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August 29, 2007

HAND DELIVERED

Hon. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard P.O. Box 615
Frankfort KY 40601

RECEIVED

AUG 29 2007

PUBLIC SERVICE
COMMISSION

Re: Delta Natural Gas Company, Inc.
Case No. 2007-00089

Dear Ms. O'Donnell:

Please find enclosed for filing an original and ten (10) copies of Delta Natural Gas Company, Inc.'s Requests for Information to the Attorney General in the above-captioned case. Thanks for your attention to this matter.

Sincerely,

Robert M. Watt, III

rmw:

Enclosure

cc: Mr. Glenn R. Jennings (w/encl.)
Lawrence Cook, Esq. (w/encl.)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

AUG 29 2007

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL)
GAS COMPANY, INC. FOR) **CASE NO. 2007-00089**
AN ADJUSTMENT OF RATES)

* * * * *

**DELTA NATURAL GAS COMPANY, INC.'S
REQUESTS FOR INFORMATION TO THE
ATTORNEY GENERAL**

Delta Natural Gas Company, Inc. respectfully submits the following requests for information to the Attorney General of the Commonwealth of Kentucky, by and through his Office for Rate Intervention, ("AG") to be answered by the date specified in the Commission's procedural schedule herein.

INSTRUCTIONS

1. As used herein, "Documents" include all correspondence, memoranda, notes, e-mail, maps, drawings, surveys or other written or recorded materials, whether external or internal, of every kind or description in the possession of or accessible to the AG, his witnesses or his counsel.
2. Please identify by name, title, position and responsibility the person or persons answering each of these data requests for information.
3. These requests shall be deemed continuing so as to require further and supplemental responses if the AG receives or generates additional information within the

scope of these requests between the time of the response and the time of any hearing conducted herein.

4. To the extent that the specific document, work paper or information as requested does not exist, but a similar document, work paper or information does exist, provide the similar document, work paper or information.

5. To the extent that any request may be answered by way of a computer printout, spreadsheet or other form of electronic media, please identify each variable contained in the document or file which would not be self evident to a person not familiar with the document or file.

6. If the AG has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the undersigned counsel for Delta as soon as possible.

7. For any document withheld on the ground 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.

8. In the event any document requested has been destroyed or transferred beyond the control of the AG, or any of his witnesses, 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 transferred by reason of a document retention policy, describe in detail the document retention policy.

9. If a document responsive to a request is a matter of public record, please produce a copy of the document rather than refer Delta to the record where the document is located.

REQUESTS FOR INFORMATION

For Michael J. Majoros:

1. Please provide working versions of all electronic spreadsheets used to prepare exhibits to Mr. Majoros's testimony or used to develop his testimony relating to depreciation.

2. For the regulatory proceedings listed in Appendix B of Mr. Majoros's testimony, indicate those for which he submitted testimony in support of his client's overall revenue requirement position.

3. Please provide copies of testimony listed in Appendix B in which Mr. Majoros submitted testimony during the period 2003 through 2007 in support of his client's overall revenue requirement position.

4. Please provide copies of Mr. Majoros's testimony in the following dockets:

(a) West Virginia Docket Nos. 05-1120-G-30C, 06-0441-G-PC, etc in Hope Gas, Inc. and Equitable Resources, Inc.;

(b) Kansas Docket No. 06-KGSG-1209-RTS in Kansas Gas Service;

(c) New Jersey Docket No. GR03080683 in South Jersey Gas Company;

(d) Kansas Docket No. 03-ATMG-1036-RTS in Atmos Energy;

(e) New Jersey Docket No. GR02040245 in Elizabeth Gas Company.

5. Please provide a detailed description of all education or formal training that Mr. Majoros received in statistics or related areas.

6. Does the Geometric Mean Turnover Method (“GMT”) provide any information on the type of dispersion curve that best fits the plant data?

7. Does the GMT provide any information regarding how well a particular dispersion curve statistically fits the plant data?

