CASE NUMBER:

99-176

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

November 30, 1999

John F. Hall
Vice President-Finance, Sec.,Treas.
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY. 40391

Honorable Robert M. Watt
Counsel for Delta Natural Gas
Stoll, Keenon & Park, LLP
201 East Main Street
Suite 1000
Lexington, KY. 40507 1380

Elizabeth E. Blackford
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY. 40601

RE: Case No. 1999-176

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,
Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.	))	CASE NO. 99-176

ORDER

Delta Natural Gas Company ("Delta") has moved to strike the Attorney General's ("AG") witnesses on the grounds that the AG failed to comply fully with its requests for production of documents. The AG has moved to strike certain portions of the rebuttal testimony of Delta witness Steven Seelye. We deny both motions.

Having considered both motions and the responses thereto, the Commission finds that both motions are without merit. The AG has adequately responded to Delta's requests. His responses have not infringed upon Delta's right to cross-examine the AG's witnesses. We further find that, given the statements contained in the testimony of the AG's witnesses, the challenged portions of Mr. Seelye's rebuttal testimony were properly within the scope of rebuttal testimony.

IT IS THEREFORE ORDERED that:

1. Delta's Motion to Strike the Testimony of the AG's Witnesses is denied.

2. The AG's Motion to Strike and Bar from Consideration is denied.

Done at Frankfort, Kentucky, this 30th day of November, 1999.

By the Commission

ATTEST:

Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

RECEIVED
NOV 29 1999
PUBLIC SERVICE COMMISSION

In the Matter of:

An Adjustment of Rates of	)	Case No. 99-176
Delta Natural Gas Company, Inc.	)	

POSTHEARING BRIEF OF THE ATTORNEY GENERAL

November 29, 1999

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PROCEDURE

On February 5, 1999, Delta Natural Gas Company filed a letter tariff filing seeking the implementation of a three year experimental alternative regulation plan. The style of that action is In the Matter of Delta Natural Gas Company, Inc. to Implement an Experimental Alternative Regulation Plan, Case No. 99-046. The Attorney General intervened in that action. On April 29, 1999, the Company filed a notice of intent to file a general rate case. That general rate case was filed on July 2, 1999. The style of that action is In the Matter of Adjustment of Rates of Delta Natural Gas Company, Inc., Case No. 99-176. The Attorney General intervened. On August 5, 1999, the Commission entered an Order denying Delta Natural Gas Company's Motion to consolidate the two cases, and dismissing Case No. 99-046. The record in Case No. 99-046 was, however, incorporated into the record of Case No. 99-176. Following full discovery, the Case No. 99-176 was heard on October 28 and 29, 1999. This brief follows.

RATE BASE AND CALCULATED RATE OF RETURN

The Commission utilized Delta's rate base rather than its total capital structure to determine revenue requirements in the Company's last general rate case, Case No. 90-066.[1] Delta did not seek rehearing on this matter. In this proceeding Delta seeks to utilized the total capital structure rather than the rate base to determine the Company's revenue requirements. It does this without explanation or justification in its direct or its rebuttal testimony. As Mr. Henkes explains at pages 8-10 of his Direct Testimony, it is appropriate to utilize rate base rather than the total capital structure as the total

[1] In the Matter of: An Adjustment of General Rates of Delta Natural Gas Company, Inc., Case No. 97-066, Order of December 8, 1997, page 21; Order on Rehearing of May 1, 1998.

capital structure may include capital for investments that are "below-the-line" or are already receiving rate recognition through other rate mechanisms. Therefore, the Commission should continue to use the rate base for the calculation of the overall revenue requirement of Delta.

RATE BASE

Delta has proposed a rate base of $76,088,138. The AG, through the testimony of Robert J. Henkes[2], recommends four rate base adjustments with the net effect of reducing that rate base by a total of $1,086,566, for a recommended rate base of $75,001,572. The specific adjustments recommended follow.

2.1 Cash Working Capital

Based on the lower recommended pro forma test year operation and maintenance expenses recommended by the AG, and utilizing the 1/8th formula, cash working capital should be $1,050,255, which is $47,000 lower than the cash working capital proposed by Delta.

2.2 Prepayments and Materials and Supplies

The Commission should continue to utilize the 13-month average test year balance for prepayments and materials and supplies consistent with its ruling in Delta's last general rate case, Case No. 97-066, rather than adopting the end-of-test year balances proposed by Delta. Utilization of the 13-month average test year balances increases Delta's proposed prepayments by $100,451 and materials and supplies by $121,751.

2.3 ADIT

The Commission should utilize the same ADIT components allowed in Case No. 97-066. If

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[2] Direct Testimony of Robert J. Henkes, filed September 23, 1999, pp. 12-20.

this is done, Delta and the AG are agreed[3] that the ADIT rate base deduction balance in this case will amount to $9,103,630. Utilization of the components consistent with past practice avoids inclusion of ADIT components which have no relationship with the used and useful rate base components.

2.4 Customer Deposits

The Commission should treat customer deposits as a rate base deduction so long as or when it treats the pro forma customer deposit expense as an operating expense of Delta. The reasons for doing so are:

a. Both Delta and the AG are agreed that this treatment would be proper and appropriate.[4]

b. Customer Deposits, like customer advances, continue to come in at a greater rate than they are refunded, so there is always a positive customer deposit balance just as there is a positive customer advances balance. The customer deposits balance has historically grown gradually over time. Both customer deposits and customer advances are subject to refund. The positive balances of customer deposits, like the positive balances of customer advances, are available to Delta for use as customer supplied capital.

The only difference between customer advances and customer deposits is that Delta pays 6% interest during the time it hold the customer deposits, but it does not pay interest on customer advances. The payment of interest itself supports the treatment of customer deposits as a rate base deduction. By requiring the payment of interest in KRS 278.460, the legislature has recognized the

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[3] See Delta Response to the Initial Data Requests of the Attorney General, Data Request 19.

[4] Prefiled Direct Testimony of Robert J. Henkes, pp. 16-17; Delta Response to Attorney General Data Request 20.

debtor-creditor relationship that arises between the utility and the customer with reference to the customer deposit as a result of the fact that the utility is free to use the funds of the customer as it pleases or needs for the duration of the time the deposit is held by the utility. If the interest is recognized as an expense, the principal, the customer deposit balance, should be recognized as a rate base deduction.

c. The Commission has previously treated customer deposit balances as rate base deductions when treating the associated interest expense as a pro forma operating expense in Kentucky Power Company cases.

OPERATING INCOME

Delta has proposed a total pro forma test year operating income amount of $5,564,849. The AG, through his witness Robert J. Henkes, has made twelve adjustments to the proposed operating revenues, expenses and taxes with a net total effect of increasing Delta's proposed operating income by $664,486[5] to $6,229,335. The specific adjustments follow.

3.1 <u>Year End Customer Revenue Adjustment</u>

Delta agrees with the AG that the correction of certain mathematical errors in its year end customer revenue adjustment calculation, as confirmed in revised Walker Exhibit 5, increases Delta's pro forma revenues by $119,549.

3.2 <u>Year End Customer Expense Adjustment</u>

Delta proposes an O&M expense increase of $54,498 associated with the year end customer

[5] This amount includes (1) the concession of the pension expense adjustment proposed in Mr. Henkes's Direct Testimony based on evidence received after the hearing, and (2) the inclusion of the medical expense adjustment which was not detailed in the Direct Testimony, but was presented at the hearing.

revenue annualization adjustment based on an expense-to-revenue ratio of 17.92%. The AG proposes an O&M expense increase of only $15,353 ($39,145 less than the increase proposed by Delta) based on an expense-to-revenue ratio of 3.62%.

The expense-to-revenue ratio of 17.92% improperly assumes that such expenses as employee pensions and benefits, regulatory commission expenses, property insurance, outside services employed and miscellaneous general expenses vary directly with revenues from additional customers. In assuming that employee pension and benefits should be included in the expense-to-revenue ratio, Delta is acting inconsistently with the Commission practice of eliminating all salaries and wages from the expense-to-revenue ratio. It is also assuming a growth in the number of employees that is not reflected by its history.

Delta's history shows that it has experienced a 22% growth in the number of customers it serves between 1991 and 1998[6], but that it has almost exactly the same number of employees it had ten years ago.[7] This history confirms the propriety of excluding all salaries and wages and the need to exclude employee pension and benefits from the expense-to-revenue ratio.

Likewise, there is no evidence to support an assumption that regulatory expense, property insurance, outside services and miscellaneous general expenses will vary with the incremental sales (2.86% increase in customers representing .58% of Delta's total pro forma consumption and

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6 See, Delta's Response to the Attorney General's Initial Data Requests, Number 67, in Case Number 99-046, In the Matter of: Delta Natural Gas Company, Inc. Alternative Regulation Plan; Attorney General Hearing Exhibit Seven.

7 See, Delta's Response to the Attorney General's Initial Data Requests, Number 42, in Case Number 99-046, In the Matter of: Delta Natural Gas Company, Inc. Alternative Regulation Plan; Attorney General Hearing Exhibit Seven.

revenues)[8] recognized as a result of the year end customer sales annualization adjustment, or that they should be included in the expense-to-revenue ratio.

At page 33 of his Rebuttal testimony, Mr. Seelye suggests that in the absence of a detailed marginal costs analysis of Delta's operating and maintenance expenses, Mr. Henkes cannot support the contention that the listed expenses should not be included in the expense-to-revenue ratio. In truth, as the burden of proof to support any increase rests on the utility under KRS 278.190(3), in the absence of such a study, it is Delta, not the AG, who cannot support the inclusion of those expenses in its expense-to-revenue ratio. Delta has not performed a marginal cost analysis to support its position.[9] The Commission should exclude those expenses and utilize the 3.62% expense-to-revenues ratio resulting in an increase in the O&M expense of $15,353.

3.3 Payroll Expense Adjustment

Delta and the AG are agreed that the appropriate payroll O&M expense adjustment should be $85,964. This is $30,235 lower than Delta's proposed payroll adjustment of $116,199.[10]

3.4 Pension Expense Adjustment

Based on the latest actuary report, which was introduced into the record on November 13, 1999, as John Brown's Response to Staff Hearing Data Request 1, the AG agrees that his adjustment reducing pension expense by $82,599 shown on RJH-11 should be eliminated.

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8 Transcript of Evidence, Volume I of II, p. 291.

9 Transcript of Evidence, Volume II of II, p. 5.

10 Transcript of Evidence Volume I of II, p. 197.

3.5 401(k) Expense Adjustment

In 1998 the 401(k) expense increased by more than $40,000, representing a 28.8% increase over the previous year's expense. The increase from 1997 to 1998 was more than twice the increase experienced in any of the preceding years. In response to Attorney General data requests, Delta stated that one of the reasons for the large increase is that the 1998 expense includes a reclassification of the pension expense due to an account distribution correction made for a trustee for the year of 1997 and that absent that reclassification, the 1998 401(k) expenses would have been $161,634.[11] This expense level is more in line with the historic expense increase trend and should be used for rate making purposes in this case.

Utilization of $161,634 results in a gross 401(k) expense reduction of $18,736. Multiplying $18,736 by an assumed 401(k) cost O&M ratio of 73.98%[12] results in a recommended 401(k) O&M expense adjustment of $13,861.

3.6 Regulatory Expense.

There are three matters pertaining to regulatory expense.

3.6.A. DOT Pipeline Safety Program Expense

The first is the inclusion of two expense bookings for the DOT Pipeline Safety Program, one for 1998 and one for 1999 in the 1998 test year Account 928. The amount booked in 1998 for the

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11 Transcript of Evidence, Volume I of II, p. 171; Attorney General Cross Examination Exhibit 2.

12 This ratio is the same as the payroll O&M ratio utilized in the payroll adjustment. Direct Testimony of Robert J. Henkes, page 27.

1999 expense is $23,960.[13] Delta's 1998 Test Year expenses should be reduced by $23,960, the amount of the payment made for 1999, to remove that "out-of-period" expense item and to avoid a doubling of the expense for the same regulatory program.

3.6.B. Rate Case Expenses Arising From Case No. 97-066.

The second matter pertaining to regulatory expense is the continuation of the recovery of the costs of the last general rate case, Case No. 97-066, as an expense item in the amount of $24,960 in the current rate case as a Miscellaneous Other Expense Item-Account 921.06. The AG urges the Commission to refuse to continue the recovery of rate case expenses from the last rate case in this rate case even though the company has not yet achieved full recovery of that expense.

The timing of a rate case is a matter entirely within the discretion of the utility. The recovery of rate case expenses should be treated uniformly regardless of whether the utility comes in before the period over which its former rate case expenses were to have been recovered or whether it stays out past that period. The sword should cut equally both ways. The ratepayers are never given the benefit of reducing expenses in the current rate case by virtue of a company staying out longer than the period over which it was to have recovered its last rate case expenses, though such a stay out does result in an over recovery if one matches time periods and expense recovery. Therefore, they should not be required to bear the burden of two rate case expenses in future rates because the company chose to come in for a rate case before the period over which the last rate case expenses were to be recovered. The Company's incentive to operate without rate cases is minimized or eliminated if it is permitted carte blanche dollar-for-dollar recovery of multiple rate case expenses each time it comes

13 Attorney General's Cross Exhibit 4.

in.

This is particularly true in a case where the company is seeking relief which should help it extend the period of time between rate cases by eliminating the primary factor that has had a negative influence on the company's ability to earn - for Delta, the weather. Assume hypothetically that as a result of this rate case Delta is given a weather normalization clause and that the weather normalization clause operates as effectively for Delta as it has for Columbia Gas Company, thereby reducing the need for periodic rate cases as dramatically for Delta as it has done for Columbia Gas Company.[14] Were Delta subsequently able to stay out for a long period of time as a result of the weather normalization clause, there would be substantial over recovery of the rate case expenses for Case No. 97-066. Therefore, the rate case expense from Case No. 97-066 should not be continued as a miscellaneous expense in this case in addition to the rate case expense for the current expense. Instead, the rate case expense should be normalized in accord with the recommendation of Mr. Henkes as set forth in his Direct Testimony at pages 28-29.

3.6.C. Rate Case Expenses Related to the Experimental Alternative Regulation Plan

In response to Staff hearing request number six, filed November 11, 1999, Delta has provided information showing rate case expenses for the alternative regulation plan case, Case No. 99-046, of $35,518.11 and rate case expenses of $183,235.07 for its general rate case (which also includes an experimental alternative regulation plan proposal), Case No. 99-176. Delta had not requested recovery of rate case expenses associated with 99-046 in either Case No. 99-046 or Case No. 99-176 when the

[14] Columbia Gas Company's last rate case was 94-179. Previously, it came in for rate increases an average of every two years.

testimony was filed. Its rate case request was for $145,000[15], for expenses associated with Case No. 99-176. The AG considered this amount to be reasonable and, therefore, filed no testimony on that point.

