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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 SUPPLEMENTAL 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 Supplemental 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
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Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of the Attorney General's Supplemental 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:

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Mr. Glenn Jennings
Delta Natural Gas Co., Inc.
3617 Lexington Rd.
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all on this 17th day of July, 2007.

Assistant Attorney General

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

I. REVENUE REQUIREMENT

1. Please refer to AG 1-7. Please provide the "special contracts" for transportation service for the three companies as discussed in the response. Also, if the customer discussed in the first bullet point is on a special contract, provide that contract.

2. Refer to AG 1-12.
   a. Please provide a detailed list of the projects that make up the $308,300 budget for Outside Services Computers.
   b. Please provide the contract(s) with FlowCal and PowerPlan showing the annual costs to be paid to these companies for the new systems.

3. Refer to AG 1-23. For each account listed on the attachment, please describe in detail what is included in the account, i.e., what is "labor service revenue," etc.

4. Refer to AG 1-39. Why does Delta believe its bad debt estimate is low for the test year?

5. Refer to AG 1-42. Explain why Delta does not budget or estimate retirements.

6. Refer to AG 1-52.
   a. Please explain what the "salvage received" is. Is it the amount the company received for the sale of the item?
   b. If Delta "sold" these items for the undepreciated balance, please explain why this was the selling price, as opposed to a fair value selling price.
   c. If Delta "sold" any vehicles for the undepreciated balance, please reconcile this to the policy provided in response to AG 1-224.
   d. If the "salvage received" is not the selling price, please provide the selling price for each item and explain where the difference between the selling price and the net book value was charged (and included in the rate case).
   e. Identify any of the items that were sold to an affiliate or subsidiary.
   f. State whether any such property was sold to any current or former Delta employee or director, or to anyone related by blood or marriage to any current or former Delta employee or director. If so, identify: (i) any and all such property, including a full description; (ii) to whom it was sold, including the nature of their relationship

with the company or its employees or directors; and (iii) the amount for which it was sold.

7. Refer to AG 1-62. Several items on the first page of the attachment were apparently either highlighted or redacted and are now not legible. Please provide a clean copy of the attachment. If the items were redacted, please provide an unredacted version under confidential seal.

8. Refer to AG 1-68 and 1-80. Explain how Delta Natural Gas ratepayers were compensated for the NOLs generated by Delta Natural Gas.

9. Refer to AG 1-95. Nothing responsive to this question was included in the response to PSC 2-50. Please confirm that no such information was provided to Mr. Seelye and/or The Prime Group, LLC, or in the alternative, provide the information as requested.

10. Refer to AG 1-118. The attachment only shows one set of numbers with no explanation as opposed to the requested comparison. Please provide the requested comparison.

11. Refer to AG 1-121. The response to PSC 2-50 did not include Appendix B in Excel with all formulae intact. Please provide the Excel version as requested.

12. Refer to AG 1-122. Appendix B provides only the total proposed rate. Please provide the split as requested.

13. Refer to Appendix B of Mr. Seelye's depreciation study.
    a. Does the Depreciation Book Reserve used to calculate the depreciation rates include the reserve for cost of removal? Explain why or why not.
    b. On a plant account by plant account basis, reconcile the reserves in Appendix B to the $62,107,377 in reserves shown in the response to AG 1-117 and the revised Schedule 6 provided in response to AG 1-2 and PSC 2-6 ($61,275,499 + $831,878).

14. Refer to AG 1-123. Theoretical reserves do not appear in the response to PSC 2-50. Please provide the requested information.

15. Refer to AG 1-124. The response indicates that depreciation reserve is maintained by account. In view of this response, please explain why the reserve information by account was not provided in response to AG 1-117.

Also, please provide the information requested in AG 1-117 for the past 5 years.

16. Refer to AG 1-133 and 1-134. Is inflation <u>implicitly</u> included in the proposed (existing) net salvage estimates? Explain why or why not. If it is, respond to the questions.

17. Refer to AG 1-154. The requested information was not included in the response to PSC 2-50. Please provide the requested information.

