

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.



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cc: All Parties