The inclusion of $35, 518.11 in the updated rate case expense list gives rise to the possibility that the Commission will consider including that amount as a portion of the rate case expense recovery. This leads to the necessity to urge the Commission to exclude all of the expenses associated with Case No. 99-046 from recovery in this case and to further eliminate that portion of the rate case expense of this case, Case No. 99-176, that is related to the experimental alternative regulation plan proposal contained herein if the Commission decides not to grant the proposed alternative regulation plan.

The expenses identified as expenses for Case No. 99-046, the Experimental Alternative Regulation filing, should be excluded because:

1. Recovery of the expense was not requested by Delta in Case No. 99-046.

2. Case No. 99-046 was dismissed.

3. As the expenses were filed after the hearing there has been no opportunity for review.

4. The experimental alternative regulation plan proposed in Case No. 99-046 was for the primary benefit of the shareholders in that it sought a guaranteed rate of return (once the full three year effect of the formula operated) under a formula designed to eliminate any risk for the shareholders associated with the operation of the company to the ratepayers. This goes well beyond seeking fair, just as reasonable rates, as is more fully discussed below. The cost of the effort to obtain

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15 See, Filing Requirement, Volume I of III, Tab 25, FR #6-h, Schedule 4, line 5.

that benefit should rest on the shareholders.

5. Delta chose to file an experimental alternative regulation filing rather than a straightforward rate case when its needs for a rate increase were clear, thereby knowingly incurring the risk of the added expenses. Were the ratepayers required to bear the expenses of that case, the utility would feel free to engage in any regulatory action it wants, without risk to itself for that action. There would be no incentive to the utility to minimize regulatory experiments.

The expenses in Case No. 99-176 associated with the experimental alternative regulation plan proposal contained therein should also be denied rate case recovery because the primary purpose of the proposal continues to be to generate a guaranteed rate of return and to eliminate shareholders risk by placing the full burden of managerial and operational risk on the ratepayers. The experimental alternative regulation plan goes well beyond the requirements of Bluefield and Hope.[16] It does much more than provide the opportunity to earn envisioned by those cases. It shifts almost the entire risk for management decisions and for the operation of the company onto the shoulders of the ratepayers. This proposal is strictly for the benefit of the shareholders. Delta could have sought a simple rate increase or a rate increase plus a weather normalization clause to address the primary culprit in the earnings situation. Instead, it has sought to reassign risk from the shareholder to the ratepayer through the alternative regulation plan. Therefore, expenses associated with efforts to achieve that result should be borne by the shareholders.

3.7 Bad Debt Expense Adjustment

Delta has a proposed actual 1998 test year bad debt expense of $345,870. As explained in the

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[16] Bluefield Water Works & Improvement Co. v. P.S.C. of West Virginia, 262 US 697 (1923); F. P. C. v. Hope Natural Gas Co., 302 US 591 (1944)

prefiled Direct Testimony of Robert Henkes, at pages 30 and 31, the 1998 bad debt expense is abnormally high. The problem was so great that Delta has implemented a program of more aggressive collections which has resulted in a significant reduction of bad debt expense during 1999. In information filed November 12, 1999, in response to Staff Hearing Request 1, Delta provided a monthly comparison of bad debt expense comparing 1998 to 1999. That data shows that the actual uncollectible for the 12-month period ended 10/31/99 was $213,385, as opposed to $353,870 for the 12-month period ended 10/31/98. The actual write-offs for 1999 were $205,669, as opposed to actual write-offs for 1998 of $327,296.

Before receiving this information, Mr. Henkes had recommended that rather than utilizing the abnormally high actual 1998 test year expense, a pro forma bad debt expense reflecting an appropriate bad debt-to-revenue ratio be utilized. The suggested bad debt-to-revenue ratio is .67%, derived as the average bad debt ratio experienced by Delta during the 4 year period of 1995-1998.[17] When that factor is applied to the AG's recommended base revenues and the projected GCR revenues at current rates, it results in a pro forma bad debt expense of $250,666, which is $95,204 less than the $345,870 test year expense, but $37,281 higher than the actual uncollectible for the 12-month period ended 10/31/99. The actual 1999 uncollectible is much less than the recommended pro forma bad debt expense, and supports the utilization of that pro forma expense rather than the higher test year expense.

3.8 Canada Mountain Expense Adjustment

While Delta has removed $121,120 of expenses relating to Canada Mountain, it has not

[17] See, Exhibit RJH-14 accompanying the Prefiled Direct Testimony of Robert J. Henkes.

removed insurance allocable to Canada Mountain in the amount of $35,168 and Canada Mountain expenses included in Account 1.921.06 in the amount of $750. Removal of the $35,918 total of these two items is necessary to consistently remove all Canada Mountain expenses. The Company has not rebutted this AG recommendation.

3.9 Medical Expense Adjustment

During the hearing Delta's witness John Brown agreed that the amount of $77,561 shown on line seven of Schedule 4 (Filing Requirements, Volume 1 of III, Tab 25, FR #6-h) is a gross amount which does not reflect the portion allocable to construction and subsidiaries. Accordingly, he agreed that it would be appropriate to multiply that number by a ratio of 73.98% to arrive at the corrected expense of $57,380.[18] $57,380 is the expense that should be reflected in the test year O&M adjustments. This is $20,181 lower than the amount of $77,561 reflected in Schedule 4.

3.10 Miscellaneous Expense Adjustment

The Commission should further reduce miscellaneous expenses for Delta by $30,114. This amount represents (1) a reduction of $404 for spousal travel expense; (2) $805 for expenses relating to Account A/C 1.921.29 - meals and entertainment expenses related to golf outings, Hazelrigg Government Relations and Rotary and Kiwanis; (3) $1,274 for A/C 1.921.7 - employee membership expenses for Kiwanis, Rotary, Lions and other club dues; and (4) $27,631 for an abnormal expense booking relating to a settlement of a sales tax audit.

In his Rebuttal Testimony, John Brown took umbrage with the AG's adjustment reducing miscellaneous expenses by $27, 631 relating to the settlement of the sales tax audit, saying that audits

[18] Transcript of Evidence, Volume 1 of II, pp. 184-185.

are a normal part of doing business. This testimony is contradicted by Mr. Brown's August 11, 1999, response to Attorney General Data Request 26 in which he states that the settlement of that sales tax audit is the only abnormal booking (i.e.-abnormal bookings that are not typically booked on an annual recurring basis) for the test year Therefore, the Commission should also reduce miscellaneous expenses by $27,631 representing abnormal expense booking for settlement of sales tax audit.

The total miscellaneous expense adjustment should be $30,114.

3.11 Payroll Tax Expense Adjustment

Delta has proposed a payroll tax increase of $8,937 which fails to account for the O&M ratio of 73.98% that must be applied to the proposed gross payroll increase to arrive at a net payroll which will then be multiplied by the payroll tax ratio.[19] The corrected net payroll increase gives rise to a pro forma payroll tax increase of $6,611. This is $2,326 less than the incorrect amount reflected by Delta.

3.12 Property Tax Adjustment

Delta's witness John Brown agreed with the AG's adjustment to property taxes which results in a recommended property tax expense adjustment of $113,555.[20] That amount reduces Delta's proposed property tax expense by $66,408.

3.13 Income Tax Adjustments

Differences in the pro forma test year taxable income arising from the AG's adjustments to the pro forma test year operating revenues net of the pro forma test year operating expenses and interest expenses and in the pro forma interest tax-deductible interest expenses (calculated through

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19 See Schedule RJH-17 attached to the prefiled Direct Testimony of Robert J. Henkes.

20 Transcript of Evidence, Volume I, pp. 205-206.

the "interest synchronization method")[21] results in pro forma taxes which are $40,854 lower than the pro forma tax amount proposed by Delta.

Delta's calculation failed to reflect the annual ITC amortization of $71,000 and did not reflect any amortization of the excess deferred taxes existing as of December 31, 1998 resulting from the change in the statutory FIT rate. These oversights involve adjustments of $71,000 and $21,150, respectively, which results in a total recommended net pro forma income taxes of $1,458,445. This recommendation is $138,004 less than Delta's proposed pro forma income tax amount of $1,596,449.

COST OF CAPITAL AND RATE OF RETURN

4.1 Short Term Debt and Long Term Debt

The Attorney General accepts Delta's proposed debt cost of 5.41% for short-term debt and 7.48% for long-term debt.[22]

4.2 Cost of Equity Capital

The Commission should find 10.25% to 11.25% as the range for the cost of equity for Delta in the event the weather normalization clause is not adopted, and 10.0% to 11.0% as the range for Delta's cost of equity in the event the weather normalization clause is adopted .

Pursuant to Bluefield Water Works & Improvement C. v. P.S.C. of West Virginia, 262 US 697 (1923) and F. P.C. V. Hope Natural Gas Co., 302 US 591 (1994), rates should be determined so that a utility which is operating under efficient and economic management has an opportunity to earn enough revenue to meet operating expenses and to permit a return to its owners that is commensurate

[21] The specifics are detailed in RJH-18 attached to the prefiled Direct Testimony of Robert J. Henkes.

[22] Transcript of Evidence Volume 11 of II, page 226.

with the return on investments in other enterprises which have corresponding risks, that is sufficient to assure confidence in the financial integrity of the utility, and that is sufficient to attract capital.

To arrive at a cost of equity which satisfies these mandates Dr. Weaver engaged in an extensive risk analysis of Delta relative to other gas distribution companies and utilized three standard methodologies with data from Delta and from other gas distribution companies. The methodologies he used were the discounted cash flow (DCF) method, the Capital Asset Pricing Model (CAPM) and the Bond-Yield-Risk-Premium approach. As a result of the full analysis Dr. Weaver found the cost of equity for Delta to be in a range from 10.25 to 11.25 percent in the event that neither the proposed weather normalization clause nor the alternative regulation plan are adopted.[23] Because adoption of a weather normalization clause would help stabilize earnings and reduce risk from Delta's greater use of leverage, the appropriate range for cost of equity would be reduced by 25 basis points to 10.0 to 11.0%.

As a prelude to the application of the three cost of equity determination methodologies, Dr. Weaver first established a group of five gas companies that increased total assets in 1998 and were as similar as possible to Delta in total asset size, the net sales to total assets ratios and two measures of leverage, the common equity ratios and the total liabilities to total assets ratios.[24] Dr. Weaver found that Delta is smaller than the five selected companies, which in turn are small relative to other companies reported in Value Line and that the selected companies, having increased assets in 1998, had faced the pressure of outside-financing as Delta had done. The selected companies average sales

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[23] Prefiled Direct Testimony of Dr. Carl Weaver, Case No. 99-046 (hereinafter Weaver, 99-046), p 38.

[24] Weaver, 99-046, pp. 11-16; Schedules 1-5.

per dollar invested in assets, although higher than Delta's, were closer to Delta than to other reported companies. Also, Dr. Weaver found that the selected companies had 3.1 percentage points more leverage than Delta.

Having established the five company group, Dr. Weaver then examined the risk associated with the capital structure of Delta and the selected group and the published risk measures and cash flow measures for Delta and for the selected group.[25]

4.2.A Risk Analysis

4.2.A.1 Capital Structure

The comparison of Delta's capital structure to that of the selected companies shows Delta to be somewhat more risky than the selected companies because of its greater fixed capital service payment financing and amount of repayment obligations.[26] Delta's total liabilities to total assets was 71% while the same ratio for the five companies averaged 66%.[27] The selected companies in addition, averaged 1.9% preferred stock capital in their capital structure making the total percentage of fixed charge or debt items 67.9%. Dr. Weaver explained that the fixed charges and the debt repayment obligations give rise to the risk that stems from the use of leverage. Consequently, the leverage risk differences between Delta and the selected companies at 3.1 percentage points is small.

4.2.A.2 Cash Flow Analysis

Dr. Weaver performed a series of cash flow analyses designed to evaluate risk by looking at

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[25] Weaver, Case No. 99-046, pp 14-16.

[26] Weaver, Case No. 99-046, pp 16-17; Schedules 7-6.

[27] See, Schedule 5 and Schedule 7 appended to the Prefiled Direct Testimony of Carl Weaver.

the cash flow coverage of interest, of dividends, of investing activities, and of net income.[28] He limited his examination to cash flow from operating activities as defined in FASB 95. This eliminates consideration of cash flow arising from external financing. In each analysis, the number of times the internally generated cash flow would cover the item examined establishes the risk -- the greater the number of times internally generated cash flow covers an obligation, the lower the risk that Delta would be unable to make the payment. As a result of these examinations Dr. Weaver concluded that Delta has nearly the same risk as the selected companies. There is some risk difference (Delta is higher risk) arising from the potential need for external financing for its investment in assets. There is some risk difference (Delta is lower risk) connected with Delta's excellent quality of earnings as a result of its cash flow coverage of net income and dividend payments.[29]

4.2.A.3 Published Risk Data

To evaluate investor perceptions of Delta's risk as it appears in published risk data and as it stands in relation to the selected companies, Dr. Weaver looked at Delta and the selected companies under the Standard & Poor's (S&P) Beta, the S&P risk evaluation, and the S&P relative strength rank measures. Dr. Weaver also looked at the Value Line Safety Rating and beta. [30]

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28 Weaver, Case No. 99-046, pp.16-21.

29 Weaver, Case No. 99-046, pp. 20-21.

30 Weaver, Case No. 99-046, p.22; Transcript of Evidence, Volume II of II, p. 225. Just before the hearing Dr. Weaver discovered Delta is covered by the Expanded Value Line, and that its beta is .45. Transcript of Evidence Volume I of II, pp. 232-233. Value Line does not carry Delta in its standard publication which is accessible to most investors. Though it does publish information about Delta in its extended coverage series, this publication does not have the wide spread distribution and the general availability to investors that is inherent in its standard series.

As a result of the specific findings derived from examining each of those criteria, Dr. Weaver concluded that the published market indicates that the five selected companies are less risky than the average company, and that they should, therefore, have a cost of equity that is lower than that of an average company. Likewise, he concluded that Delta is also less risky than the average company, and so should have a cost of equity which is less than that of the average company but higher than the selected companies if neither the weather normalization clause nor the alternative regulation plan are adopted.[31]

4.2.A.4 Risk Analysis Summary.

Dr. Weaver's conclusion, based on the entirety of the risk analyses performed, is that while Delta is more risky than the selected companies, all of the companies, including Delta, are about one-half as risky than the average investor owned company. Delta is similar to, but a bit more risky than the selected companies as a result of its somewhat greater use of financial leverage, greater operating leverage and a need for external financing. But, its beta is lower than that of the selected companies, it has strong cash flow coverage of dividends and excellent quality of earnings. Accordingly, its cost of equity capital will be lower than that of an average company and somewhat higher than the selected companies.[32]

4.2.B Impact of Economic Conditions

Dr. Weaver next turned to an examination of current and prospective economic conditions to determine what if any impact they would have on the cost of equity capital. He looked at historic and

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[31] Weaver, Case No. 99-046, pp. 24-25.

