission's decisions for all cases in Mr. Blake supported a market value – book value capitalization adjustment to a DCF equity cost rate while a Commissioner of the New Mexico Public Service Commission.

283. With reference to pages 21-22, please (1) list all regulatory cases (by name, docket number, and filing date) which Mr. Blake is aware of in which a regulatory commission has adopted a market value – book value capitalization adjustment computed in the same manner as Mr. Blake's in arriving at an overall rate of return, and (2) provide copies of the 'Rate of Return' section of the Commission's decisions for all such cases in which a regulatory commission has adopted the adjustment.

284. With reference to page 25, lines 8-30, please provide copies of all relevant sections of all materials published by Ibbotson Associates which are used by Mr. Blake.

285. With reference to page 29, please provide copies of all data and source documents used in the construction of Exhibits MJB-14 and MJB-15.

Please provide the data used in the Exhibits in hard copy and electronic formats (Microsoft Excel), with all data and equations left intact.

286. With reference to page 30, lines 15-26, and Exhibit MJB-17, please list the screens applied to the Value Line database to arrive at the ten companies.

287. With reference to page 31, lines 1-6, and Exhibit MJB-18, please provide copies of all data and source documents used in the construction of Exhibits MJB-18. Please provide the data used in the Exhibit in hard copy and electronic formats (Microsoft Excel), with all data and equations left intact.

288. With reference to page 31, lines 7-27, and Exhibit MJB-19, please provide copies of all data and source documents used in the construction of Exhibits MJB-19. Please provide the data used in the Exhibit in hard copy and electronic formats (Microsoft Excel), with all data and equations left intact.

289. With reference to page 31, lines 16-18, please provide all data and show all calculations of the Delta's interest coverage of 2.66X. Please provide the data and calculations used in hard copy and electronic formats (Microsoft Excel), with all data and equations left intact.

290. With reference to page 32, lines 7-25, please provide: (1) a list of all utilities used in Mr. Blake in his gas group which have a CRS mechanism similar to that proposed by the Company; (2) for those companies identified in your response to subpart (1), please provide copies of the relevant sections of rate orders granting these gas companies a CRS mechanism; (3) please provide a list of all gas companies known to Mr. Blake in the U.S. that have a CRS mechanism; and (4) for those companies identified in your response to subpart (3), please provide copies of the relevant sections of rate orders granting these gas companies a CRS mechanism.

291. With reference to page 35, lines 14-21, please provide copies of all studies known to Mr. Blake which suggest that a CRS mechanism as proposed by the Company does not affect the riskiness of a gas company.

292. With reference to page 36-40, please provide: (1) a list of all utilities used by in Mr. Blake in his gas group which have a CEP mechanism similar to that proposed by the Company; (2) for those companies identified in your response to subpart (1), please provide copies of the relevant sections of rate orders granting these gas companies a CEP mechanism; (3) please

provide a list of all gas companies known to Mr. Blake in the U.S. that have a CEP mechanism; and (4) for those companies identified in your response to subpart (3), please provide copies of the relevant sections of rate orders granting these gas companies a CEP mechanism.

293. With reference to pages 36-40, please provide copies of (1) all studies known to Mr. Blake which suggest that a CEP mechanism as proposed by the Company does not affect the riskiness of a gas company.

294. Please provide electronic (Microsoft Excel) copies of the Exhibits MJB-2, -4, -5, -7, -8, -9 -12, -13, -14, -15, -18, -19.

<u>The following questions pertain to the testimony of Mr. Brown:</u>

295. With reference to page 9, lines 1-11, and Schedule 8, please provide an electronic copy (Microsoft Excel) of Schedule 8, with all data and calculations left intact.

296. With reference to page 9, lines 1-11, and Schedule 8, please provide an electronic copy (Microsoft Excel) of all data and calculations used to calculate the Company's long-term debt cost rate of 6.814%. Please show all debt issues, their amounts, issuance and retirement dates, their coupon interest rates, and all adjustments made to coupon rates to arrive at effective annual cost rates.

297. With reference to page 9, lines 1-11, and Schedule 8, please provide an electronic copy (Microsoft Excel) of all data and calculations used to calculate the Company's short-term debt cost rate of 6.487%. Please provide details of all short-term lending agreements as well as how short-term borrowing rates are determined.

298. Please provide an electronic copy (Microsoft Excel) of Delta's Response to PSC Data Request No. 3, Schedules 1 and 2.