18. Refer to AG 1-161. Provide the requested information for Account 357.

19. Refer to AG 1-162 and 1-163. Provide all notes, correspondence, etc regarding the referenced "discussions with the company." Also, provide the names and positions of the individuals involved in the discussions.

20. Refer to AG 1-172. The requested information was not provided in response to PSC 2-50. Please provide the requested Excel file.

21. Refer to AG 1-189 and 1-190. The attachment to AG 1-189 did not include a plant account-by-plant account calculation of cost of removal that is not an asset retirement obligation, and it does not appear to have been provided elsewhere. Please provide the calculation as requested in 1-189 and 1-190.

22. Please provide the calculation of the cost of removal reserve as of December 31, 2006 on a plant account-by-plant account basis. According to the response to AG 1-117 this amount should be $831,878.

23. Refer to AG 1-195, part f. Are Mr. Seelyle's net salvage estimates "future net salvage" estimates? Explain why or why not. Also, explain fully why Delta does not consider its accruals for cost of removal to be an estimated future cost.

24. Refer to AG 1-206. The response states that Delta has no incentive compensation/bonus plans, however, the response to AG 1-30 clearly shows bonus accruals. What type of bonus is being accrued, and how is it reflected in the rate case?

25. Refer to AG 1-218. What caused the large increase in Workers Compensation Premiums in 2007?

26. Refer to AG 1-242. The threshold referenced in the original data request was incorrect. 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.

27. Refer to AG 1-246. Explain why Delta does not have a copy of the annual reports for EEI or AGA.

28. Refer to AG 1-255. Please reconcile the amounts shown for Workers Compensation with those shown in response to AG 1-218.

29. Refer to PSC 2-6b. (1), Schedule 2. It appears that $8,370 for lobbying has been included in the proforma capitalized wages and subsidiary allocation. Please explain why this is appropriate.

30. Please list all bonuses paid to company officers and directors during the test year and indicate where they are included in the filing. If they are not included in the filing, please so state.

31. Refer to PSC 2-16. Please list all normalization adjustments Delta identified that, had they been made, would have resulted in reduced expenses or increased revenue.

II. CRS MECHANISM

32. With regard to the annual return on equity (ROE) numbers for 2004 through 2006 shown on page 6, lines 14 – 16 of Mr. Jennings' testimony, please provide the following information:

    a. Provide workpapers showing the calculations for the actual achieved ROE numbers of 4.1%, 5.6% and 3.9% for 2004, 2005 and 2006, respectively.
    b. Reconcile the annual ROE numbers of 4.1%, 5.6% and 3.9% for 2004, 2005 and 2006, respectively, to the corresponding annual ROE numbers of 7.9%, 9.8% and 9.5% for 2004, 2005 and 2006, respectively, that are shown in Dr. Blake's Exhibit MJB – 4.
    c. Provide workpapers showing the calculations for the actual achieved ROE numbers of 7.9%, 9.8% and 9.5% for 2004, 2005 and 2006, respectively, shown in Dr. Blake's Exhibit MJB – 4.
    d. Explain whether the ROE numbers shown for these 3 years on page 6 of Mr. Jennings' testimony and in Exhibit MJB-4 are actual ROE numbers or weather-normalized ROE numbers.

e. Explain whether the ROE numbers shown for these 3 years on page 6 of Mr. Jennings' testimony and in Exhibit MJB-4 have been adjusted to reflect all PSC ratemaking principles (applicable accounting and pro forma adjustments required by the Commission) used in setting the rates in Case No. 2004-00067. If so, explain which specific pro forma accounting and normalization adjustments were made in deriving the stated ROE numbers for these 3 years.