[32] Weaver, Case No. 99-046, pp. 24-25.

forecasted changes in the consumer price index (CPI), in the gross domestic product (GDP), and in interest rates. He concluded that based on the low rate of inflation, the moderate growth in the GDP and relatively flat interest rates, capital costs are relatively low and will remain at or near the current rates for the foreseeable future.[33]

4.3 DCF and Flotation Costs

Dr. Weaver then turned to the calculation of the range of the cost of equity through the DCF model. The DCF model requires an estimate for growth in dividends and in market price appreciation, and a dividend yield. These growth factors were found by looking to analysts' forecasts and by extrapolation from historical growth for Delta and for the five selected companies in various areas.[34] These measures were put into the DCF formula as "g", thereby producing the range in cost of equity capital found by Dr. Weaver under the DCF methodology.

He then established both the current dividend yield and the expected dividend yield, because that is what is required for the DCF model. The expected dividend yield is found by multiplying the current dividend yield times one plus the growth rates found using analysts' forecasts and historical information for Delta and for the five selected companies.

Dr. Weaver made no flotation cost adjustment because Delta has no financing plans through fiscal year 2001.[35] Capital expenditures are expected to be down significantly in 1999. Given the

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[33] Weaver, Case No. 99-176, Revised Pages for the July 30 Testimony of Carl Weaver in Case No. 99-046,, pp. 26-28, Schedules 17-20.

[34] Weaver, Case No. 99-176, Revised Pages for the July 30 Testimony of Carl Weaver in Case NO. 99-046, pp. 29-35.

[35] See Delta's Response to PSC Order of June 4, 1999, Data request 6.

lack of certainty as to whether Delta will be seeking external funds from the capital market, and whether the funds, if sought, will take the form of debt or equity, it is not proper to add a flotation cost adjustment.

As the end result of these calculations Dr. Weaver concluded that the DCF model establishes a cost of equity for Delta in the range of 7.4% to 10.7% percent.

4.4 CAPM and Bond Yield Plus Risk Premium

Dr. Weaver also established a range of cost of equity using the CAPM. That range is from 9.0% to 11.1%.[36] It is somewhat higher than the range established with the DCF model. Dr. Weaver's Bond-Yield-Risk-Premium analysis produced a cost of equity range of 9.9% to 10.9%.[37]

The average range found using all three methodologies was 8.8% to 10.9%. When the high and low values are removed from the average, the range is 9.5% to 10.8%.

4.5 Recommended Cost of Equity

If neither the alternative regulation plan nor the weather normalization clause are adopted, the Commission should adopt a cost of equity range for Delta of 10.25% to 11.25%.[38] Dr. Weaver, using the information obtained using the DCF, CAPM, and Bond-Yield-Risk-Premium methods concluded that the cost of equity for the five selected companies is in a range from 9.75% to 10.75%. Dr. Weaver's recommendation for Delta represents the addition of 50 basis points to that range to reflect

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[36] Weaver, Case No. 99-176, Revised Pages for the July 30 Testimony of Carl Weaver in Case No. 99-046, p. 35; Schedule 25.

[37] Weaver, Case No. 99-176, Revised Pages for the July 30 Testimony of Carl Weaver in Case No. 99-046, pp. 36-37; Schedules 26031.

[38] Weaver, Case No. 99-176, Revised Pages for the July 30 Testimony of Carl Weaver in Case No. 99-046, p. 38.

the fact that Delta is somewhat more risky.

In the event the weather normalization clause is adopted, the Commission should adopt a cost of equity range of 10% to 11%. There is a direct correlation between the weather and Delta's EPS.[39] The adoption of a weather normalization clause will reduce risk, eliminating the weather induced exacerbation of the problems caused by the variability of Delta's equity ratio, high fixed operating costs and its temperature sensitive load which is comprised in great part by residential and commercial space heating.[40] It will help stabilize earnings and reduce Delta's risk from the greater use of leverage.[41] It would bring Delta more closely in line with the selected companies, three of which have weather normalization clauses as Delta points out, eliminating a good portion of the difference in risk between Delta and the selected companies. Therefore, it is appropriate to reduce the risk differential from 50 basis points to 25 basis points for a range of 10% to 11%.[42]

4.6 Delta's Cost of Equity Recommendation

The Commission should reject the cost of equity results supported by Dr. Blake for a variety of reasons. In this, his first effort to perform as an expert cost of equity witness, Dr. Blake failed to comply with the requirements of Bluefield and Hope by failing to establish a set of comparable companies for obtaining data in his DCF analysis. His list of 29 companies, which is set forth in Exhibit MJB-5, shows Delta's figures and the figures for those companies, but in no way establishes

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39 Weaver, Case No. 99-046, p. 30; Prefiled Direct Testimony of Martin J. Blake, pp. 11, 15; Transcript of Evidence, volume I of II, p. 113.

40 Prefiled Direct Testimony of Martin J. Blake, p. 18

41 Weaver, Case No. 99-176, p. 6-7.

42 Weaver, Case No. 99-176, pp. 6-7.

that the companies are comparable, or that a comparability analysis has been done. Dr. Blake further failed the requirements of Bluefield and Hope by failing to make a determination of the cost of equity of any company other than Delta, as is required to assure that the cost of equity proposed be comparable with other companies that have similar risk.

4.6.A Dr. Blake failed to implement the DCF model correctly.

Dr. Blake used the current dividend yield rather than the expected dividend yield as is required by the model. In cross examination, he demonstrated a fundamental lack of understanding of the model's requirement for determining the expected dividend yield.[43] This understanding is important because the DCF model is derived from an infinite stream of dividends that have compound growth at the rate "g" determined by multiplying the current dividend by 1 plus "g" for the next period's dividend. Dr. Blake's mis-application of data to the DCF model gives rise to erroneous and unreliable results.

Dr. Blake advocates the application of a two-stage DCF model to allow dividends to grow at the current rate reported by analysts in the first stage and to grow at the same nominal rate as the industry in the second stage as an appropriate model for Delta. In his linear trend model, which is not a form of the DCF model, he utilized industry average growth rates for some calculations and a transitional linear trend to "smooth the transition from the analysts' expected growth rate to the overall industry growth rate."[44] Nowhere in his testimony does Dr. Blake describe the transitional linear trend he used, its basis, or data sources for its use. Neither does he show that Delta is

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[43] Transcript of Evidence, Volume I of II, pp. 221-224; Prefiled Direct Testimony of Martin J. Blake, pp. 20-24.

[44] See, Response to Staff Data Request 54, PSC Order dated August 23, 1999.

performing like an average company in the industry. In fact, in his comparisons of Delta to the 29 companies set out in Exhibit MJB-4, he argues that Delta's measures show it to be performing well below average. Since Dr. Blake argues that Delta is not comparable to the industry average, it is inconsistent for him to use industry averages in the so-called two-stage DCF model (which is not a two-stage DCF model at all but a regression model). The result is not a reliable indicator of what a proper cost of equity for companies of similar risk will be. Furthermore, it demonstrates Dr. Blake's inexperience in attempting to perform as a cost of equity expert witness. This lack of knowledge adds further evidence that Dr. Blake's testimony should be rejected.

4.6.B Dr. Blake's CAPM analysis is flawed and should be rejected.

Dr. Blake's CAPM analysis indiscriminately mixes the 8% market risk premium obtained from the SBBI 1999 Yearbook with the most current treasury bond of 6.08%.[45] Consistency requires either the use of the SBBI 1999 Yearbook 8% market risk premium and the 5.4% long term bond yield from that same source (the result of the CAPM analysis using these factors is 9.8%) or else a current market risk premium and the most current 20 year treasury bond data. Dr. Blake readily agreed that the 1926-1998 risk premium covers numerous business cycles, a major depression and wars.[46] He fails to show how that is representative of the future, and why, therefore it is more appropriate to use than a current or a forecasted market risk premium.

Further, because Delta was not covered by Value Line, Dr. Blake used a .55 beta, derived from the mode of his 29 companies in his CAPM analysis. In fact, the beta of Delta is .45, as is shown

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[45] Exhibit MJB-6 and MJB-7; Transcript of Evidence, Volume I of II, pp.227-228.

[46] Transcript of Evidence, Volume I of II, pp. 227-228.

in the Expanded Value Line.

These lack of consistency errors further demonstrate Dr. Blake's inexperience in attempting to perform as a cost of equity expert witness. They add further evidence that Dr. Blake's testimony should be rejected.

4.6.C Dr. Blake's size risk premium should be rejected.

Finally, Dr. Blake jumps back to the SBBI 1999 Yearbook to add a 2.6% size premium derived from that source to the results of his CAPM analysis. There is absolutely no indication that the size premium deals with companies of comparable risk and therefore, nothing to support its use to boost the cost of equity for Delta. The size premium reported in the SBBI 1999 Yearbook is for all companies, not just regulated companies, and most certainly not just regulated gas distribution companies. In cross-examination, Dr. Blake admitted that the premium was calculated from regulated companies, non-regulated companies, mature companies, seasoned companies, new companies, companies that failed for lack of management expertise and companies that failed for numerous other reasons. The fact that a company is regulated reduces its risk.[47] The use of the size premium should be rejected in the absence of evidence that it is applicable to companies of comparable risk.

ADDITIONAL REQUESTS

In this case Delta asks this Commission for four extraordinary measures of relief over and above fair, just and reasonable rates. It asks for special cost of equity and capitalization considerations designed to boost its allowed rate of return without assigning a higher cost of equity. It asks for a weather normalization clause to offset the impact of weather on its temperature sensitive load, and

[47] Transcript of Evidence, Volume I of II, p. 229.

it asks for an alternative regulation plan to ensure that it will earn its allowed rate of return. All of these forms of added relief are predicated upon the tenuous argument that when a company has repeatedly failed to earn its allowed return, this somehow establishes that the company has not been given an adequate opportunity to earn that return[48] with the consequence that it then becomes the Commission's job to assure that the actual rate of return will more closely track the allowed rate of return through some sort of alternative or added regulatory measures.[49]

Clearly, the Commission has no statutory or constitutional obligation other than to set fair, just and reasonable rates which provide Delta, operating under efficient and economic management, an ***opportunity*** to generate enough revenue to meet operating expenses and to permit a return on investment to the owner that is commensurate with the return on investments in other enterprises which have corresponding risks, that is sufficient to assure confidence in the financial integrity of the

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[48] See Prefiled Testimony of Martin Blake, p. 10, lines 9-12 and 18-20, where he says,

> . . . a utility that consistently earns less than the allowed rate of return or which has averaged significantly less than the allowed rate of return for a long period of time cannot be said to have a reasonable assurance of earning the allowed rate of return. . . Thus, it may make sense for regulators to not only deal with the mean value of the distribution of returns, as they do when they set the allowed rate of return in a rate case, but to also deal with the variability of returns through some alternative regulatory mechanism.

[49] Delta is not the first utility to try to persuade the Commission that it is incumbent upon the Commission to help assure that the utility earns its allowed rate of return by processes outside of or in addition to the traditional general rate case. In Case No. 10423, In the Matter of the Tariff Application of Kentucky American Water Company Procedure for Company Revenue Requirements, Kentucky American filed a tariff in which it sought to obtain the revenue requirement associated with a major new construction project through a tariff filing rather than through a general rate case. In support of its effort, Kentucky American claimed that traditional methods of ratemaking would not allow it sufficient opportunity to earn its authorized rate of return due to the regulatory lag inherent in the general rate case procedure. The tariff was proposed as a means to reduce or eliminate that delay. The application was rejected.

utility, and that is sufficient to attract capital. KRS 278.030; Bluefield, *supra.*; Hope, *supra.* Opportunity is not a guarantee, it does entail risk. With each of its proposed measures, Delta is asking the Commission to go beyond granting it the opportunity to earn as that has traditionally been defined in the setting of fair, just and reasonable rates. With each added measure Delta is also asking the Commission to ***reduce*** the risk inherent in that opportunity to earn. As Delta is asking the Commission to go beyond its statutory and constitutional obligations, Delta bears the burden of showing that each measure is a benefit to all concerned, not just a benefit for the shareholders.

5.1 Imputed Capital Structure and Leverage Premium.

Dr. Blake proposes two alternate means as cures for the difficulty Delta faces as a result of the fact that it has a low equity ratio. The first is the use of an imputed capital structure in determining Delta's revenue requirement consisting of 43.5% common equity and 56.5% debt. The second is the use of a leverage adjustment of a 2% leverage premium. Both represent radical departures from this Commission's historic practice. Furthermore, Dr. Blake's failure to use the DCF model and the CAPM model correctly indicate that he lacks the expertise required to give credibility to his recommendations regarding capitalization.

The imputed capital structure proposal, designed to cure Delta's common equity ratio problem - like the proposal for a weather normalization clause, the proposal for an alternative regulation plan, and the proposal that the Commission might utilize a size premium for Delta - assumes that it is the Commission's obligation in this case to cure each and every hurdle faced by Delta as a function of providing Delta with an opportunity to earn under the standard of Bluefield and Hope. It is not the Commission's obligation to remove all hurdles from Delta's path, particularly those hurdles which are derived or result in part from management decisions. Instead, its obligation is to provide Delta, when operating under efficient and economical management, the *opportunity* to earn the return, as is required by Bluefield and Hope.

The common equity ratio problem is clearly derived in part from and is a result of managerial decisions (among others, decisions not to seek rate increases as soon or as often as it should have). If the Commission decides to engage in risk reduction for Delta, in addition to providing it the required opportunity to earn its return, it should avoid remedies which involve a radical departure from the Commission's past practice until it has seen what affect remedies designed to address matters outside the realm of managerial discretion (i.e-the impact of a weather normalization clause) will have. Of the problems faced by Delta, the only one over which it has no control, and therefore the only one in which managerial discretion plays not role, is the weather and the impact the weather has had on its earnings. The Commission should address the problem of the impact of weather on revenues first and hold off all other remedial actions to see whether that remedy affords Delta the relief necessary to set it back on its feet.

The Commission should also decline to assess a leverage adjustment. Not only does it represent a radical departure from past Commission practice, it is not even fully supported by the literature offered by Delta. Based upon the same article by Brigham, Gapenski and Aberwald in which it is stated that "the data did not permit analysis outside the 42.5 to 54 percent debt ratio range, so we cannot say what would happen to interest rates if debt were below 42.5 or above 54 percent", Blake recommends a leverage premium of 200 basis points.[50] He suggests that the resulting 13.9% return on equity (in conjunction with Delta's actual capital structure) will bring Delta more in line

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[50] Prefiled Direct Testimony of Dr. Blake, p. 17.

with the panel of 29 companies.[51] An examination of the panel of 29 companies set out in Exhibit MJB-1, shows that of the 29 companies, 20 have a debt ratio outside the 42.5 to 54 percent debt ratio utilized in the Brigham, Gapenski and Aberwald study. Therefore, that study cannot be used to determine a reliable leverage premium for Delta. A leverage premium should not be assessed.