III. RATE DESIGN

299. Please provide the AGA study by Joutz and Trost cited on page 6 of Mr. Jennings' testimony.

300. Please provide the data in Exhibit JB-2 on a weather-normalized basis.

301. Please provide any studies in the Company's possession that compare the cost of gas for space heating, water heating and cooking with the cost of alternative fuels for these same purposes.

302. Please identify the beginning and end of year number of customers, new hook-ups and drop-offs each year for the last five years, separated by class of customer. Distinguish between retail and transportation customers.

303. Please explain how revenue from off-system transportation benefits Delta's other customers, as stated in the bottom lines on page 7 of Mr. Jennings' testimony.

304. Please identify the annual growth in transportation service during the past five years. Separate that growth between new customers or throughput and transportation service that has transitioned from retail service.

305. Please provide all information in the possession of the Company concerning the implement of a CRS mechanism similar to Delta's by the South Carolina legislature.

306. Please provide all information in the possession of the Company concerning the programs alluded to by Mr. Jennings on pages 14 and 15 of his testimony in the states of Alabama, Indiana, North Carolina, Oregon, New Mexico Utah, Louisiana, New Jersey, Missouri, California, Ohio, Maryland, Virginia, Minnesota and Idaho.

307. Please provide all workpapers, studies, analyses or other documentation underlying Exhibit JB-1.

308. Please reconcile Mr. Jennings' statement on page 11 of his testimony that throughput has increased by 85% since 1999 with the evidence on Exhibit JB-2 that billed usage has declined since 2002.

309. Please provide the report cited at the top of page 4 of Mr. Wesolosky's testimony. This report is described as a "Minority Report." If there is a Majority Report, please provide it also.

310. Please explain fully the sentence at the top of page 11 of Mr. Wesolosky's testimony which states that the basis for space heating savings will be log-only customers. Include in this explanation any evidence in the

Company's possession that conventional space heating has an efficiency of 70% to 80% and replacement heating can obtain an efficiency level of 99%.

311. What is the justification for assuming that a home owner will lower his thermostat setting by one degree following an energy audit as implied by Mr. Wesolosky on page 11 of his testimony?

312. Please provide any evidence in the Company's possession that the high efficiency levels in the table on page 6 of the CEP write-up are realizable.

313. Why has the Company applied for the CEP in a rate case and not separately as a Demand Side Management (DSM) program under KRS 278.285? Does the Company believe that KRS 278.285 does not apply to the programs described by Mr. Wesolosky? If so, why?

314. Please identify any rate case issues, aside from rate of return, which would be encountered in a conventional rate case but would not be encountered in a CRS review.

315. At page 13 of his testimony, Mr. Wesolosky states that the CRS refunds or collections for a given year will be allocated pro-rata to each customer class based on the allocation of the revenue requirement to each customer class as determined in the most recent rate case. How, if at all, will this mechanism adjust for changes in the number of customers or the consumption levels of the respective class between rate cases?

316. Why should high efficiency rebates be offered to builders of new homes?

317. Please provide any information or data in the Company's possession that supports the levels of participation in the respective DSM programs shown in the "Program Budget."

318. Explain in detail how the "lost sales" from the CEP program will be calculated. Include in this explanation how the Company will distinguish between sales lost due to the CEP program and sales that would be lost absent the program. Explain also how lost sales from energy audits will be calculated. Provide specific examples of the computation of lost sales.

319. Please provide an illustration of the calculation of the CEPI.

320. Please refer to sheet 38 of the proposed tariff. In the middle of the page, the tariff states that sales to residential customers will be increased

monthly by the CEPRC. The subsequent description of the CEPRC refers to "rates" established annually. How, mechanically, does Delta propose to recover its CEP costs, by increasing sales, through a surcharge, or through some other mechanism?

321. If, as stated in the middle of sheet 38, Delta proposes to increase the sales to residential customers to pay for the CEP, will those restated sales also be used to recovery gas commodity costs? If so, how will customers be protected from overcharges for gas costs? If not, does this mean that each customer will have two different levels of gas consumption billed to him each month?

322. How, exactly, does Delta propose to calculate the "administrative expenses" that will be recovered in the CEPCR? Please provide an illustration of this calculation.

323. The third paragraph under "CEPLS" on tariff sheet 39 states that the aggregate lost revenues "attributable to the program participant" shall be divided by the estimated sales for the upcoming 12 month period to determine the "CEPLS surcharge." This paragraph implies that there will be a specific CEPLS surcharge applicable to each customer based on his individual conservation. How does this implication square with the formula at the bottom of sheet 38 which implies an aggregate rate applicable to all residential customers?