33. On page 12, lines 11 – 12 of his testimony, Mr. Wesolosky states that if the Company's actual achieved ROE in any particular CRS Evaluation Period falls within the 100 basis point dead-band (50 basis points above and 50 basis point below the ROE to be authorized by the PSC in this case), there will be no CRS adjustment. Tariff sheet 43 states if the actual achieved ROE during the Evaluation period exceeds the authorized ROE by 50 basis points or is below the authorized ROE by 50 basis points, a rate adjustment shall be calculated "to collect (refund) the revenues required to achieve a return on equity for the Evaluation Period equal to the return established in the last general rate order." In this regard, please provide the following information:

a. Assuming hypothetically that the PSC's authorized ROE for Delta in this base rate case is 10.00%, then under the Company's proposed CRS mechanism, there will be no CRS adjustment if in any particular CRS Evaluation Period the actual achieved ROE is 9.51% or 10.49%. Please confirm that this is the Company's proposal as referenced above. If this is not the Company's proposal, explain what the correct proposal is.
b. Assuming hypothetically that the PSC's authorized ROE for Delta in this base rate case is 10.00%, under the Company's proposed CRS mechanism, if the actual achieved ROE in any Evaluation Period is 9.50%, there will be a rate adjustment equivalent to the 50 basis point ROE difference between 9.50% and the authorized ROE of 10.00%; and if the actual achieved ROE in any Evaluation Period is 10.50%, there will be a rate adjustment equivalent to the 50 basis point ROE difference between 10.50% and the authorized ROE of 10.00%. Please confirm that this is the Company's proposal as referenced above. If this is not the Company's proposal, explain what the correct proposal is.
c. Assuming hypothetically that the PSC's authorized ROE for Delta in this base rate case is 10.00%, under the Company's proposed CRS mechanism, if the actual achieved ROE in any Evaluation Period is

9.00%, there will be a rate adjustment equivalent to the 100 basis point ROE difference between 9.00% and the authorized ROE of 10.00%; and if the actual achieved ROE in any Evaluation Period is 11.0%, there will be a rate adjustment equivalent to the 100 basis point ROE difference between 11.00% and the authorized ROE of 10.00%. Please confirm that this is the Company's proposal as referenced above. If this is not the Company's proposal, explain what the correct proposal is.

34. On page 12, lines 20 – 23 and on page 13, lines 9 – 12 of his testimony, Mr. Jennings states:

> "As a part of the CRS, the Commission will review Delta's financial performance for the past year and determine rates for the next year. A true-up is included to adjust each year for the previous year's experience."
>
> "The mechanism would review the Company's financial performance for the past year and set the proper rates for the next year. If the next year varied from what was planned, a simple true-up at the end of the year would assure that customers' rates would be fair."

With regard to the above statements, please explain and clarify the following:

a. Under the proposed CRS, how exactly will the Commission "determine rates for the next year" and "set proper rates for the next year based on the evaluation of Delta's "financial performance for the past year?" Please provide an illustrative example as part of your explanations.
b. Under the proposed CRS, how exactly will a "true up be included to adjust each year for the previous year's experience?" Please provide an illustrative example as part of your explanations.

35. Assume hypothetically that the PSC will authorize an ROE of 10% for Delta in this case and will authorize the Company's proposed CRS mechanism with an allowed ROE of 10% and a dead-band range of 50 basis points above and below this authorized ROE of 10%. Assume further that in the first CRS Evaluation Period (Evaluation

Period No. 1) the Company's actual achieved ROE was 9% and that the shortfall between the 9% and the authorized 10% is equivalent to a rate adjustment of $1 million. Using these assumptions, please answer the following questions:

a. Under the Company's proposed CRS rate mechanism, will the Company make a CRS "true up" rate adjustment of $1 million in order to recoup in the Rate Effective Period (Rate Effective Period No. 1) the ROE shortfall actually experienced in the Evaluation Period No. 1? If this is not correct, provide the correct answer.
b. Under the Company's proposed CRS mechanism, will the Company make another CRS rate adjustment of $1 million to reset the going forward rates in the Rate Effective Period No. 1 in order to enable the Company to earn its authorized ROE of 10% in the Rate Effective Period without considering the $1 million rate collections from the "true up" rate adjustment to recoup the ROE shortfall from the Evaluation Period No. 1? If this is not correct, provide the correct answer.
c. When the Company compares the actual achieved ROE to the authorized ROE in Evaluation Period No. 2, how will it treat the fact that the actual achieved ROE will include a portion (8 months worth) of the $1 million ROE shortfall in Evaluation Period No. 1 that will be recovered in Rate Effective Period No. 1? In other words, in the determination of the actual achieved ROE in Evaluation period No. 2, will the Company remove the impact of the rate recovery from the ROE shortfall in Evaluation Period No. 1? If not, explain what approach the Company intends to follow.
d. If not already explained in the responses to parts a, b and c above, provide the approach and various steps to be taken under the Company's proposed CRS rate mechanism based on the hypothetical assumption referenced above.