Likewise, the Commission should not utilize an imputed capital structure in this proceeding. The imputed capital structure is a pure fiction designed to increase return. It too represents a radical departure from past Commission practice and is unsupported by any data suggesting this would provide a return commensurate with the return on investments in other enterprises having corresponding risks. Dr. Weaver showed that when total debt, including all current liabilities which must be repaid in the current operating cycle of business, and preferred stock is considered, Delta's leverage is only 3.1 percentage points greater than the five companies he selected as being closest to Delta. Delta should not receive a bonus return based on its common equity ratio, particularly not until it can be see whether the rate stability that arises from a weather normalization clause can set Delta back on its feet. Delta's problem has arisen gradually and in steps. Any cure should be affected gradually and in steps.

5.2 Weather Normalization

There is no question about the negative impact the weather has had on Delta's earnings in recent years. Non-gas costs are collected largely on a volumetric basis.[52] For Delta, with its large residential and small commercial space heating load, the impact of weather has been significant. Of

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[51] Prefiled Direct Testimony of Dr. Blake, p. 28-29.

[52] Prefiled Direct Testimony of Thomas S. Catlin, p.16.

the financial woes Delta suffers, those related to the shortage of revenues arising from warm winters are both the primary reason for Delta's failure to achieve its allowed rate of return[53] and the single financial risk which cannot be affected in any way by management. If the Commission finds it necessary to bolster Delta's ability to achieve allowed rates of return in addition to establishing fair, just and reasonable rates, the difficulties posed by the weather would be the most appropriate starting point.

Weather normalization clauses are difficult to explain and defend to the consuming public. Weather normalization clauses may well result in paying more for energy in warmer than normal periods or paying surcharges assessed for warmer than normal periods after colder weather and its commensurately larger bills have set in. Thus, the customer may pay the higher bill associated with the colder weather plus a surcharge associated with the warmer than normal weather. While properly designed weather normalization clauses function symmetrically to reduce bills during colder than normal times, it may well be that the credit arising from a colder than normal period is assessed during subsequent warmer months which causes the credit to go unnoticed by the consumer.

Regardless of these difficulties, the weather normalization clause is the least objectionable of the all the added regulatory measures proposed by Delta as a means of assuring that its actual rate of return more closely tracks its allowed rate of return. Not only is weather a factor entirely beyond the control of the utility, weather is normalized for the purposes of establishing rates.

If, however, a weather normalization clause is adopted, it should be paired with a downward adjustment in the cost of equity to reflect that the weather normalization clause will operate to

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[53] Transcript of Evidence, Volume I of II, pp. 112-118; Prefiled Direct Testimony of Dr. Martin Blake, pp. 11, 15.

stabilize rates and will virtually eliminate the most significant element of risk Delta has faced in earning its allowed rate of return. As Delta pointed out, three of Dr. Weaver's five selected companies have weather normalization clauses. The adoption of a weather normalization clause for Delta will reduce Delta's risk, making it more like the selected companies. Therefore, its cost of equity should be less than its cost of equity in the absence of a weather normalization clause.

5.3 Alternative Regulatory Plan

Delta's alternative regulation plan should be rejected outright. There is absolutely no reason to grant it.

5.3.A Delta's alternative regulation plan asks the Commission to engage in a form of ratemaking that is distinctively different from any it has done before.

Because the alternative regulation plan is a formula rate, Delta attempts to present the alternative regulation plan as a simple extension or continuation of that which the Commission has been doing with the gas supply clauses, with performance based rates and with single rate making clauses in the past. The only similarity between the alternative regulation plan and those regulatory endeavors is that it is a formula rate. Its purpose and function are dramatically different from everything the Commission has done to date with formula rates.

Formula rates addressing rate of return as an element of the formula have been utilized to date only where the legislature has specifically instructed the Commission to act under KRS 278.183 (the environmental surcharge act), KRS 278.512 (pertaining to the regulation of telephone companies); and KRS 278.516 (alternative regulation process for small telephone utilities). Obviously, there is no statute specifically instructing the Commission to utilize formula rates as the fair, just and reasonable rate for gas and electric utilities.[54] Furthermore, the rates established under KRS 278.183, KRS 278.512 and KRS 278.516 include a rate of return, but do not make the maintenance of the rate of return their primary objective in contrast to Delta's formula, which is specifically designed to maintain its rate of return. Delta has presented no good reason why this Commission should make the leap to use of a formula rate in the absence of specific legislative authorization and direction for this purpose.

807 KAR 5:056, the fuel adjustment also uses a formula rate, but it deals with costs that are both highly variable and volatile. Through the use of formula rates, gas supply recovery clauses also deal with costs that are volatile and highly variable. It is the variability and the volatility of the costs which has made formula rates and automatic adjustments, or adjustments with abbreviated review, an appropriate mechanism for the regulation of those costs. See, Southern California Edison Company v. Public Utilities Commission, 144 Cal. Rptr. 905, 576 P.2d. 945 at 954 (1978) (the commission employs adjustment clauses when it encounterers an item of expense or revenue which tends to vary abnormally in comparison to he utility's other financial data); Re Mountain States Telephone and Telegraph Company, 100 PUR4th 20 at 50 (Colorado Public Utilities Commission, February 10, 1989)(the cost adjustment concept had its origin as early as 1923. . .The overall justification for adjustment clauses was to effect timely rate changes in response to rapidly increased costs beyond the control of gas utilities.) Delta's formula rate is not designed to address volatile or highly variable costs. Rather, it is designed to avoid the burden of the rate making process while

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[54] In fact, in the same session in which KRS 278.512 was enacted, KRS 278.192, permitting the use of forward looking test years in support of proposed rate increases, was enacted. The continuation of traditional ratemaking was contemplated by the legislature.

procuring the benefits of an assured rate of return for the shareholders.

It is worthy of note that in the preamble to KRS 278.516 the legislature set forth the same reasons Delta sets forth in support its alternative regulation plan as the reason for the enactment of legislation to permit the use of alternative regulation procedures for small phone companies. There, the legislature finds that small telephone utilities lack the resources to fully participate in the existing regulatory process, particularly under traditional rate of return, that the growth and development of small telephone utilities can be retarded by requiring the expenditure of excessive time and money responding to and addressing regulatory process instead of devoting those resources to customer service and more productive business concerns and issues, and, that it is in the public interest to provide regulatory flexibility to small telephone utilities to enable them to adjust to the competition and innovation that has come to and is coming to the telecommunications industry.[55] Though the legislature is cognizant of the type of pressures which concern Delta, it has not seen fit to enact legislation to grant gas utilities the same flexibility of ratemaking granted small telephone utilities. The Commission should not make that leap in the absence of specific legislative direction.

The Commission's use of performance base ratemaking in conjunction with the gas supply clauses of Western Kentucky Gas, ULH&P and LG&E is also a far cry from what Delta seeks with

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[55] Compare the points made a pages 4 and 5 of the February 5, 1999 filing where Delta points out that by providing a less resource intensive process for keeping Delta's rate of return within a commission prescribed zone of reasonableness, the alternative regulation plan would allow the utility to focus on improving operations rather than using management talent to conduct full blown rate cases; that conducting a rate case is resource intensive and costly and the alternative regulation plan would result in a cost savings to the utility; and, that Delta faces competitive pressures and the alternative regulation plan would help it prepare for a more robustly competitive market.

its alternative regulation plan. Delta itself recognizes that difference.[56] Furthermore, those performance based rates were incorporated into the gas supply recovery clauses which have long been the subject of formula rates because of their volatility. The performance elements were designed to allow utility gains only to the extent that they beat difficult benchmarks in an area in which they had previously had no right to do anything but pass the cost through. By contrast, the so called performance based elements of Delta's alternative regulation plan are designed so that they would allow Delta added gains without significant improvement of performance.[57] Delta's performance based elements are minor constraints on what is a virtual guarantee of earnings under a continuation of cost based rate of return regulation. Thus, the fact that the Commission has utilized formula rates and has engaged in performance based rate making does not mean it is appropriate to implement a formula rate to insure rate of return earnings under Delta's alternative regulation plan.

5.3.B Delta's alternative regulation plan violates the principles underlying the rule against retroactive ratemaking.

The alternative regulation plan proposes that Delta's customers shall be charged the Commission established rate plus the alternative regulation plan surcharge which, through the operation of its various elements, may be a positive or negative charge. The purpose of the alternative regulation plan surcharge is to adjust the rates charged for today's service to make up for under or over recoveries arising from charges assessed and collected for yesterday's service. It may be possible to escape branding the entire scheme as retroactive ratemaking by calling it conditional ratemaking

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[56] See Delta letter filing of February 5, 1999, p. 7.

[57] Prefiled Direct Testimony of Thomas S. Catlin, pp. 8-13; Prefiled Direct Testimony of Robert J. Henkes, pp. 28-30, 32-37.

or by stating that the rates are not final commission-established rates for the purposes of retroactive ratemaking considerations until the last element of the alternative regulation plan has acted. It is certainly easy to become mired in the rounds of argument about what is and what is not a retroactive rate, a subject that has been debated extensively in connection with automatic adjustment clauses in both the case law and in Commission decisions. See, Daily Advertiser v. Trans-LA, et al., 612 So.2d. 7 at 22-24 (La. 1993); Southern California Edison Company v. Public Utilities Commission, *supra*, at 949 fn 8, pp. 953-955; Associated Gas Distributors v. FERC, 898 F2d. 809 at 810 (D.C. Cir. 1990); Kentucky Industrial Utility Customers, Inc. v. Big Rivers Electric Corporation, 176 PUR4th 371, at 374-376 Kentucky Public Service Commission, (Case No. 95-011, April 1, 1997) Re Mountain States Telephone and Telegraph Company, *supra*, pp. 48-51(in this action the Commission addresses retroactive ratemaking and the distinction between automatic adjustment factors, true up mechanisms and make whole mechanisms); Re Northern Indiana Public Service Company, 157 PUR4th 206 at 227-228 (Indian Utility Regulatory Commission, November 2, 1994). But, it is impossible to look at the purpose of Delta's alternative regulation plan and find that it does anything other than run directly afoul of the principles which have given rise to the rule against retroactive ratemaking.

In Re Mountain States Telephone and Telegraph Company, *supra*, the Commission examined and rejected a utility proposal that the Commission adopt some mechanism to insure earnings neutrality in the implementation of a new program. In Re Northern Indiana Public Service Company, *supra*, the Commission considered and approved the recovery transition costs despite a claim that their recovery would constitute prohibited retroactive ratemaking. In both, the Commission identified the prevention of risk shifting as the primary underpinning of the rule against retroactive ratemaking.

In Re Mountain States Telephone and Telegraph Company the Commission said:

> The prohibition against retroactively recapturing increased expenses or lost profits is not unique to the State of Colorado. The cases are legion, to the effect that a utility is not permitted to increase rates in the future in order to recoup past losses. A typical case is *Indiana Public Service Commission v. City of Indianapolis*, 235 Inc. 70, 12 PUR3d 320, 131 N.E.2d 308 (1956). In that case, the Indiana Supreme Court said (12 PUR3d at 329):
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> Past losses of a utility cannot be recovered from consumers nor can consumers claim a return of profits and earnings which may appear excessive. [Cites omitted.] The chances of a loss or profit from operations are one of the risks a business enterprise must take. The Company must bear the loss and is entitled to the gain depending upon the efficiency of its management and the economic uncertainties of the future after a rate is fixed. Were it not so, a premium would be placed upon inefficiency, waste and negligence in management. It is better policy to encourage thriftiness, saving and frugality on the part of a utility management. [100 PUR4th at 49]
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> . . . .
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> It is a well established principle of regulatory law and a well nigh universal public policy that state regulatory commissions do not guarantee rates of return. A utility is authorized an opportunity to earn its authorized rate of return through efficient operations . . . a guarantee of a rate of return would remove incentives necessary for a utility to achieve the utmost in operational and managerial efficiency.
>
> Unless a utility bears some risk, it lacks the proper incentive to project the costs of its proposal with due care. [100 PUR4th at 50]

In Re Northern Indiana Public Service Company the Commission said:

> The rule against retroactive ratemaking serves three basis functions, namely: (1) protection of the public by ensuring that current customers will not be required to pay for the past deficits of utilities through their future rates, (2) preventing utilities from employing future rates to protect the financial investment of their stockholders, and (3) requiring utilities to bear losses and enjoy gains depending on their managerial efficiency. [157 PUR4th at 228].

The stated purpose of the alternative regulation plan is to ensure that the company achieves and earns its allowed rate of return.[58] Its operation is such that, with minor limitations, the risks of

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[58] "The primary objective of the proposed mechanism is to establish a process for ensuring that the utility's rate of return falls withing the range found to be fair, just and

operational and managerial efficiency are shifted from the stockholder to the ratepayer. Therefore, as a matter of policy, the Commission should refuse to indulge Delta's request to adopt this alternative regulation plan.

5.3.C Delta has failed to identify sufficient benefits to the regulators, the regulatory process and the consumers to warrant adoption of the alternative regulation plan.

Other than the benefits that would also be derived from the adoption of a weather normalization clause, Delta has been unable to point to any substantial reason to support the adoption of the alternative regulation plan. While claiming it will conserve the Commission's time, reviews are required each year.[59] The AAC operates in the same way as establishing rates utilizing a future test year. Review of the proposed AAC would be like the examination of a future test year. If the review were limited to the one month period proposed by Delta, it would require intensive effort by the Commission and intervenors to complete a process that is afforded six months under KRS 278.190.

Delta claims that the alternative regulation plan will conserve regulatory costs. But, the regulatory costs are included in the expenses which would be approved in this case, and thus, are a part of the expenses being recovered from ratepayers. There would certainly be no savings to the ratepayers. By like token, as the rate expenses are passed to the ratepayers on a regular basis, there would also be no savings to the shareholders. Only managerial time and effort would be saved.

When the Legislature has been persuaded that the reasons, issues and pressures which Delta recites in common with those listed in the preamble to KRS 278.516 warrant a move to alternative

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reasonable by the Commission." Letter filing, page 10, February 5, 1999.

[59] Transcript of Evidence, Volume I of II, p. 120.

regulation, it has enacted a statute directing and defining that move. In the absence of legislative direction, those reasons do not compel such a move.

Delta admits that traditional regulation is consistent with regulatory practice in Kentucky and continues to be a reasonable method for setting rates.[60] There is no compelling reason to move to alternative regulation for Delta.

5.3.D The proposed alternative regulation plan is problematic and vague.

Often the devil of a proposal lies in its detail. Unfortunately, with this proposal, the actual mechanics have deliberately been left vague, with continuous additions and revisions up to and including those submitted in the rebuttal testimony. The effort to review the plan has been thwarted both by the lack of definition and by the ever changing suggestions and proposals. Given that the proposal seeks to work a major change in the regulatory process, it seems entirely inappropriate to work such a change on the basis of this imprecise proposal.

