



Delta Natural Gas Company, Inc.

3617 Lexington Road
Winchester, Kentucky 40391-9797



GLENN R. JENNINGS
CHAIRMAN OF THE BOARD,
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

PHONE: 859-744-6171 EXT 148
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July 31, 2007

Hon. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

JUL 31 2007

PUBLIC SERVICE
COMMISSION

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

Dear Ms. O'Donnell:

We deliver herewith for filing an original and ten (10) copies of the Response of Delta Natural Gas Company, Inc. to the Attorney General's Supplemental Request for Information and an original and ten (10) copies of the Response of Delta to the Third Request of Commission Staff in the above-captioned case. Best regards.

Sincerely,

Glenn R. Jennings

Rmw
Encl.

Cc: Robert M. Watt, III, Esq. (w/ encl.)
Dennis Howard, II, Esq. (w/encl.)



Ernie Fletcher
Governor

Teresa J. Hill, Secretary
Environmental and Public
Protection Cabinet

Timothy J. LeDonne
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Public Service Commission
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P.O. Box 615
Frankfort, Kentucky 40602-0615
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Mark David Goss
Chairman

John W. Clay
Commissioner

July 17, 2007

Lawrence W. Cook
Assistant Attorney General
Office of the Attorney General Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

RE: Case No. 2007-00089

Please see enclosed data request from Commission Staff in the above case.

If you need further assistance, please contact my staff at (502) 564-3940.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/sa
Enclosure

Lawrence W. Cook
Assistant Attorney General
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Honorable J. Gregory Cornett
Attorney at Law
Stoll Keenon Ogden, PLLC
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Louisville, KY 40202-2828

Mr. Glenn Jennings
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

Honorable Robert M. Watt, III
Attorney At Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KY 40507-1801

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

THIRD DATA REQUEST OF COMMISSION STAFF TO
DELTA NATURAL GAS COMPANY, INC.

Delta Natural Gas Company, Inc. ("Delta"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before July 31, 2007. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

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

Delta shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Delta fails or refuses to furnish all or part of the requested information, Delta shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

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

1. Refer to the response to the Commission Staff's Second Data Request dated June 7, 2007 ("Staff's Second Request"), Item 2. Provide the basis for the 6.5 percent discount rate used in the calculations shown on Schedule C of the response.

2. Refer to the response to the Staff's Second Request, Item 3.

a. In the response to Item 3(a), Delta states that since 1997 any amount due or over-payments reflected on the July bill as part of its Budget Billing Plan are automatically rolled over into the next year's budget calculation. The current rate case is the third base rate case Delta has filed with the Commission since 1997. Explain in detail why Delta has waited until the present rate case to amend its tariff to reflect its current Budget Billing Plan practices.

b. In the response to Item 3(c), Delta states that it constantly monitors budget customers' accounts and adjustments are made as necessary to minimize significant under-collection balances. A review of Delta's tariff indicates that those customers electing to be billed under the Budget Payment Plan could see an adjustment monthly in order to ensure that the customer is current at the final budget

payment. Does Delta adjust budget payment plan bills regardless of the direction of the variance between the amount owed and the budget payment? Explain the response.

3. Refer to the response to the Staff's Second Request, Item 6(b)(1), Schedule 1. The schedule provided with this response shows that included in the wage normalization are amounts for several part-time/seasonal employees who were both hired and terminated during the test year. Explain why the wages for these individuals should be included in the wage and salary normalization.

4. Refer to the response to the Staff's Second Request, Item 6(c). In support of its proposal to recognize \$38,793 in depreciation expense associated with construction work in progress, Delta notes the Commission's November 10, 2004 Order in Case No. 2004-00067¹ stated, "In the event a utility proposed to recognize new plant additions occurring after test-year end, it might be appropriate to recognize a level of depreciation expense on the new plant additions."

a. Delta stated in its Application, at Tabs 44 and 45, that it was not proposing pro forma adjustments for plant additions in this case. Is this statement still correct?

b. If it is still correct that Delta is not proposing pro forma adjustments for plant additions in this case, explain in detail why Delta is proposing to include depreciation expense on its construction work in progress balance.