8. Does the GMT provide any statistical measure concerning how well a particular service life fits the plant data? If so, provide a detailed description of the goodness-of-fit statistic produced by the GMT and provide the goodness-of-fit statistics for each service life estimated by Mr. Majoros for Delta.

9. Is it Mr. Majoros’s position that GMT is superior to the SPR approach for determining the type of dispersion curve?

(a) If the GMT is superior to the SPR approach, explain in detail why the GMT method is a better approach.

(b) If the GMT is not superior to the SPR approach, then explain in detail why Mr. Majoros did not use the SPR approach in this proceeding.

10. Is it correct that the GMT method assumes uniform retirement dispersion? If not, what dispersion is assumed in the GMT?

11. If it is correct that the GMT method assumes uniform retirement dispersion, then how accurate is the GMT method when a particular type of property does not have a uniform retirement dispersion? How is such accuracy measured?

12. Is it appropriate to use a GMT method when a particular type of property does not have a uniform retirement dispersion? Provide a detailed explanation in support of the answer.

13. Provide a detailed explanation for why a SPR model will indicate a different service life for different dispersion curves?

14. Will the service life estimated by the GMT equal or nearly equal the service life estimated by the best fitting SPR curve. If not, provide a detailed explanation for why the service lives would be different.

For Charles W. King:

15. Provide working versions of all electronic spreadsheets used to prepare the exhibits to Mr. King's testimony.

16. For the state regulatory proceedings listed in Appendix A of Mr. King's testimony, indicate those for which he submitted testimony regarding cost of service studies.

17. Provide copies of testimony listed in Appendix A in which Mr. King submitted testimony during the period 2000 through 2007 concerning gas or electric cost of service studies.

18. Provide copies of Mr. King's testimony in the following cases:

- (a) Georgia Case No. 18638-U in Atlanta Gas Light Company;
- (b) Georgia Case No. 14311-U in Atlanta Gas Light Company;
- (c) Georgia Case No. 20298-U in Atmos Energy Corp.

For J. Randall Woolridge:

19. Please refer to page 8, lines 5-6, of Dr. Woolridge's testimony. Please state in detail the authority for Dr. Woolridge's "assessment" that tax law changes reduce corporate equity cost rates by 100 points. Please provide any studies that Dr. Woolridge has performed to quantify the magnitude of this impact.

20. On page 10, line 4 of Dr. Woolridge's testimony, he uses the term "comparable in risk".

(a) Please define this term as he uses it in his testimony.

(b) Please explain the analysis that he used to determine that two utilities are "comparable in risk".

(c) Exhibit JRW-2 contains six variables. Please explain how Dr. Woolridge weighted these variables in determining "comparability".

(d) How different can utilities be with respect to each of these measures and still be comparable?

21. On pages 3 through 7 Dr. Woolridge makes the case that equity risk premiums for utilities have been decreasing recently. Please explain how this statement is consistent with the increase in ROE for Dow Jones Utilities since 2004 that is reported in Exhibit JRW-4, page 3.

22. Please provide the data that was used to develop the graph shown in Exhibit JRW-4, page 3.

23. On page 16, line 19, Dr. Woolridge states that "The indicators in Exhibit JRW-4, coupled with the overall decrease in interest rates, suggest that capital costs for the Dow Jones Utilities have decreased over the past decade."

(a) Please explain how this statement is consistent with the increase in ROE since 2003 reported for Dow Jones utilities in JRW-4, page 3.

(b) Did Dr. Woolridge perform a regression analysis to determine the trend in ROE over the last decade. If yes, please provide it. If no, what is the basis for the statement cited above.

24. Is pre-tax interest coverage a ratio that is commonly reviewed by lenders? If the answer is no, please explain why not.

25. What is the purpose of calculating a mean return on equity for the panel in Exhibit JRW-2, page 1?

26. Please describe in words what the mean return on equity shows in Exhibit JRW-2, page 1 and how it can be used as a descriptive statistic.