The proposal as made is lacking. It moves away from setting rates in a manner that ensures that only costs which are properly recovered from ratepayers are included in revenue requirements and reduces the incentive to control costs.[61] It is open to gaming through under budgeted income and/or over budgeted costs which would allow the Company to earn in the upper limits of its permitted range. Delta repeatedly implied at the hearing that the Attorney General is opposed to Delta earning in the upper reaches of its allowed range of return. Delta's complaint misses the point. The point repeatedly made by the Attorney General's witnesses is the objection to Delta earning in the

60 See, Delta response to Data Request 60 of the Attorney General's data Requests dated June 4, 1999.

61 Prefiled Direct Testimony of Thomas S. Catlin, p. 6-7.

upper reaches of its allowed return when that earning is the result of gaming rather than the result of legitimate effort or of factors outside the control of all parties.[62] There is historic evidence that Delta's operating budgets have consistently been more pessimistic than actual results.[63]

The 5% limit associated with the AAC is based on both non-gas and gas revenues, and so translates to a much higher limit when applied only to the non-gas revenues which are the subject of the AAC.[64] Historic average annual rate increases experienced under traditional regulation have been much lower than 5%.[65] The limitation of 5% in the AAC does not preclude the subsequent compensating operation of the AAF to permit actual recovery of expenses once incurred, even if they exceed the amount permitted for budgeting under the AAC.[66]

The Indexed O&M component utilized in establishing the AAF is not a true incentive to cost control or a performance based mechanism as Delta's historic O&M costs have increased at a rate less than inflation, and as it is reasonable to expect that Delta's O&M costs will continue to grow at a rate less than that represented in Delta's proposal.[67] The use of the CPI-U in connection with the Indexed O&M factor is overly generous because of the weighting toward consumer items, which results in a percentage increase that is consistently higher than the percentage increase in broader measures of

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[62] Prefiled Direct Testimony of Thomas S. Catlin, p. 6-8; Prefiled Direct Testimony of Robert J. Henkes, 31.

[63] Prefiled Direct Testimony of Robert J. Henkes, p. 32.

[64] Prefiled Direct Testimony of Thomas S. Catlin, pp. 8-9; Prefiled Direct Testimony of Robert J. Henkes, pp. 29-30.

[65] Prefiled Direct Testimony of Robert J. Henkes, p. 28-30.

[66] Prefiled Direct Testimony of Thomas S. Catlin, pp. 8-9.

[67] Prefiled Direct Testimony of Thomas S. Catlin, pp. 10-13.

inflation such as the Gross Domestic Product-Price Index. The GDP-PI measures the changes in all final goods and services produced in a given year, and so is more likely to be representative of the price increases faced by Delta.[68] The GDP is the inflation measure adopted by the Legislature for use in alternative rate making in KRS 278.516. Furthermore, using historic data, Delta could earn by simply continuing to do that which it does now, without improvement, under the Indexed O&M standard.[69]

Given that Delta's current equity ratio is approximately 35%, the 60% limitation on equity is, for the foreseeable future, a purely illusory limitation.

Delta's proposed alternative regulation plan is also problematic in its move away from setting rates in a manner which ensures that only those costs that are properly to be recovered from ratepayers are included in revenue requirements. The proposal contains no mechanism to preclude Delta from earning a return on all capital, including capital which may not be eligible to earn a return under traditional rate base regulation. Neither is there a provision to adjust either the budget or the actual net income to exclude costs disallowed by the Commission.[70]

Delta's proposed alternative regulation plan, though modeled on the Alagasco RSE plan is not as beneficial to the ratepayer as that plan.[71] Nothing about the fact that the Alabama Commission has chosen to utilize the plan it has for Alagasco would render the use of a like plan appropriate for

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68 Prefiled Direct Testimony of Thomas S. Catlin, pp.11.

69 Prefiled Direct Testimony of Robert J. Henkes, pp. 33-36; Prefiled Direct Testimony of Thomas S. Catlin, p. 12.

70 Prefiled Direct Testimony of Thomas S. Catlin, p. 14.

71 Prefiled Direct Testimony of Robert J. Henkes, p. 24-27.

Delta in the absence of some compelling similarity. Delta made no showing that it was in any was similar to Alagasco, or that the this Commission is facing the same pressures and considerations faced by the Alabama Commission as a result of the ruling by that state's Court in Alabama Metallurgical Corporation, et al. v. Alabama Public Service Commission, 441 So.2d. 565 (Ala. 1983). The pressures and considerations flowing from the Court's ruling were the progenitor of the Rate Stabilization and Equalization mechanisms utilized first for the electric company, and subsequently for Alagasco.

Delta's alternative regulation plan should be rejected both for policy reasons and for its inherent weaknesses. Were it to be adopted, the return on equity should be adjusted downward to match a bond yield, for the assurance of earning the rate of return that would accompany the proposed alternative regulation plan would cause it to function like a bond in its elimination of most of Delta's identified risk[72] Furthermore, were such a plan adopted, it should include a mechanism like that of the Mississippi plan provided by Delta in post hearing responses[73] for keeping the cost of equity current, so that Delta's customers would not face the situation now faced by Alagasco's customers of paying rates based on costs of equity which have not been updated since the early nineties.

COST OF SERVICE AND ALLOCATION OF RATE INCREASE

Delta proposes a cost of service study which rests on the zero intercept theory to categorize 58% of the cost of mains, the largest allocable expense, as a customer cost, with the remaining 42% classified as a demand cost and allocated on the basis of maximum design day demand[74]. The zero

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[72] Prefiled Direct Testimony of Dr. Carl Weaver, pp. 38-41.

[73] See, Mississippi Power Company Performance Evaluation Plan provided as Response 2 on November 13, 1999.

[74] Prefiled Direct Testimony of Richard Galligan, p. 7.

intercept method, like the minimum system method, has long been recognized by a leading authority as a mechanism by which the cost of the distribution system of a utility, the cost of mains, is inappropriately dumped into the class of customer costs. As pointed out by Mr. Galligan, Professor James C. Bonbright, in his Principles of Public Utility Rates ,[75] recognized that the placement of the distribution costs of a system in the class of customer costs of a cost of service study is highly controversial because there is at best only a weak correlation between the size of the geographical area of a distribution system and the number of customers served by the system. This tenuous correlation is not recognized by either of the fictions created to permit the allocation: the minimum system method and the zero intercept method.[76] No allowance is made for customer density when placing the distribution system in the class of customer costs. The NARUC Gas Distribution Design Manual also recognizes that the inclusion of costs associated with the distribution system in customer costs is controversial.[77]

The philosophy underlying the use of the zero intercept method in a cost of service study ignores the fact that the sole reason that a customer is made a part of the distribution system is for the demand that the customer will place on the system. The utility exists solely to satisfy that demand, and it is only through the service of the demand that the utility may recover its costs and make its

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75 Principles of Public Utility Rates, Bonbright, Professor James C., Columbia University Press, New York, 1961, pp 347-348.

76 The minimum system is mentioned in each of the iterations of the Bonbright work. The zero intercept system is mentioned for the first time the 1988 Second Edition, Principles of Public Utility Rates, Second Edition, Bonbright, Danielsen, Kamerschen, Public Utilities Reports, Inc., Arlington, VA, 1988, pp. 490-492.

77 NARUC Gas Distribution Design Manual (1989), p. 22, see Attorney General Cross Examination Exhibit 10.

profits. Thus, rather than inappropriately dumping a portion (or in the case of Delta's approach, the majority) of the distribution cost into customer costs through the use of hypothetical zero intercept system, it is philosophically appropriate to place all of the cost of the distribution system where it should reside, with demand costs. This prevents a misallocation of costs which results in the overcollection of costs from the residential classes.[78]

Even if it were more appropriate to allocate a portion of the costs of mains to the class of customer costs through the use of the zero intercept analysis, it would be necessary to utilize that analysis correctly to arrive at a reliable cost of service study. Delta's cost of service does not do so. Rather than using ordinary least squares regression, Seelye uses a weighted least squares regression where the average cost per unit of distribution mains and the size of main are weighted for the purpose of reflecting that Delta's distribution system is composed of different quantities (feet) of mains of different sizes. Though his testimony suggests the weights used were feet of mains, Seelye Exhibit 4-2 shows the weights used were the square root of the number of feet of mains rather than the feet of mains.[79] A weighting scheme using the square root of feet is not suggested by the NARUC Electric Utility Cost Allocation Manual (January 1992).[80] A weighting scheme using the square root of the number of feet of mains results in a estimated zero intercept (3.14) that is approximately 66% higher than the estimated zero intercept (1.89) obtained using the number of feet of mains as the

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78 Prefiled Direct Testimony of Richard Galligan, pp. 6-9; Principles of Public Utility Rates, Second Edition, Bonbright, Danielsen, Kamerschen, Public Utilities Reports, Inc., Arlington, VA, 1988, pp. 492.

79 Prefiled Direct Testimony of Dr. Steven Estomin, p. 4.

80 Prefiled Direct Testimony of Dr. Steven Estomin, p. 7.

weights [81]. Thus, Seelye's zero intercept analysis is in error. The cost of service study predicated on that analysis is in error and should be rejected as a guide in the setting of rates.

If a zero intercept analysis is to be the basis for the cost of service study, the best allocation, approach would include the use of an unweighted regression analysis, notwithstanding the recommendations in the NARUC manual. As is shown by the example provided by Dr. Estomin, the weighted regression analysis produces inaccuracies not produced by the use of an unweighted regression analysis.[82]

As a fundamental and critically important issue, it must be recognized that the zero intercept method relies on cost data spanning several decades which are not adjusted for inflation.[83] Hence, these data are not consistent with the character of data generally relied upon to conduct economic analysis and are, in fact, internally inconsistent.[84] Any analysis results based on these data, and specifically the zero intercept method employed by Delta, should be rejected as bing fundamentally irreparably flawed.

But, as stated above, the cost of service method which classifies all of the costs of the mains as demand costs in recognition of the fact that it is the service of customer demand which drives investment is the better approach. This is the approach followed by Mr. Galligan. If all costs of the distribution system are classified as demand costs, the question then becomes, how should the costs be allocated? Delta recommends a maximum design day allocation of that segment of the mains costs

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81 Prefiled Direct Testimony of Dr. Steven Estomin, p. 6.

82 Prefiled Direct Testimony of Dr. Steven Estomin, p. 9.

83 Prefiled Direct Testimony of Dr. Steven Estomin, p. 9.

84 Transcript of Evidence, Volume I of II, pp.169 -170.

it includes in the class of demand costs. This cost of service approach results in placing the greatest possible allocation of the cost burden on the residential class. In An Investigation of the Impact of Federal Policy on Natural Gas To Kentucky Consumers and Suppliers, Administrative Case No. 297, in its original order dated May 29, 1987, page 47, the Commission criticized this saying:

> The Commission is concerned about cost-of-service methodologies that place all the emphasis on maximum design day as a way to allocate costs. This method may result in an inappropriate shift of costs to the residential customer class. For this reason, cost-of-service methodologies should give some consideration to volume of use.

The utility exists to serve the total annual demands of its customers, not just the maximum day demand. It is only through the service of the full annual demand of every customer, both those whose maximum demands are coincident with their average demands and those whose maximum demands are not coincident with their average demands, that the company may recover its costs and make its profit.

Though the size of the mains must ultimately be sufficient to meet maximum day demand, all of the other costs of the installation and maintenance of the mains are the same for the service of the annual average demands of the customer as they are for its peak demand. The added costs of the increased size of the pipe necessary to meet the maximum demand comprise only a small portion of the total system costs as the throughput capability of a pipe increases at a rate equal to the square of the pipe's diameter.[85]

In his cost of service study, Mr. Galligan allocated 50 percent of the mains investment costs on the basis of average demand to recognize that Delta's existence as a viable business entity relies upon the end-user's annual gas requirements, and thus, that the annual gas requirements cause the cost

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[85] Prefiled Direct Testimony of Richard Galligan, pp. 12-14.

of the system. He has also recognized that peak demand requirements do exceed average demand requirements, and that there is an added associated cost in his allocation of 50% of the cost of mains investment on the basis of peak demands. However, because only a small portion of the cost of capacity is related to meeting peak demands which are larger than average demands - that cost being essentially the cost of the larger pipe itself - the vast majority of fixed costs are incurred to meet annual customer demands for delivered gas. To be conservative, Mr. Galligan allocated only 50 percent of pipeline capacity, or demand related costs on the basis of average annual demands, and allocated a large, 50 percent share of capacity costs on the basis of peak demands. Thus, the 50/50 allocation in Mr. Galligan's study is conservative, not arbitrary, in the recognition of the use of annual demands as being responsible for distribution mains capacity cost.

Mr. Galligan's cost of service study shows that smaller residential and general service customers pay rates that more than cover their allocated share of costs while larger customer rates fall below their share of the allocated costs of service.[86] The non-gas margins at the present rates also show that the margins paid by the smaller customers are not being subsidized by the larger customers and are not so low as to require an above average increase in rates.[87]

Recognizing that the cost of service study is not to be slavishly followed, but rather is just a guide to be used in setting rates, Mr. Galligan recommends that the Commission allot a proportional increase in class revenue responsibilities for any revenue increase granted to Delta [88].

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86 Prefiled Direct Testimony of Richard Galligan, pp. 17.

87 Prefiled Direct Testimony of Richard Galligan, p. 19.

88 Prefiled Direct Testimony of Richard Galligan, pp, 19-23.

RATE DESIGN

Delta has faced an ongoing threat of the loss of its industrial customers since the early eighties; first to alternative fuels, then to alternate suppliers.[89] In order to meet that threat, Delta now proposes rates which grant an overall rate increase of 9.85% while **decreasing** the Interruptible Service by 4.81%.[90] It is also proposing to shift much of its revenue increase into the first block of it GS rates while decreasing all other block rates drastically so there is a simple differential between GS rates and interruptible rates of $.25 in every block but the first.

In the last 17 years Delta has proposed a series of actions to retain and attract industrial customers. In 1981 it initiated an interruptible rate to gain and retain industrial customers by offering them a lower rate than was previously available.[91] Then, in 1984 Delta proposed a steep declining block discount to favor users of more than 5000 mcf with the objective of retaining industrial load, and initiated transportation rates that would allow it to recover a margin on firm and interruptible self-serve customers. The Commission refused to allow the full interblock discount sought saying, "The Commission finds it unjust and unfair to decrease the rates charged to large volume users, yet increase those charged to users of 5000 mcf or less without compelling cost of service support."[92] In order to permit the flexibility needed in the competitive fuel market, the Commission approved the

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[89] See, Order of December 1, 1981 in Case No. 8256, In Re the Matter of: Notice of Adjustment of Rates of Delta Natural Gas Company, Inc., pp. 20-21; and, Order of December 21, 1984 in Case No. 9059, In the Matter of: An Adjustment of the Rates of Delta Natural Gas Company, Inc. p. 34; Order of December 8, 1997..

[90] Prefiled Direct Testimony of Richard Galligan, p. 3, 16.

[91] Order of December 1, 1981, Case No. 8256, pp. 20-21.

[92] *Id.*, p. 36.

transportation rates and indicated it would consider contract reductions in the transportation rates on a case by case basis.[93]

Through the testimony of Richard Galligan, the AG challenges Delta to support the continued offering of an interruptible rate, and the consequent reduction of interruptible rates. It also challenges the small raise in proposed rates allotted Large Commercial and Industrial Class and the reduction of all block rates other than the first block to reduce the differential between the GS and the interruptible rate which is being proposed by Delta as a necessity to prevent the movement of large GS customers to the interruptible rate.