5. Refer to the response to the Staff's Second Request, Item 6(d)(2). Delta was requested to provide a revised Schedule 5 from Application Tab 27 that reflected

¹ Case No. 2004-00067, Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates.

the effect of the increased Federal Insurance Contribution Act base wage limit effective January 1, 2007. Delta was to include all workpapers, calculations, and assumptions used to prepare the revision. Delta provided a revised Schedule 5, but failed to provide the requested workpapers, calculations, and assumptions used to prepare the revision. In addition, Delta submitted revisions to several of the schedules included in Application Tab 27 and introduced three new expense adjustments.

a. Concerning revised Schedule 5, provide the originally requested workpapers, calculations, and assumptions used to determine the revision. As this is a second request for the information, Delta is reminded of the Commission's discussion and findings in the November 10, 2004 Order in Case No. 2004-00067 concerning future rate applications.

b. Explain line 2 on the revised Schedule 5, labeled "test year deductions."

c. Concerning the new adjustments to property taxes, medical coverage, and legal expense, explain in detail why these items were not originally included in Delta's application and its determination of its revenue requirements.

d. Concerning the property taxes, what is the status of Delta's appeal of its 2006 assessment from the Kentucky Department of Revenue?

e. Provide the calculations and assumptions utilized to determine the tax expansion factor and tax expansion factor including the PSC Assessment, as shown on revised Schedule 7, lines 8 and 10.

6. Refer to the response to the Staff's Second Request, Item 12(b). Delta was requested to explain how the Customer Rate Stabilization ("CRS") review process

would work if another party sought and was granted intervention. The response did not address or provide the requested information. Provide the originally requested explanation.

7. Refer to the response to the Staff's Second Request, Item 15.

a. Refer to the response to Item 15(a). Given the test-year changes in the size of the Board of Directors ("Board") and its compensation, explain in detail why Delta did not propose a normalization adjustment to reflect these changes.

b. In Item 15(d), Delta was requested to explain in detail why five of the companies listed in the industry peer group shown in Exhibit GRJ-1, page 13 of the Direct Testimony of Glenn R. Jennings ("Jennings Testimony"), qualified as a peer of Delta, given the information shown on page 13 relating to the industry, number of employees, sales, or September 2006 market value. Delta referenced the response to Item 15(c), which states Delta did not have certain requested information and that it had hired an outside consultant to perform the Board compensation study. The response does not address what was requested. Using the cited data categories, Delta was to explain why it believed five of the companies included in the industry peer group were in fact comparable peers of Delta. Given this clarification, provide the originally requested information.

c. In Item 15(f), Delta was requested to describe how it compared with three companies listed in the industry peer group, using the information provided in the Jennings Testimony, Exhibit GRJ-1, page 14. Delta again referenced the response to Item 15(c). The response does not address what was requested. Provide the originally requested information.

8. Refer to the Staff's Second Request, Item 16. In the response, Delta states that it limited its test-year operating expense adjustments to known and measurable changes, foregoing any normalization adjustments based on historical experience, in order to simplify its filing. Delta believes that "based on historical experience, the net effect to making normalization adjustments to test year operating expenses would be to increase such expenses, it has characterized its adjusted test year as a conservative representation of the cost of operations during the period for which rates are being set."

a. Based on Delta's responses to Item 16, would it agree the result is that Delta's adjusted test-year operating expenses will be understated? Explain the response.

b. Would Delta agree that if its revenue requirements are determined using an adjusted test year that understates its operating expenses, it will have difficulty in subsequent years in achieving its authorized rate of return? Explain the response.

9. Refer to the response to the Staff's Second Request, Item 17(b).

a. In what year did Delta begin utilizing a self-funded health plan?

b. Provide Delta's medical coverage expense for calendar years 2002 through 2006.

c. Provide the cost of the stop-loss insurance policy for calendar years 2002 through 2006.

d. Explain how the stop-loss insurance policy affects the medical coverage expense Delta would book in a given year.

10. Refer to the response to the Staff's Second Request, Item 18. Would Delta agree that, while the wage and salary rate changes are known and measurable, it has proposed a normalization adjustment of its payroll expenses? Explain the response.