324. The paragraph at the top of sheet 40 states that revenues from the CEPLS will be based "on engineering estimates of energy savings, actual program participation and estimated sales for the upcoming twelve-month period. . ." This leaves revenue determination very indeterminate. Please identify specifically how CEPLS lost revenues will be measured for each of the programs outlined in Mr. Wesolosky's testimony.

325. Please provide an illustration of the calculation of the CEPI.

326. Will the CEP rates be surcharged on the commodity (per mcf.) or the customer charge?

327. Refer to sheet 43 of the proposed tariff. What form will the CRS "adjustment to rates" take, per mcf., per customer, or both?

328. Will other interested parties aside from the Commission staff and the Attorney General be permitted to participate in the annual CRS reviews?

329. Which, if any, of the rate case filing requirements will apply to the annual CRS filings?

330. Please provide the orders of the Alabama Commission cited on pages 34 and 36 of Dr. Blake's testimony.

331. Please provide the record of rate adjustments by gas companies pursuant to the Alabama and South Carolina rate stabilization programs discussed by Dr. Blake on pages 34 and 35 of his testimony.

332. Please provide any studies that demonstrate the cost-effectiveness of the DSM programs outlined in Mr. Wesolosky's testimony.

333. What is the rationale for changing the basis for the volumetric charges from ccf to mcf?

334. Please provide all data available to Delta on the appliance mix of its residential and small commercial customers.

335. Please provide the cost of service study in electronic format with all algorithms and formulas in tact.

336. What is Delta's recommended schedule of information requests and replies during the 45-day review period envisioned in the Company's CRS proposal?

337. Describe in detail and provide full documentation of the Company's design day (demand) allocation procedure.

338. Please describe in detail the use of Delta's transmission and distribution facilities by off-system transportation customers.

339. Why are CUST 01, 02 and 03 based on the year-end count of customers, while CUST 04 is based on the average number of customers?

340. What is the difference between CUST 04 and CUST 05 allocation factors?

341. Please provide all source documents, workpapers, calculations and other documentation supporting the "zero intercept" procedure used by the Company to allocate mains costs.

342. Please provide the per-foot replacement cost new of each of the pipe sizes shown in page 2 Seelye Exhibit 8.

343. Please refer to page 25 of Mr. Seelye's testimony. Is the adjusted rate of return for the residential class 5.71% as shown in the table, or 5.17% as stated in line 5?

344. Please provide the record of WNA adjustments since the inception of the program?

345. Confirm that the descriptor in column (8) in Seelye Exhibit 1 should be "Column (6)/Column (7)." Please provide an explanation for the variance between these two columns.

346. Does the 5,3735,396 mcf shown in the line titled "On-System Transportation Special" refer only to Special Contracts, or does it include other on-system transportation customers as well? If the latter, please provide a breakdown of this figure.

347. Does Seeyle Exhibit 1 reflect billings for the year-end December 31, 2003, as the title states? If so, please provide the corresponding data for the year ending December 31, 2006.

348. Why does the Company propose to increase the commodity rate for small non-residential customers but not for residential customers?

349. Please describe fully the rationale underlying the declining block rates for the large non-residential rate classes. Provide any workpapers, calculations or other documentation that would support the definition of these blocks and the rates applicable to them.

350. In view of the fact that there are no large non-residential customers taking gas in the over 5,000 mcf blocks, would it make sense to eliminate these rate blocks?

351. Provide any workpapers, calculations or other documentation that support the rates to interruptible customers?

352. What is the rationale for changing the billing units for gas lighting and interruptible classes from Mcf to Ccf?

353. Why is it impossible to derive any increased revenue from the special contracts?

354. Please provide a full explanation for the assumed increases in the number of collection fees, reconnects and bad check charges shown on page 16 of Seelye Exhibit 4. Include any calculations, workpapers or other documentation to support these assumed increases.

355. Why does page 16 of Seelye Exhibit 4 show no increases in the charges for collections, reconnections and bad checks when tariff sheets 14 and 15 show that these charges will be increased? If page 16 is in error, please provide a corrected page.

356. Please provide the factors used in weighting services and meters among the classes. Provide full documentation for these weightings, including source materials, workpapers, calculations and memoranda.

357. Please provide a record of the GCR over the last three years.

358. Provide any studies or data in the Company's possession that would demonstrate the cost-effectiveness of the special contracts.