Delta has faced six design days in the last ten years without interrupting any customers .[94] Interruptible customers now have the right and ability to purchase gas from suppliers other than Delta, a right and ability that did not exist when interruptible rates were initiated. Given these facts, the AG questions the continued validity of the interruptible rate, much less the rate design which is geared to reduce the price of interruptible service and then reduce the price of competing GS firm service to prevent defection of customers to interruptible service.

Delta responds that the value of interruptible service lies not in maximum design day (the basis on which its cost of service study has made its cost allocations and the basis for its proposed rates) but in the maximum design winter, arguing that a depletion of storage during a maximum design winter could cause the need to interrupt some customers.[95] This explanation ignores the ability

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93 *Id., p.* 36-38.

94 Prefiled Direct Testimony of Richard Galligan, pp. 24-25.

95 Prefiled Rebuttal Testimony of Steven Seelye, p 29.

of interruptible customers to purchase gas apart from Delta's supplies, which , in combination with Delta's demonstrated ability to deliver required supplies to all customers (as evidenced by its ability to serve without interruption in six design days in the last ten years) contradicts Mr. Seelye's contention that interruptible rates are essential to assure the operational integrity of Delta's system.

The logic offered does not support the continued offering of an interruptible rate. As it is no longer logical to offer interruptible rates at all, there is even less justification to support the outright reduction of rates offered for the Interruptible services, and the small 2.79% increase allotted to Large Commercial & Industrial with the correlative decrease in tail block rates to more closely match interruptible rates in order to prevent the defection of firm customers to interruptible rates.

Interruptible rates should not be continued, or if continued, should not be reduced. The Large Commercial & Industrial Service should not bear a smaller increase in order to keep that rate competitive with the useless interruptible rates. The proposed revenue increases should not be loaded into the first block while all other blocks are reduced to a uniform $.25 higher than the interruptible rate.

CONCLUSION

The Commission should establish fair, just and reasonable rates for Delta in accord with the recommendations and adjustments of Robert J. Henkes and Dr. Carl Weaver. It should disallow any recovery of rate case expense associated with Case No. 99-046 and that portion of the rate case expense of Case No. 99-176 allocable to the experimental alternative regulation plan. It should allocate any revenue increase in accord with the recommendation of Richard Galligan. It should reject all of the added elements requested by Delta. In the alternative, and in the event it adopts a weather normalization clause, it should make a corresponding downward adjustment in the cost of equity.

Respectfully submitted,

Elizabeth E. Blackford
Assistant Attorney General
1024 Capital Center Drive
Frankfort, Kentucky 40601
(502) 696-5458

Notice of Filing and Certificate of Service

I hereby give notice that on this 29th day of November, 1999, I filed the original and eight true copies of the foregoing with the Kentucky Public Service Commission at 730 Schenkel Lane, Frankfort, Kentucky, 40601 and further certify that this same day I served the parties by mailing true copies of same, postage prepaid, to:

JOHN F HALL
VICE PRESIDENT-FINANCE SEC TREAS
DELTA NATURAL GAS COMPANY INC
3617 LEXINGTON ROAD
WINCHESTER KY 40391

HONORABLE ROBERT M WATT III
STOLL KEENON & PARK LLP
201 EAST MAIN STREET SUITE 1000
LEXINGTON KY 40507 1380

STOLL, KEENON & PARK, LLP

201 EAST MAIN STREET
SUITE 1000
LEXINGTON, KENTUCKY 40507-1380

(606) 231-3000
FAX: (606) 253-1093

*FRANKFORT OFFICE:
307 WASHINGTON STREET
FRANKFORT, KY. 40601-1823
(502) 875-6220
FAX: (502) 875-6235

**WESTERN KENTUCKY OFFICE:
201 C NORTH MAIN STREET
HENDERSON, KY. 42420-3103
(270) 831-1900
FAX: (270) 827-4060

***LOUISVILLE OFFICE:
2650 AEGON CENTER
400 WEST MARKET
LOUISVILLE, KY. 40202-3377
(502) 568-9100
FAX: (502) 568-5700

INTERNET: www.skp.com

November 29, 1999

Hon. Helen Helton
Executive Director
Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, KY 40602

Re: Delta Natural Gas Company, Inc.
Case No. 99-176

Dear Ms. Helton:

We deliver herewith for filing an original and ten (10) copies of Delta's Brief in the above-captioned case. We would appreciate your placing the Brief with the other papers in the case and bringing it to the attention of the Commissioners. Thank you for your kind assistance.

Sincerely,

Robert Watt

Robert M. Watt, III

rmw
encl.
cc: Counsel of Record (w/encl.)
Mr. John F. Hall (w/ encl.)

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NOV 29 1999
PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.	))	**CASE NO. 99-176**

* * * * * * * * * * *

BRIEF OF DELTA NATURAL GAS COMPANY, INC.

STOLL, KEENON & PARK, LLP

By Robert Watt
Robert M. Watt, III
201 East Main Street, Suite 1000
Lexington, KY 40507
606-231-3000

Counsel for Delta Natural Gas Company, Inc.

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PUBLIC SERVICE COMMISSION

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* * * * * * * * * * *

BRIEF OF DELTA NATURAL GAS COMPANY, INC.

This Brief is respectfully submitted by Delta Natural Gas Company, Inc. ("Delta") in support of its application for a general adjustment of rates herein. Delta has requested the approval of proposed rates which will increase its revenues approximately $2,511,797 or 6.76% on an annual basis, an Experimental Alternative Regulation Plan tariff and a Weather Normalization Adjustment tariff. Delta has proposed an apportionment of the revenue increase among the rate classes as well as rate design modifications which are designed to achieve some movement toward a better balance between class rates of return while giving recognition to other ratemaking objectives such as marketplace realities, customer acceptance and the need to maintain price stability by avoiding overly disruptive changes. The rates and tariffs proposed by Delta are fair, just and reasonable and are those necessary to provide Delta the opportunity to earn sufficient revenue and a return on its equity to meet the requirements of the Supreme Court of the United States in *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia,* 262 U.S. 679 (1923) and *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944).

INTRODUCTION

Delta last sought rate relief in 1997, receiving the primary order on December 8, 1997, in Case No. 97-066. Delta felt at that time that it would be difficult to earn its dividend at the level of revenues that was approved in that case. TE I, 22.[1] Since then the winters have been significantly warmer than normal, at 93% of normal heating degree days for the year ended June 30, 1998, and 89% of normal for the year ended June 30, 1999. TE I, 22. In addition, Delta has invested more money in capital, some of which produced additional revenue, but some of which did not. Nevertheless, the expenditures were necessary for safety and operational integrity reasons. TE I, 23. In addition, Delta has experienced increases in costs for payroll and benefits and health care costs, items which are beyond Delta's control and are reflective of the economy. TE I, 23. These expense items are necessary to retain quality employees in a tight labor market. The result of these conditions has been the failure of Delta to earn revenues sufficient to pay its dividend in four of the past five years.[2] TE I, 21. As a result, Delta's retained earnings have declined 63% from 1996 to June 30, 1999. TE I, 21. Delta's president, Glenn R. Jennings, summarized the situation during the hearing:

> When you--when you are a public company paying dividends to shareholders and trying to raise new money, and four of the last five years you haven't earned your return, and you are still out there trying to provide service in a growing 21 county community in Kentucky that is very rural and spread out, it is very difficult to do. And it does tend to make you feel distressed, especially after two or three years where you didn't earn that.

TE I, 23-24. It is very important to Delta to provide persons in its service area with high quality

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[1]Citations to the transcript of the hearing will appear as "TE I, _____" for the October 28, 1999, transcript and "TE II, _____" for the October 29, 1999, transcript.

[2]Even Dr. Carl Weaver, the Attorney General's witness, is "firmly in the camp that stands for the proposition that a company cannot go on and not earn its dividend." TE II, 189.

natural gas service in order to provide its customers with a choice among energy alternatives (TE I, 139) and to help in attracting new businesses and jobs to the area.

Dr. Marty Blake, who testified on behalf of Delta, characterized Delta's condition as "financial distress." TE I, 241. When asked what Delta should do to rectify that situation, Dr. Blake quickly identified higher earnings as the best way to remedy Delta's situation. TE I, 241. Delta's proposed rate increase is the source of higher earnings. Its proposed Experimental Alternative Regulation Plan and Weather Normalization Adjustment are mechanisms which will provide Delta the opportunity to earn the return found to be reasonable by this Commission on a going forward basis.

PROCEDURAL BACKGROUND

The procedural birth of this case was on February 5, 1999, when Delta filed proposed tariffs establishing the Experimental Alternative Regulation Plan ("Alt Reg Plan") together with a letter setting forth Delta's reasons for proposing the tariffs. On March 5, 1999, the Commission suspended the operation of the tariffs for 5 months from March 7, 1999, up to and including August 6, 1999, and established a case, No. 99-046, to determine the reasonableness of the proposed tariff sheets and the Alt Reg Plan. Thereafter, the Attorney General intervened and moved to dismiss Case No. 99-046. On May 7, 1999, the Commission denied the Attorney General's motion to dismiss, ordered Delta to publish notice of the proposed tariffs and established a procedural schedule for the case. The Attorney General filed an appeal of the order of May 7, 1999, in the Franklin Circuit Court. Delta and the Commission moved to dismiss the appeal, which motions were duly briefed and orally argued. The court indicated that he would dismiss the appeal, but no order has yet been entered to that effect.

In the meantime, the Attorney General made it clear that he would continue to appeal any orders relating to the Alt Reg Plan unless the Plan was considered by the Commission as part of a general rate proceeding. Therefore, despite the fact that the Commission was proceeding properly in Case No. 99-046, in an effort to obtain some rate relief prior to the 1999-2000 heating season, on July 2, 1999, Delta filed its application in this proceeding. It included the Alt Reg Plan (with modifications to implement performance related controls) in the tariffs proposed in this case. On July 6, 1999, Delta moved for consolidation of Case No. 99-046 and this proceeding.

On July 30, 1999, this Commission entered its order suspending Delta's proposed rates up to and including December 31, 1999, set forth a procedural schedule and incorporated the record of Case No. 99-046 by reference into the record in this proceeding. On August 5, 1999, this Commission entered its order denying Delta's motion for consolidation of Case No. 99-046 and this case and, on its own motion, dismissed Case No. 99-046.

Delta had already responded to two sets of data requests from the Attorney General and two sets of data requests from the Commission in Case No. 99-046 at the time it was dismissed. Those responses, as noted above, were incorporated in the record of this proceeding. Then Delta responded to four sets of data requests from the Commission and two sets of data requests from the Attorney General in this case. Delta and the Commission each submitted a set of data requests to the Attorney General, to which the Attorney General partially responded.

A hearing was held on October 28 and 29, 1999, at the Commission's offices. Glenn R. Jennings, John F. Hall, John Brown, Robert C. Hazelrigg, Marty Blake, W. Steven Seelye and Randall Walker appeared on behalf of Delta and were cross-examined by the Commission Staff and the Attorney General. Robert J. Henkes, Thomas S. Catlin, Stephen Estomin, Carl Weaver and Richard Galligan appeared on behalf of the Attorney General and were cross-examined by the Commission Staff and Delta. Both Delta and the Attorney General responded to data requests which were made during the course of the hearing. In addition, Messrs. Seelye and Estomin submitted responses to written questions regarding their cost of service study methodologies propounded by the Commission Staff.

Delta began the process of obtaining a meaningful opportunity to earn a reasonable return on February 5, 1999. Thus, the process is nearing the end of its tenth month. Delta needs the entry of an order as promptly as possible and, to make the implementation of the new rates proceed more smoothly, the new rates should be effective for final meter reads on and after the date of the order. Delta has requested such implementation methodology because it is more efficient, is easier to implement and because it is consistent with its GCR methodology as well as the methodology in place prior to December 8, 1997.

RATE OF RETURN

During the hearing in this case, the Attorney General's rate of return witness, Dr. Carl Weaver said, "So, yes, the company has had financial problems, I will agree there, and I think they are risky and I think they need a rate increase." TE II, 188. Despite his assessment of Delta, Dr. Weaver proposes a rate of return for Delta that is like throwing a toothpick to a drowning man. This Commission should provide Delta the opportunity to earn a rate of return on equity that will relieve its financial distress and reverse the alarming erosion in the equity component of Delta's capital structure. Neither of these results will be achieved if the Commission adopts the return on equity that Dr. Weaver recommends.

In calculating the revenue requirement, the Commission should either allow Delta a 13.9% return on equity with Delta's existing capital structure or allow Delta an 11.9% return on equity with an imputed capital structure as recommended by Delta's rate of return witness, Dr. Marty Blake. His recommendations are supported by published research, are consistent with the strictures of *Hope* and *Bluefield*, and would help to reverse the alarming decline in the equity component of Delta's capital structure. Dr. Weaver's recommended return on equity for Delta is subjective, is not consistent with the strictures of *Hope* and *Bluefield*, and would not allow Delta to reverse the alarming decline in its equity component.

Dr. Weaver's methodology and, thus, his recommendation is deficient. He did not estimate the return on equity for Delta directly. Instead, he estimated the return on equity for a panel of five companies that he claimed were similar to Delta, or at least "as similar as you can make them" (TE II, 224-225), and then made a subjective, unsupported assessment of Delta's additional risk to arrive at his recommended return on equity for Delta. In cross examination, Dr. Weaver described the methodology that he used for estimating the return on equity that Delta should be allowed as follows:

> I looked at the five companies, I used the panel of five companies in the DCF analysis, I used them in the CAPM analysis and I also used them in the bond yield risk premium analysis as the primary source. Delta's return should be similar to companies that have comparable risk. It is required that you look at similar companies, and as similar as you can make them, and then I adjusted for my perceived difference in the risk level.

TE II, 224-225. However, cross-examination of Dr. Weaver established that his five company panel was not similar to Delta. TE II, 180-183. Dr. Weaver's 5 company panel did not bracket Delta with respect to total asset size (5 company panel was from 3 to 10 times larger than Delta), common equity ratio (5 company panel averaged ten percentage points more equity than Delta), ratio of total liabilities to total assets, ratio of net sales to total assets or with respect to S&P relative strength rank. These were all criteria cited by Dr. Weaver for determining whether the 5 companies were similar to Delta. In fact, the only measures that Dr. Weaver relied on which he claimed that Delta compared favorably to his 5 company panel were with respect to cash flow coverages. Delta was suspicious of Dr. Weaver's reliance on these cash flow coverages, because they were not consistent with the more standard times interest earned ratio (TIER) that is relied upon by analysts and that is reported on page 1 of Exhibit MJB-5, which showed that Delta had the second lowest TIER of the 29 natural gas distribution companies followed by Edward Jones Company. Delta attempted to obtain more information about what was included in Dr. Weaver's cash flow coverages, and in Item 36 of its Data Request to the Attorney General, Delta requested the workpapers and other documents supporting Dr. Weaver's calculation of cash flow coverages. Dr. Weaver responded, "There are no work papers. The cash flow schedules were done on lotus spread-sheets." Under cross examination, Dr. Weaver admitted that he had in his possession the information requested, but did not provide it, as the following exchange illustrates:

> Q You see the last sentence of your response, the cash flow schedules were done on Lotus spread sheets?
> A Yes.
> Q But you didn't send us either a disk or the spread sheets when we asked you to give us work papers on that, did you?
> A No, I didn't have any physical pieces of paper or anything.
> Q What happened to the Lotus spread sheet?
> A I have in a file somewhere, I do have the Lotus spread sheets.
> Q Okay. But you didn't send those to us right?