27. Would the mean return on equity earned by the panel reported in Exhibit JRW-2, page 1 be a good measure of what natural gas distribution companies of similar risk are earning in the market? If not, please explain why not.

28. Did Dr. Woolridge examine Delta's risk in comparison with the risk for the companies in his panel? If not, please explain why he did not examine Delta's risk relative to the rest of his panel. If the answer is in the affirmative, please provide the results of his analysis and all supporting workpapers.

29. Are the beta coefficients that Dr. Woolridge reports in Exhibit JRW-2, page 2 a measure of risk that is commonly used in finance? Based on beta coefficients, how different could beta coefficients be for two companies while still considering them of comparable risk? Please cite any studies that Dr. Woolridge has performed or literature on which he relies in answering this question.

30. On page 17, beginning on line 16, Dr. Woolridge states that “Financial risk results from incurring fixed obligations in the form of debt in financing its assets.”

(a) Would Delta’s higher level of debt than any other utility in his panel result in higher financial risk than any other utility in the panel? If the response is in the negative, please explain the answer.

(b) Please provide any studies that Dr. Woolridge has done to quantify this risk.

31. On page 18, beginning on line 5, Dr. Woolridge states that “Exhibit JRW-5 provides an assessment of investment risk for 100 industries as measured by beta, which according to modern capital market theory is the only relevant measure of investment risk that need be of concern for investors.”

(a) Is beta the only relevant measure of investment risk that need be of concern for investors? Please explain the answer.

(b) If beta is the only relevant measure of investment risk, at what betas do two investments have “comparable risks”? (See statement on page 18 that “This return to the stockholder should be commensurate with returns on investments in other enterprises having comparable risks.”)

(c) With regard to Exhibit JRW-5, how small of a differential between betas is necessary for Dr. Woolridge to consider two industries as having the same risk? How large of a differential between betas is necessary for him to consider two industries as having different risks? Please provide citations to authorities to support the answer.

32. Provide the raw data used to perform the three regression analyses for electric, gas and water utilities reported on pages 14 and 15 of Dr. Woolridge's testimony and the printouts describing the results of these regression analyses.

33. With regard to the regression analyses on pages 14 and 15:

(a) Do any of the utilities in the regression analyses on pages 14 and 15 have a market-to-book ratio less than 1.0?

(b) Please provide the cost of equity (the variable K on page 14) for the companies included in the regression analyses on pages 14 and 15.

(c) Explain how Dr. Woolridge's regression analyses confirm that the market-to-book ratio is greater, equal to or less than 1.0 depending on whether the earned return on equity is greater, equal to or less than the company's cost of capital. How did the variable K enter into his analyses?

(d) Is there a single cost of capital K at any one point in time or is K different for each individual company?

(e) Would the 9% return on equity that Dr. Woolridge is recommending apply just to Delta or would this be the appropriate cost of capital K for all natural gas distribution companies?

(f) In the results reported in the graph on page 14, please explain how companies with a lower estimated ROE can have a market-to-book ratio that is higher than companies with a lower market-to-book ratio.

(g) On page 16 Dr. Woolridge states that the regression analysis "demonstrates the strong positive relationship between ROEs and market-to-book ratios for public utilities." Does this positive relationship verify the relationship that he claims

on page 14 that the market-to-book ratio is greater, equal to or less than 1.0 depending on whether the earned return on equity is greater, equal to or less than the company's cost of capital? If yes, please explain in detail how it demonstrates this.

(h) Please identify any company, regardless of whether it is a utility, that has a market value less than or equal to its book value.

34. With regard to Exhibit JRW-2, page 2:

(a) Does a lower estimated beta value indicate lower investment risk for a utility? If the response is in the negative, please explain the response.

(b) Do low safety ratings, low financial strength ratings, low stock price stability ratings and low earnings predictability have an impact on estimated betas for the two utilities with lower estimated betas than Delta? Please explain the answer.