36. On tariff sheet 43, the statement is made that the financial schedules to be filed under the CRS mechanism shall include "All applicable accounting and pro-forma adjustments historically permitted or required by the Commission for the Company."

Additionally, on page 12 of his testimony, Mr. Wesolosky states that, in calculating the allowed return under the CRS, "Delta's earnings for the fiscal year will be adjusted appropriately for adjustments made during the last case. Therefore, any adjustment under this mechanism will normalize Delta's earnings and ensure Delta earns only the return allowed by the Commission."

Furthermore, on page 13 of his testimony, Mr. Jennings states in this regard that "The CRS would apply the principles and rules that are used to set rates in Kentucky on an annual basis to test the existing rates and adjust then as necessary."

With regard to all of the above-referenced statements, please provide the following information:

a. In the determination of whether the Company's earnings during the Evaluation Period exceed or are below the latest allowed return on common equity (for true-up purposes), is it the Company's intention to compare its latest authorized common equity rate to the *actual unadjusted achieved Evaluation Period common equity rate that has only been adjusted by the removal of expenses and investments that were disallowed for ratemaking purposes by the Commission in the Company's most recent rate case?* For example, in determining the realized return on equity during the Evaluation Period for true-up purposes, will the Company use actual 13-month average rate base components, adjusted to remove the PSC assessment fee prepayments, assuming that the rates set for this same Evaluation Period were based on these ratemaking principles? And in determining the realized return on equity during the Evaluation Period, will the Company use the actual "as it falls" operating income for the Evaluation Period, adjusted only for the removal of items that were disallowed by the PSC in setting the rates for this Evaluation Period (such adjustments could, for example, include the removal of certain incentive compensation expenses, donations, promotional and institutional advertising expenses, lobbying expenses, etc.)?

   Or is it the Company's intention -- in the determination as to whether the Company's earnings during the Evaluation Period exceed or are below the latest allowed return on common equity (for true-up purposes) -- to compare its latest authorized common equity rate to the *pro forma adjusted achieved Evaluation Period common equity rate* that has been adjusted for normalization and annualization adjustments. For example, in this evaluation process, will the Company use a "year-end" rate base? And will the

Company adjust the actual Evaluation Period operating income to include pro forma normalization and annualization adjustments, and any other forward-looking adjustments? For example, if the Evaluation Period is, say, the twelve-month period ending June 30, 2008 and the Company had a wage increase in December 2007 and another wage increase in July of 2008, will the Company adjust the actual Evaluation Period operating income by annualizing the December 2007 wage increase and by reflecting the annualized impact of the July 2008 wage increase? And, as another example, will the Company make an adjustment to weather-normalize the actual Evaluation Period operating results?

Please provide detailed comments on all of the questions raised above.

b. Will the Company be reflecting forward looking normalization and annualization adjustments (such as, for example, the weather normalization and wage increase annualization adjustments mentioned in part a above) in the determination of its proposed CRS rates for the Rate Effective Period? If so, list these types of annualization and normalization adjustments and provide examples of such adjustments.

37. For each of the Company's most recent 5 general base rate filings (starting with the 2004 rate case, Case No. 2004-00067), please provide the following information:

a. Case number, filing date and rate effective date.
b. Actual rate case expenses, in total and as broken out by rate case expense component.
c. Rate increase granted (dollar amount and %)
d. In addition, provide the estimated rate case expenses for the current case 2007-089 in total and broken out by rate case expense category.