A No.

TE II, 217-218. Of course, no one but Dr. Weaver knows if his Lotus spread sheets show whether Delta is similar to Dr. Weaver's 5 company panel.[3] The cash flow coverages cited by Dr. Weaver are the only measures that support his claim that Delta is similar to his five company panel. In his direct testimony, Dr. Weaver stated that:

> The cash flow measures indicate that, from a cash flow perspective, Delta has nearly the same risk as the five company group.

Weaver Direct, 21. Furthermore, cross examination of Dr. Weaver indicated the heavy reliance that he put on these cash flow coverages in arriving at his conclusion that Delta was similar to his panel as is illustrated in the following exchange:

> Q When you have a situation like the one that exits [sic] with Delta in your panel, where they really aren't similar, there is no bracket at all, there is no above and below, all of your panel companies have better performance indicators than Delta; isn't that right?
>
> A No, not necessarily. On cash flow analysis, for example, which I consider to be extremely important, Delta had the best cash flow coverage of earnings.

TE II, 183. Not only was Dr. Weaver deliberately unresponsive to data requests about this topic which he considers "to be extremely important", he also badly misinterprets these ratios. In his testimony, Dr. Weaver uses a ratio of "the number of dollars of cash flow from operating activities per dollar of net income reported on the income statement." Weaver Direct, 20. He notes that this ratio is 3.62 for Delta and averaged 1.96 for his panel of 5 companies. From this ratio, Dr. Weaver draws the conclusion that this shows that Delta's earnings are of higher quality than his 5 company

[3] On October 28, 1999, Delta filed a motion to strike the testimony of the Attorney General's witnesses because of their failure to respond properly to discovery requests. That motion remains pending.

panel which makes "Delta less risky than the other companies." Weaver Direct, 21. What this comparison of ratios really shows is that it takes Delta $3.62 of cash from operating activities to generate $1 of net income, while it takes Dr. Weaver's 5 company panel only $1.96 of cash from operating activities to generate $1 of net income. Because it requires Delta to generate almost twice as much cash from operating activities to generate $1 of net income compared to Dr. Weaver's 5 company panel, what Dr. Weaver claims as a positive element is, in fact, a major negative, which is consistent with the other data in this proceeding that show that Delta is substantially riskier than Dr. Weaver's panel.

The record in this proceeding demonstrates that Dr. Weaver's 5 company panel is not similar to Delta and that any estimate of the return on equity for Dr. Weaver's 5 company panel needs to be adjusted to account for the significant differences between Delta and the 5 company panel. In cross-examination, Dr. Weaver claims that the use of market data will automatically account for these differences as the following exchange illustrates:

> Q Dr. Weaver, did you account for the difference in risk resulting from three of your five panel companies having a weather normalization mechanism in place?
>
> A That's reflected in the data and using market data will automatically account for that. It should be reflected in the prices, the dividend yields, and the DCF models and also in the capital asset price models that is reflected in the betas.

TE II, 192. However, contrary to his claim, the methodology that Dr. Weaver used would not and could not automatically account for the **differences**. Market data was used to estimate the return on equity for Dr. Weaver's 5 company panel, as Dr. Weaver stated under cross-examination:

> I looked at the five companies, I used the panel of five companies in the DCF analysis, I used them in the CAPM analysis and I also used

them in the bond yield risk premium analysis as the primary source.

TE II, 224-225. The market data used for the 5 company panel in no way incorporate information about the **differences** between the 5 company panel and Delta. The market data only reflect financial characteristics regarding the 5 companies in his analysis. To this estimated return for his 5 company panel, Dr. Weaver added 50 basis points to arrive at his estimate of the return on equity for Delta. Under cross examination, Dr. Weaver admitted that the addition of 50 basis points was subjective. TE II, 185. This 50 basis point addition was not arrived at using, or supported by the use of, market data. Thus, the fact that Dr. Weaver used market data in analyzing his 5 company panel in no way automatically accounts for the dramatic **differences** between Delta and his panel as he claims. When the substantial differences between Delta and Dr. Weaver's 5 company panel are properly incorporated into the return on equity analysis, the results are very similar to those obtained by Dr. Blake. At a bare minimum, Delta's return on equity should incorporate the significant differences in size and leverage between Delta and the 5 company panel.

In estimating Delta's return on equity, Dr. Weaver did not properly take into account the size difference between Delta and his 5 company panel. In cross examination Dr. Weaver stated that:

> I acknowledge there was a difference in size, and there is a substantial difference in size, I will agree with that. It is my belief that that does not have a great effect on the risk of the company once they achieve a certain size, have stock outstanding, they are publicly traded, carried on NASDAQ so that you get wide dissemination of information about the company, they are in the Value Line expanded edition, not in the normal edition but in the expanded edition carried, so there is wide dissemination.

TE II, 187. In Item 33(b) of Delta's Data Request to the Attorney General, Delta asked whether Dr. Weaver was aware of any research that quantifies the relationship between size and risk. In his response to Item 33(b), Dr. Weaver cited only one source, "Ibbotson Associates, Inc. *Stocks, Bonds, Bills, and Inflation,* Yearbooks, Chicago, (annually updates work of Roger G. Ibbotson and Rex A. Sinquefield)". This published source cited by Dr. Weaver states that:

> However, based on historical return data on the NYSE decile portfolios, the smaller deciles have had returns that are not fully explainable by the CAPM. This *return in excess of CAPM*, grows larger as one moves from the largest companies in decile 1 to the smallest in decile 10. The excess return is especially pronounced for micro-cap stocks (deciles 9-10). This size related phenomenon has prompted a revision to the CAPM, which includes a size premium. (italics in original)

Stocks, Bonds, Bills, and Inflation 1999 Yearbook, Ibbotson Associates, Chicago, 139. The size premia referred to in this research by Ibbotson Associates are reported in Exhibit MJB-6. This published research does not support, and in fact contradicts, Dr. Weaver's subjective, unsupported belief that size does not have a great effect on the risk of a company.

It should be noted that, based on Schedule 1 of Dr. Weaver's filed testimony, four members of his panel would fall in the "Low- capitalization" group (capitalization between $252 and $918 million) and one member of his panel would fall within the "Mid-capitalization" group (capitalization between $918 and $4,200 million). Delta would fall in the "Micro-capitalization" group (capitalization below $252 million), for which the SBBI 1999 Yearbook notes the excess return due to size is especially pronounced. The difference in size premium between the "Low-capitalization" group and the "Micro-capitalization" group is 150 basis points (2.6% - 1.1%). The difference in size premium between the "Mid- capitalization" group and the "Micro-capitalization" group is 210 basis points (2.6% - 0.5%). Thus, to properly account for the difference in size between Delta and Dr. Weaver's 5 company panel, it is necessary to add at least 150 basis points to the return on equity that Dr. Weaver estimated as being appropriate for his 5 company panel. Blake Rebuttal, 6-7. Dr. Blake has properly accounted for size in arriving at his estimate of Delta's return on equity, he has supported his size adjustment with citations to published research, and the Commission should include this size adjustment of at least 150 basis points in determining Delta's return on equity.

In addition to not properly accounting for size, Dr. Weaver also did not properly account for the significant differences in leverage between Delta and his 5 company panel. Whether using the data in Schedule 3 of Dr. Weaver's testimony (45.7% - 36.2% = 9.5%), the data from page 16 of Dr. Weaver's testimony (49.2% - 38.5% = 10.7%) or the data from Exhibit MJB-1 (41% - 30.6% = 10.4%), the difference in the equity ratio between Dr. Weaver's five company panel and Delta is about ten percentage points. Blake Rebuttal, 3. The differences in these calculations stem mainly from whether short term debt is included in calculating the equity ratio. However, whether short term debt is included or excluded, the five company panel has an equity ratio that is about ten percentage points higher than Delta.

On pages 4 and 5 of his Rebuttal Testimony, Dr. Blake explained how he arrived at an appropriate estimate of a leverage premium of 15 basis points for each percentage point that Delta is below the average of Dr. Weaver's 5 company panel, and supported this estimate with citations to research by Eugene F. Brigham, Louis C. Gapenski and Dana A. Aberwald, "Capital Structure, Cost of Capital, and Revenue Requirements", *Public Utilities Fortnightly*, January 8, 1987. This would result in a leverage premium to reflect the significant difference in equity ratio between Delta and Dr. Weaver's 5 company panel conservatively estimated at 150 basis points by Dr. Blake. An even larger leverage premium is obtained if the 15 basis points are applied to the 13.5% difference between Delta's equity ratio and the average equity ratio for the 29 natural gas distribution companies reported in Exhibit MJB-1.

In cross-examination, Dr. Weaver attempted to support his 50 basis point addition in arriving at a return on equity for Delta by applying this leverage premium of 15 basis points for each 1% difference in equity ratio to a difference in equity of 3.1%. TE II, 185. He arrives at the 3.1% difference by using the difference in ratios of equity to total assets between Delta and his 5 company panel rather than the more commonly accepted ratio of equity to total capitalization. This application by Dr. Weaver is both misleading and incorrect. The 15 basis point leverage premium cited in the Brigham, Gapenski and Aberwald article was determined using equity as a percentage of total capitalization, not equity as a percentage of assets. Thus, his attempt to justify his 50 basis point addition by applying the 15 basis point leverage premium to the ratio of equity to total assets incorrectly applies the 15 basis point premium to the wrong ratio. Furthermore, his attempt to show that the difference in equity between Delta and his 5 company panel is only 3.1% is based on a misleading ratio. When properly viewed as an element in Delta's capital structure, and not in relation to assets which are not a part of capital structure as used in regulatory proceedings, the difference in equity between Delta and Dr. Weaver's 5 company panel is clearly in the neighborhood of ten percentage points as indicated above in the citations to Schedule 3 and to page 16 of Dr. Weaver's testimony.

When the significant differences in size and leverage are properly quantified and the proper adjustments are made, the result is an additional 300 basis points added to the return on equity for Dr. Weaver's panel. With his estimated return on equity for the 5 company panel of 9.75% to 10.75%, making the proper adjustments for differences in size and leverage would result in a range on the estimated return on equity for Delta of 12.75% to 13.75%, not even attempting to account for the other significant risk differences between Delta and Dr. Weaver's panel.

One of these other major differences in risk between Delta and Dr. Weaver's 5 company panel is that 3 members of his panel already have weather normalization mechanisms in place. These three companies are CTG Resources, South Jersey Industries and Energen (See response to Item 28(b) of the Data Request from the Attorney General). In addition, Alabama Gas Company, which is a subsidiary of Energen, has a Rate Stabilization and Equalization mechanism in place which is similar to the alternative regulation mechanism that Delta is seeking in this proceeding. In cross-examination, Dr. Weaver admitted that these weather normalization mechanisms would reduce the variability of revenue and earnings for these three companies. TE II, 193-194. He also agreed that Delta did not have such a mechanism in effect. TE II, 195. Dr. Weaver also admitted that he had not taken into account in his determination of Delta's return on equity the additional risk factor that Delta has compared to his panel by virtue of Delta's not having in place such a stabilization mechanism. TE II, 196. As of test year end, Delta did not have any sort of stabilization mechanism in place, yet Dr. Weaver determined Delta's return on equity by equating it to companies which had such mechanisms. Given the absence of any stabilization mechanism at test year end, Delta ought to earn a return on equity in the high end of the estimated range of 12.75% to 13.75%.[4]

This is similar to Dr. Blake's recommendation that Delta be allowed a 13.9% return on equity. Blake Direct, 27. Thus, when the proper adjustments are made to account for the substantial differences in size and leverage between Delta and Dr. Weaver's 5 company panel, there is little

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[4]In a classic example of data manipulation, when Dr. Weaver took Delta's proposed Alt Reg Plan into account, he further reduced Delta's return on equity below his 5 company panel (3 of which have stabilization mechanisms) to reflect his view that Delta is less risky because of its Alt Reg Plan. See page 16, *infra*.

difference between Dr. Blake's recommendation and Dr. Weaver's recommendation. The principal difference is that Dr. Blake applied the estimated leverage adjustment to the 13.5 percentage point difference in equity ratio between Delta and the average equity ratio for the 29 company panel in Exhibit MJB-1 rather than the ten percentage point difference in equity ratio between Delta and Dr. Weaver's 5 company panel.

The 13.9% return on equity recommended by Dr. Blake is also consistent with the range of return on equity of 13.15% to 13.65% in Alabama Gas Company's Rate Stabilization and Equalization mechanism that was approved by the Alabama Public Service Commission. TE II, 198. As stated above, Alabama Gas Company is a subsidiary of Energen, which is one of the company's that Dr. Weaver claims is similar to Delta, even though Energen is 10 times larger than Delta on the basis of total assets (Weaver Schedule 1) and has a 1996-98 average common equity ratio of 49.3%. Weaver Schedule 3. Under cross-examination, Dr. Weaver admitted, "For example, Energen, the Standard & Poor's stock report indicated that Alabama Gas ROE has been constant over the prior ten years." TE II, 194. During cross-examination Dr. Weaver stated that he was well aware of the famous quote from the *Bluefield* case, which he used on page 6 of his testimony, that "the return to the equity owner should be commensurate with the return on investments and [sic] other enterprises having corresponding risks." TE II, 199. However, when asked why, given the similarity that he claimed between Energen and Delta, a range of 13.15% to 13.65% would not be appropriate for Delta as well, Dr. Weaver was at a loss to come up with a plausible explanation. TE II, 199-200. An approved rate of return for Alabama Gas Company in the 13.15% to 13.65% range as a part of a Rate Stabilization and Equalization mechanism supports Dr. Blake's recommended return on equity for Delta of 13.9% and indicates that his recommended 13.9% return on equity for Delta would be consistent with the guidance in the *Bluefield* case, especially given the fact that Energen is 10 times larger, has a significantly higher equity component and is, thus, less risky than Delta.