11. Refer to the response to the Staff's Second Request, Item 19(b) and the response to the Attorney General's First Data Request dated June 7, 2007 ("AG's First Request"), Item 213(b).

a. In the response to Item 19(b)(1) Delta states the test-year pension expense was \$700,262. However, in the response to Item 213(b), Delta states the periodic pension cost for calendar year 2006 is \$642,203. Explain the difference(s) between these amounts and indicate which reflects the actual test-year expense for Delta's pension plan.

b. Provide the actual pension plan expense for calendar years 2003 through 2005.

c. The response to Item 213(b) shows significant fluctuations in the actuary report periodic pension cost for the last four fiscal years. Explain the reason(s) for these fluctuations.

12. Refer to the response to the Staff's Second Request, Item 22. Explain how the discount rate of 8.867 percent was determined. Include all applicable calculations and assumptions.

13. Refer to the response to the Staff's Second Request, Item 25. Delta has referenced and provided copies of the Energy Information Administration Household Energy Consumption and Expenditures Study, performed in 2001 using 1997 data. Is

this the most currently available data on household energy consumption and expenditures? Explain the response.

14. Refer to the response to the Staff's Second Request, Item 27.

a. Describe the "dynamic risk based process" and the "risk based approach" envisioned by Delta.

b. Delta's proposed CRS tariff envisions the Evaluation Period filing would be made no later than September 15 and that Delta could adjust its rates effective November 1 if the Commission had not completed the review of the filing. Using the proposed time table provided in the response to Item 27(d) and September 15, 2007 as a starting date, provide the following:

(1) The actual calendar dates for each event in the proposed time table.

(2) The number of actual working days available to accomplish each event in the proposed time table.

c. Refer to the response to Item 27(f). What is the basis for Delta's assumption that annual CRS filing costs would not exceed \$10,000 per year?

15. Refer to the response to the Staff's Second Request, Item 28. Explain why the sample calculations did not include the determination of the rate of return on common equity actually achieved in each year.

16. Refer to the response to the Staff's Second Request, Item 29(b). Explain why Delta has assumed that any invoices submitted by the AG would be approved by the Commission prior to payment by Delta.

17. Refer to the Direct Testimony of Martin J. Blake ("Blake Testimony"), pages 10 through 15 and the response to Staff's Second Request, Items 32(a) and 32(b).

a. Even though there is no set capital structure goal, has there been any deliberation by Delta's Board indicating a desire to gradually increase the equity component of the capital structure? If so, provide the minutes of the Board meetings where such deliberation or action took place.

b. Provide any Board minutes that demonstrate that the Board has been concerned about Delta's low level of equity in the capital structure and that there needed to be realignment to industry averages.

c. When deciding on the method to raise additional capital, explain how the Board decides between equity and debt.

d. Explain whether the large jump in equity from 2002 to 2003 is the result of deliberate Board action to help equalize the capital structure. Provide the minutes of the Board's deliberations on this issue.

18. Refer to the Blake Testimony, page 11 and the response to Staff's Second Request, Item 32(f). Delta stated that customer conservation is one of four reasons why it has been unable to earn its allowed rate of return on equity. Has Delta performed any studies which highlight the problem of reduced revenue streams resulting from customer conservation? Provide any such studies and any company actions taken to help alleviate this problem.

19. Refer to the response to Staff's Second Request, Item 32(g).

a. Provide copies of any Board presentations or minutes which show that Delta's management and the Board have been concerned with the company's inability to earn its allowed rate of return over the last 10 years.

b. Provide a list of specific cost saving measures that have been instituted over the last 10 years which have been implemented to address the company's inability to earn its allowed rate of return and the results of those specific measures.

20. Refer to the Blake Testimony, pages 10 through 15 and the response to Staff's Second Request, Item 33. Would placing more of Delta's fixed costs in the demand charge help to alleviate the variability of Delta's revenue and return streams? Explain the response.

21. Refer to the response to the Staff's Second Request, Item 48.

a. Explain how the neighboring gas utilities were selected.

b. If available, indicate when each of the neighboring gas utilities' last depreciation study was performed.

c. Explain why Atmos Energy – Kentucky operations and Columbia Gas of Kentucky were not included in the group of neighboring gas utilities.

22. Refer to the response to the Staff's Second Request, Item 50(f). The printout and electronic file provided for this response appears to have missing data which resulted in the "#NAME?" response. Provide corrections to this response that eliminate the "#NAME?" response.