35. How different can market-to-book ratios be and still be "comparable"?

36. Confirm or deny that Delta's projected earnings per share growth rate is the lowest in your entire panel of natural gas distribution utilities as shown in Exhibit JRW-6, page 5.

(a) Could Delta's low earnings per share growth rate shown in Exhibit JRW-6, page 5 be due to the low levels of return on equity allowed by the Commission in prior rate cases? If the response is in the negative, please explain the response.

(b) Could Delta's low earnings per share growth rate shown in Exhibit JRW-6, page 5 be due to the fact that Delta has not earned its allowed rate of return in the last ten years? If the response is in the negative, please explain the response.

(c) Why did Dr. Woolridge use an average growth rate for the panel if Delta's earnings per share growth rate as projected by analysts is the lowest of any of the natural gas distribution companies in your panel as shown in Exhibit JRW-6, page 5?

37. With regard to Dr. Woolridge's calculation of estimated return on equity using CAPM in Exhibit JRW-6, why did he use a beta of 0.78 when Delta has an estimated beta that is so much lower than the average?

38. Based on Exhibit JRW-6, page 2, does Delta's estimated beta of 0.50 compared to the mean and median betas of 0.70 and 0.78 respectively indicate that Delta is less risky than the average natural gas distribution utility? If yes, how much less risky is Delta? If no, please explain the answer.

39. Would Dr. Woolridge agree with the following characterization of the discounted cash flow methodology: "Investors adjust the price they are willing to pay for the stock until the sum of the dividend yield and the annual rate of expected future growth in dividends equals the rate of return they expect from other investments of comparable risk. The DCF test thus determines what the investing community requires from the company in terms of present and future dividends relative to the current market price." If the response is in the negative, please explain why he disagrees.

40. Please provide the raw data and the analysis that Dr. Woolridge used to calculate the monthly dividend yields reported on page JRW-6 page 2 in electronic form.

41. In Exhibit JRW-7, page 3, Dr. Woolridge takes the average of geometric and arithmetic means. What is the resulting statistic called? Please provide a citation to authority that describes what this statistic measures and how it is properly used.

42. In JRW-7, Dr. Woolridge uses a mean in some places (for example ex ante risk premium) and a median in others (for example beta and stock returns). Please explain why he is not consistent in using either the mean or the median.

43. On page 10 of his testimony, Dr. Woolridge states that “The results suggest that Delta is comparable in risk to the average of the group.”

(a) Please define what he means by comparable in risk to the average of the group.

(b) How is this comparability quantified or measured?

(c) Please provide any studies or analyses that he has done to quantify Delta’s comparability to the average of the group.

(d) Based on Exhibit JRW-3, what impact would a level of equity that is lower and a level of debt that is higher than any other member of the panel have with regard to Delta’s risk relative to other natural gas distribution utilities in his panel?

(e) Would a level of debt that is higher than any other natural gas distribution company in the panel have any impact on Delta’s earned return on equity? Please explain the answer in detail.

(f) What impact would such a high percentage of short term debt have on Delta’s risk relative to other natural gas distribution utilities his panel?

44. On page 10 of Dr. Woolridge’s testimony, he states that “Nonetheless, I am making an adjustment to my equity cost rate to reflect the higher degree of financial risk of Delta.”

(a) How did he quantify how much riskier Delta was than other members of the panel? Please provide any analysis that he performed in reaching this conclusion.

(b) How did he quantify the adjustment to the estimated equity cost rate that was appropriate to compensate for Delta's higher risk? Please provide any analysis that he performed in determining this adjustment.

45. On page 11 Dr. Woolridge states that "The cost of common equity capital is the expected return on a firm's common stock that the marginal investor would deem sufficient to compensate for risk and the time value of money. In equilibrium, the expected and required rates of return on a company's common stock are equal."

(a) In this statement, is the value of stock to which he is referring measured in market prices, in real prices or at book value? Does it matter or is the statement true for all three?

(b) Please cite any periods of time since 1926 when he regards the market to have been in equilibrium and when this statement would hold true. Would data from years when the market was in equilibrium provide a better test for his hypothesis than years when the market was not in equilibrium?