38. Has the Company quantified any numerical ratepayer benefits (expressed in dollars) produced by the proposed CRS rate mechanism? If so, provide these ratepayer benefits, including all assumptions and calculations supporting these estimated benefits.

39. FR 10(6)(h), Schedule 1 shows that the pro forma total operating expenses (cost of gas, O&M, depreciation, taxes o/t income taxes and income taxes) for the 2006 test year amount to approximately $56.1 million. Schedule 1 also shows that of the total operating expenses of $56.1 million, approximately $35.2 million (or approximately 63%) represents cost of gas. Schedule 2 of FR 10(6)(h) shows that 100% of this pro forma test year cost of gas amount of $35.2 million is recovered in the Company's GCR rate mechanism.

    Please confirm the above-stated facts. If you do not agree, please explain your disagreement in detail and provide the correct facts.

40. With regard to the current Alabama Gas Company Rate Stabilization and Equalization ("RSE") mechanism discussed on page 34 of Mr. Blake's testimony, please provide the following information:

    a. The current RSE tariffs for Alabama Gas Company, describing in detail the exact workings, elements and provisions of the RSE.
    b. Please confirm that the Alabama Rate RSE allows for a rate refund to the ratepayers when the true-up in the historic Evaluation Period indicates that the actual achieved ROE exceeds the authorized ROE dead-band, but does not allow for a rate increase to the ratepayers when the true-up in the historic Evaluation Period indicates that the actual achieved ROE is below the authorized ROE dead-band. If you do not agree, explain your disagreement and provide the correct facts.

41. With regard to the Company's response to AG-1-305 regarding CRS mechanisms implemented by South Carolina utilities, please provide the following information:

    a. What was the "one utility in South Carolina" with a CRS mechanism that Mr. Blake and Delta talked with? In addition, provide the current CRS tariffs for this South Carolina utility, describing in detail the exact working, elements and provisions of this CRS mechanism.
    b. The response to AG-1-8 indicates that rate stabilization mechanisms were implemented by Piedmont Natural Gas and South Carolina E&G in South Carolina. Please provide the current CRS tariffs for these South Carolina utilities, describing in detail the exact working, elements and provisions of these CRS mechanisms.

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

42. Explain why Delta is proposing that the CRS be a 5-year experimental program rather than, for example, a 3-year program?

43. Regarding the response to PSC-2-27(f), please define and explain what is meant by "a risk based evaluation procedure" to review and analyze the proposed CRS mechanism.

44. Please expand the response to PSC-2-28 by providing an analysis of the annual change in revenues (increase or decrease) that Delta would have implemented each year since its 1999 rate proceeding (with a rate effective date of Jan. 2000) if it had been operating under the proposed CRS mechanism.

III. RATE DESIGN

45. Reference response to AG DR 1-300. Please provide the formula by which actual Mcf are converted to weather-normalized Mcf.

46. Reference response to AG DR 1-302. This response indicates that close to 20% of customers drop off and hook up each year. For each year, identify the number of drop offs and hook ups at the same customer location. If exact numbers are not available, please provide your best estimate.

47. Reference response to AG DR 1-303. Please define "off-system transportation." Then explain how revenues from off system transportation benefit other customers.

48. Reference response to AG DR 1-308. Please explain the differences between the numbers used by Mr. Brown and those used by Mr. Jennings.

49. Reference response to AG DR 1-309. Please identify the significance, if any of the term "Minority Report."

50. Reference response to AG DR 1-333. The referenced language in Mr. Brown's testimony does not explain why the Company is changing from per-Mcf to per-Ccf volumetric rates. Please provide an explanation.

51. Reference response to AG DR 340. What is the weighting factor used for CUST 04?

52. Reference response to AG DR 350. Please explain your response.

53. Reference response to AG DR 350. Please state whether the level of interruptible rates is based on the cost to Delta to provide the service or on the cost of alternative fuels. In either case, provide whatever support for these rates that is in the possession of the Company.