23. Refer to the response to the Staff's Second Request, Item 54. For each of the accounts listed below, explain the reason(s) for the change in the balances reported for December 2005 and December 2006.

a. Account No. 1.368.000 – Transmission Compressor Station Equipment, page 6 of 14.

b. Account No. 1.399.020 – Computer Software, page 11 of 14.

24. Refer to the response to the Staff's Second Request, Item 58.

a. Explain how the Society of Corporate Secretaries assists Delta in its periodic reporting to the Securities and Exchange Commission.

b. Provide specific examples of the activities sponsored by Bluegrass Tomorrow, Inc. and Commerce Lexington as it relates to regional planning and support of local communities.

c. Refer to Item 58(c)(1), Account No. 1.930.03. Explain the purpose of the following meetings and why the associated expense should be included for rate-making purposes.

(1) 17th Annual Outlook 2006 Conference.

(2) Kentucky Association Education Conference.

d. Refer to Item 58(c)(2), Account No. 1.930.05. Except for the expenses for safety awards, company newsletter, and employee service awards, explain in detail why the listed expenses in Account No. 1.930.05 should be included for rate-making purposes.

e. Refer to Item 58(c)(3), Account No. 930.09. For each item listed below, explain why the expense should be included for rate-making purposes.

(1) Various Continuing Education Meetings and Continuing Education Public Meetings.

(2) Christmas Greeting.

(3) Donations to a fire department and Junior Achievement Program.

(4) Sponsorship of Kentucky Institute – Economic Development.

(5) Myron Corporation – pocket pals for transportation customers.

(6) Tasco Industries – calendars.

f. Refer to Item 58(d)(2). Does Delta's conservation program for builders, developers, and customers who install additional gas appliances promote the selection of gas appliances over the selection of appliances powered by other energy sources? Explain the response.

25. Refer to the response to the Staff's Second Request, Item 59. Is the recording of donations in Account No. 930.10 consistent with the requirements of the Uniform System of Accounts? Explain the response.

26. Refer to the response to the Staff's Second Request, Item 60. Describe the nature and purpose of the consulting services provided by Marjorie Sidwell.

27. Refer to the response to the Staff's Second Request, Item 61.

a. Refer to Item 61(b). Did Delta give any consideration to amortizing the cost of the compensation study over a 3-year period? Explain the response.

b. Refer to Item 61(c). Provide an expanded description of the legal services provided to Delta in employee-related areas of human resources.

28. Refer to the response to the Staff's Second Request, Item 65. Provide an expanded description of the activities Delta classifies as employee recreation and social benefit.

29. Refer to the response to the AG's First Request, Item 205. Provide the actual annual expense for Delta's Defined Benefit Retirement Plan for calendar years 2003 through 2005 and for the test year.

30. Refer to the response to the AG's First Request, Item 250. For each of the transactions listed below, explain why it should be included for rate-making purposes.

a. Line 10 – Meals for attorney at "AGA Small Council Meeting," page 1 of 4.

b. Lines 46, 63, and 83 – Golf Outings or Golf Scrambles, pages 2 and 3 of 4.

c. Lines 32, 76, and 77 – Entertainment, pages 2 and 3 of 4.

31. Refer to the response to the AG's First Request, Item 350.

a. Explain why Delta wants to continue offering a rate for usage over 5,000 Mcf if there are no customers taking this amount of gas.

b. Provide the number of customers that Delta has had with usage over 5,000 Mcf in the last 10 years.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, Kentucky 40602

DATED July 17, 2007

cc: All Parties

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUL 17 2007

**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.

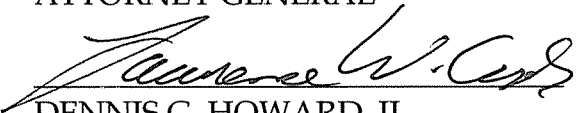
(7) If Delta objects to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(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
ATTORNEY GENERAL

A handwritten signature in black ink, appearing to read "Dennis G. Howard, II", written over a horizontal line.

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 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:

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 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

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

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.

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

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 implicitly 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. Seelye'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?

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

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.

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- 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

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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 11.00%, 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

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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

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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 them 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

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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.

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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.

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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.

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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.