46. On pages 20 through 23 Dr. Woolridge derives the formula that he uses for his DCF calculations.

(a) Please identify what role a company's book value plays in this derivation.

(b) Can the book value per share for a company be calculated from data available from Value Line?

(c) Could an estimate of the return on equity be calculated using the book value per share in the DCF model rather than the market value per share?

(d) Why did he use the market value per share of the stock in estimating the return on equity rather than the book value when his estimated return on equity will be applied to the Delta's rate base measured at book value in determining Delta's return?

47. On page 25 Dr. Woolridge states that "an equity cost rate times a future, yet to be achieved rate base, results in an inflated dividend yield and growth rate." To which "yet to be achieved rate base" is he referring?

48. Are ex ante equity risk premiums directly observable in the market?

(a) If yes, which data sources can be used to measure them?

(b) If no, how can the measures of ex ante equity risk premiums derived from the various theories reported in JRW-7, page 3 be verified using actual data?

(c) Based on the data in JRW-3, page 3, what would the ex post equity risk premium be for Dow Jones utilities for 2006?

49. On page 52 Dr. Woolridge states that "Delta's lower common equity ratio suggests that the Company is exposed to a higher degree of financial risk" and he recommends a 30 basis point premium for Delta relative to the group.

(a) Please provide any analysis or study that indicates that a full bond rating differential would be sufficient to compensate for Delta's lower common equity ratio.

(b) If the leverage adjustment that he used is not based on an analysis or study, how did he determine that the magnitude of this adjustment was appropriate?

(c) Please provide any studies or analyses that he has done to quantify the relationship between utility return on equity and an appropriate leverage adjustment for the utility.

50. On page 59, Mr Woolridge states that “Using the historical relationship between stock and bond returns to measure an ex ante equity risk premium is erroneous and overstates the true market equity risk premium.”

(a) Please identify the data source that he used for the “true” market equity risk premium.

(b) What makes one equity risk premium “true” and another not true?

51. On page 64, Dr. Woolridge states that “The equity risk premium is based on expectations of the future.”

(a) Please identify the market conditions that he assumes for the next ten years on which his ex ante risk premium is based.

(b) Is his estimates of ex ante risk premium sensitive to any of these assumptions about future market conditions?

(c) Explain how future expectations are directly observable and measured.

52. Is it Dr. Woolridge’s position that risk premiums will never return to historical levels? If you respond in the negative, please identify when risk premiums might return to historical levels. What conditions would have to occur for risk premiums to return to historical levels?

53. On page 68 Dr. Woolridge states that “A review of the Ibbotson document indicates that these companies have betas that are larger than the betas of gas distribution companies.” Please provide a copy of the report on which this statement is based.

54. In Dr. Woolridge’s testimony, he based his recommendation on DCF and CAPM calculations for your panel. Did he perform a DCF calculation and a CAPM calculation for Delta on a stand-alone basis to see how delta compared to the panel?

(a) If the response is in the negative, please explain why he did not perform a separate analysis for Delta.

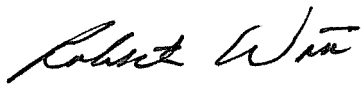
(b) If the response is in the affirmative, please provide the results of the analysis and all workpapers.

For Robert J. Henkes:

55. Please provide copies of all studies, analyses, and testimony prepared by Dr. Henkes that addresses or relates to mechanisms or tariffs identical or similar to Delta’s proposed CRS tariff.

Respectfully submitted,

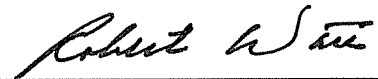
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By 
Counsel for Applicant

CERTIFICATE OF SERVICE

This is to certify that the foregoing pleading has been served by mailing a copy of same to the following persons on this 29th day of August 2007:

Dennis Howard, II, Esq.
Lawrence W. Cook, Esq.
Assistant Attorneys General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, KY 40601



Counsel for Applicant