Dr. Weaver was also questioned about the subjective reduction of his recommended return on equity to the 8% to 9% range if the Alt Reg Plan proposed by Delta in this proceeding is adopted. Under cross examination Dr. Weaver admitted that Delta would need a return on equity of at least 9.6% just to pay its current dividend. TE II, 204-205. However, even after admitting that it would take Delta a return on equity of at least 9.6% to pay its current dividend and after admitting that no company can continue and not earn its dividend (TE II, 189), Dr. Weaver still continued to recommend a return on equity of 8% to 9% if Delta's Alt Reg Plan were adopted. TE II, 205. Dr. Weaver makes this recommendation even though 3 of the 5 members of his panel already had a weather normalization mechanism in place, which would reduce the variability of their revenues and earnings; even though one member of his panel already had a Rate Stabilization and Equalization mechanism in place that is similar to the Alt Reg Plan proposed by Delta; and even though Delta did not have such a mechanism in place. Even with these mechanisms already in place for members of his panel, Dr. Weaver estimates a return on equity for the 5 company panel in the range of 9.75% to 10.75%, while recommending a return for Delta of 8% to 9% if Delta's alternative regulatory plan is adopted. Dr. Weaver's testimony is not credible given the inconsistencies in these positions and his recommendations should not be adopted by the Commission.

Dr. Blake has provided the Commission with two alternatives for making the proper adjustment to account for the substantial difference in equity ratios between Delta and the average natural gas distribution company. One is to incorporate a leverage adjustment into Delta's allowed return on equity which would result in a return on equity of 13.9% with Delta's existing capital structure. The second alternative was to use an imputed capital structure that is similar to an "average" gas utility consisting of 43.5% equity and 56.5% debt and allow Delta a return on equity of 11.9%. Blake Direct, 27-29. As the Attorney General demonstrated in his Cross Exhibit 1, these two approaches achieve the same result of properly accounting for the differences in leverage. Furthermore, as shown by Delta in its Exhibit 2, allowing Delta an 11.9% return on equity with its existing capital structure would have the same financial impact as allowing a 10.4% return on equity for a natural gas distribution company with an "average" capital structure.

Evidence in the record shows that the equity component of Delta's capital structure has been steadily eroding for 10 years. The use of an imputed capital structure would generate the earnings necessary to turn this around and to re-build Delta's equity. Under cross-examination, even Dr. Weaver admitted "So, yes, the company has had financial problems, I will agree there, and I think they are risky and I think they need a rate increase." TE II, 188. An 11.9% return on equity with Delta's existing capital structure, which is equivalent to a 10.4% return on equity for a company with an "average" capital structure, will simply not provide the necessary earnings to allow Delta to rebuild its equity. The Commission needs to either allow Delta a 13.9% return on equity with Delta's existing capital structure or allow Delta an 11.9% return on equity with an imputed capital structure as recommended by Dr. Blake.

As a final matter, Delta has again proposed determining its revenue requirement by multiplying the rate of return times the total capital of the company. The Attorney General supports multiplying it times rate base. Until 1997, the revenue requirement in every Delta rate case had been calculated by multiplying the rate of return times the capital. The practice in Kentucky for years has been to determine the revenue requirement for gas companies by multiplying the rate of return times total capital. In order to be consistent with years of precedent, the Commission should return to the rate of return times capital methodology.

PRO FORMA ADJUSTMENTS TO TEST PERIOD

Not surprisingly, the Attorney General proposes adjustments to test year revenues and expenses that result in increasing the revenues and decreasing the expenses which would be considered for ratemaking purposes. These proposed adjustments are not consistent with past Commission practice, do not represent known and measurable changes and are made solely for the purpose of artificially reducing the utility's rates. In his rebuttal testimony, John Brown demonstrated how Delta could have easily adjusted several expenses upward using the same approach that the Attorney General used to adjust several expenses downward. Brown Rebuttal, 3-7. Mr. Brown said,

> . . . . . [I]f the Attorney General is successful in decreasing O&M by his proposed amounts, then his theory, applied consistently to all of the Company's accounts, would, at a minimum, require an adjustment of $164,000, as detailed above, to increase O&M expenses.

Brown Rebuttal, 7. Delta, on the other hand, has approached the test year with the presumption that it is a reasonably accurate predicter of revenues and expenses as it is theoretically designed to be. Insofar as possible, Delta has utilized actual test year results and only those adjustments which are customarily used by this Commission in the ratemaking process or which were specifically utilized in Delta's last rate case, No. 97-066. Specific issues will be discussed below.

Year-End Expense to Revenue Ratio

Attorney General witness Henkes argues that, because wages and salaries were removed from the calculation of the expense-to-revenue ratio for the year end adjustment by Delta, then a host of other expenses should also be removed from the calculation. Henkes Direct, 22-23. He reasons that, since Delta did not increase its level of employees to reflect the incremental revenues created by the year end level of customers, it would be consistent to also assume that pension and benefit expenses will not vary. Henkes Direct, 22. He also argues that other costs should be subtracted because, in his opinion, these other costs do not vary with incremental sales. Henkes Direct, 23.

First of all, Delta did not take the position that the number of employees do not vary with incremental sales. Delta believes that wages and salaries do, in fact, vary directly with the size of Delta's customer base. Seelye Rebuttal, 32. Nevertheless, Delta elected to follow prior Commission practice in calculating the expense-to-revenue ratio. In following this practice, it should not be inferred that Delta believes that salaries and wages do not vary with incremental sales from year end customers. Even Mr. Henkes confirmed, upon cross-examination, that it is unrealistic to assume that new customers would have no impact on the number of employees. TE II, 102. New customers create additional meters to read, billings to render, meters to test, service calls to make, and the like, which incrementally increase Delta's labor costs. TE II, 103-104. While there may possibly be some economies of scale associated with serving additional customers in the administrative areas, this does not imply that all salaries and wages should be removed from the calculation of the expense-to-revenue ratio. Inasmuch as this issue has been raised by the Attorney General and, in all due respect to past Commission decisions, Delta believes that the practice of removing wages and salaries from the calculation of the expense-to-revenue ratio, understates the expenses associated with serving the additional number of customers represented by year-end over average customers. Therefore, Delta believes that incremental expenses should be increased rather than decreased as Mr. Henkes has suggested. For these reasons, Delta believes that the proper expense to revenue ratio should be 46.73% as filed in Seelye Rebuttal Exhibit 3. At the very least, however, the Commission should apply Delta's proposed 17.92% expense to revenue ratio as originally filed.

1997 Rate Case Expenses

Mr. Henkes also recommends the removal of the amortization of rate case expenses that were approved by the Commission in Delta's last rate case, No. 97-066. Henkes Direct, 28. He takes the position that the Commission should not allow Delta to amortize its rate case expense, but, rather, should be guided by the principle of normalization. Henkes Direct, 28-29. As pointed out in Mr. Seelye's rebuttal testimony, there are a number of problems with Mr. Henkes' recommendation. First, Mr. Henkes confuses the concept of amortization with the concept of normalization. Seelye Rebuttal, 34-35. **Normalization** attempts to take into account the effect of happenings that occur regularly on the utility's operations but may fluctuate from year-to-year such as temperature variations and to reflect, on a going forward basis, a level of revenue that corresponds with normal temperatures. **Amortization**, on the other hand, is used to deal with costs that do not occur every year, such as rate case expenses, extraordinary expenses, non-recurring costs, and the like.

Second, his recommendation is in direct conflict with the Commission's Order in Case No. 97-066, in which the Commission found that the rate case expenses should be **amortized** over a five year period, not normalized. Seelye Rebuttal, 35-36. Third, his position is contrary to the Attorney General's position in Case No. 97-066. Interestingly, the same Attorney General witness (Mr. Henkes) argued in favor of a five year **amortization** in that case. Seelye Rebuttal, 36. Fourth, Mr.

Henkes' recommendation is contrary the Commission's practice of establishing revenue requirements on an accrual basis rather than on a cash basis. Seelye Rebuttal, 36. Allowing Delta to recover amortization of rate case expenses is no different than allowing Delta to recover depreciation accruals as a current expense. Amortization performs the same function – it spreads an extraordinary or one-time cash expenditure over a specified number of years. Mr. Henkes' recommendation is equivalent to switching to a cash basis for this particular cost item. He would have the Commission normalize rate case expenses to reflect an expected level of cash to be spent for conducting a rate case rather than establishing an accrual. At this time, Delta has not recovered those expenses and, with Mr. Henkes recommendation, Delta would never recover those Commission authorized expenses. His recommendation is inconsistent, is inappropriate, violates the Commission's Order in Delta's last rate case and, therefore, should be rejected.

Current Rate Case Expenses

Delta has proposed the amortization of rate case expense for this case over three years. The basis for this proposal is that the experimental Alt Reg Plan is to be placed in effect for three years, at which time its future will be evaluated by Delta and the Commission. TE I, 127-128. Through October 31, 1999, total expenses for this case and Case No. 99-046 (the Alt Reg Plan case incorporated by reference into this case) were $218,753.18. Response to Item 6 of the Requests for Information propounded at the hearing and submitted on November 12, 1999. Delta has estimated that total rate case expense will be $250,000. TE I, 57. Thus, if the Commission utilizes the same approach for rate case expense here as it did in Delta's last rate case, then the $250,000 rate case expense should be amortized over the appropriate time which will elapse until Delta's general rates are next considered by the Commission. As stated above, that time period is three years.

Bad Debt Expenses

Mr. Henkes proposes "a post test year adjustment" for bad debt expenses that does not reflect a known and measurable change in such expenses. He picks out a single cost item that might possibly trend down because of efforts on the part of Delta's management and then projects a post test year decrease in the expense. Henkes Direct, 30-31. His adjustment is based on Delta's bad debt collection procedures which he believes "should reduce its bad debt expense level on a prospective basis." Henkes Direct, 30. Henkes proposes an average bad debt ratio for the years 1995 through 1998 to determine the bad debt expense to be utilized here. Henkes Direct, 31. However, the data over the past few years indicate an upward trend in bad debt expense. Looking at the historical data for the past four years, there is no basis to conclude that the level of bad debt expense proposed by Mr. Henkes represents a reasonable level on a going forward basis when compared with actual test year experience. Mr. Seelye succinctly demonstrated why Mr. Henkes bad debt expense analysis should be rejected:

> Mr. Henkes' adjustment to bad debt expenses should be rejected because (1) it reflects a post test year adjustment, (2) he does not consistently apply his post test year logic to other expenses that have either increased or are likely to increase when the rates go into effect, (3) he does not show that averaging produces a reasonable level of expenses on a going forward basis, and (4) his adjustment does not reflect a known and measurable change to test year operating results.

Seelye Rebuttal, 38.

Customer Deposits

Delta's treatment of customer deposits in this case is precisely the treatment that was utilized for customer deposits in its last rate case: "the Commission did not treat the Company's customer deposit balance as a rate base deduction, but *did* reflect the customer deposit interest as an 'above-the-line' expense amount." Henkes Direct, 17. Mr. Henkes disagreed with the Commission's treatment of this item and proposed deduction of the customer deposit balance from the rate base. Henkes Direct, 17. The Commission's prior treatment, and Delta's current treatment, of customer deposit balances was correct and should be utilized again in this case.

Again, Mr. Seelye explained why Mr. Henkes' approach should be rejected:

> This is yet another example of Mr. Henkes simply looking for creative ways to reduce Delta's revenue requirements. He argues that customer deposits are conceptually no different than customer advances. This is not correct. The major distinguishing factor which Mr. Henkes ignores is the *use* of the money. Customer advances ALWAYS relate to the construction of gas distribution facilities that have been installed on behalf of customers. As a result, customer advances are closely related to rate base. For example, as a part of Delta's main extension policy, residential customers must make a cash advance for extensions that exceed 200 feet. If other customers do not connect to the main within ten years, these advances are then credited as a contribution in aid of construction, which reduces plant in service. Therefore, customer advances relate directly to Delta's plant in service and, therefore, its rate base. Customer advances are deducted from rate base because Delta does not have to raise the capital for that amount of plant investment. Customer deposits, on the other hand, do not relate to plant in service nor to any other rate base item.

Seelye Rebuttal, 39. The Attorney General's treatment of customer deposits should again be rejected.

Pension Expense

Delta's books for the test year pension expense show an amount of $292,818, which Delta has utilized for ratemaking purposes. This amount has the following components: $40,354 for expenses paid to pension consultants, such as Hand & Associates and net periodic pension expense of $252,464, consisting of a blending of two fiscal years ($271,455 for the fiscal year ending June 30, 1998, and $181,167 for the fiscal year ending June 30, 1999). Brown Rebuttal, 7. As expected, Mr. Henkes seized on the smallest number in the bunch, $181,167, and chose it as the "representative" pension expense. Henkes Direct, 24. Mr. Brown testified unequivocally that the $292,818 pension expense amount is, in fact, lower than the amount Delta can expect to experience. in the future. Brown Rebuttal, 6. Specifically, the actuary estimate of net pension expense for April 1, 2000, is $267,592. Brown Rebuttal, 8 When the $40,354 expense for consultants is added to that figure, the expected expense is $307,592, not $181,167, utilized by Mr. Henkes. Brown Rebuttal, 6. Efforts by the Attorney General to demonstrate that the over-funded status of Delta's pension plan from 1995 to 1998 reduce the expense fail because the assets earned lower than expected in 1999 and the actuary report called for the increased expense discussed above. TE I, 181-182. Therefore, the Commission should utilize Delta's pension expense figure and disregard Mr. Henkes' low ball pension expense figure.

Glenn R. Jennings' Compensation

Delta has included as an expense for ratemaking purposes the sum of $24,000 which is the test year amount of loan forgiveness pursuant to an agreement between Delta and Glenn R. Jennings. The Attorney General proposes exclusion of the loan forgiveness portion of his compensation. The loan forgiveness is simply non-cash compensation provided to Mr. Jennings as part of his total compensation package. Mr. Jennings' total compensation for the test year, including the loan forgiveness, was $177,746. Delta's Response to Item 40 of the July 15, 1999, Commission Data Request. His total compensation level was clearly reasonable and all of it should be included for ratemaking purposes. In response to Item 41 of the Attorney General's August 11, 1999, Data

Request, Delta provided a letter from Victor R. Desposito, Jr. of Stone & Webster Management Consultants, Inc. dated August 5, 1999, containing a survey of total cash compensation for the position of Chief Executive Officer in ten small gas companies. Mr. Desposito stated in the letter:

> The survey . . . contains all the elements of total annual cash compensation including base annual salary, annual bonus, long-term awards, company contributions to 401K plans, and other cash compensation. The key comparison measure is total annual compensation which had a median value of $279,700 for the survey group compared to $187,700 for Delta. As a result, we believe the total cash compensation for Delta's CEO is not competitive with pay practices in the small gas company sector.

Since Mr. Jennings' total compensation, including the loan forgiveness, is uncompetitively lower than CEO compensation for other companies in the small gas company sector, it surely should not be reduced for ratemaking purposes.

Sales Tax Audit Expense

Delta has included an item of expense in the amount of $27,631 relating to the settlement of a sales tax audit during the test year. Mr. Henkes proposes removal of this expense item and lumps it in with other miscellaneous expenses, such as spousal travel, golf outings and the like, in his Schedule RJH 16. In his direct testimony, Mr. Henkes does not mention the sales tax audit expense, but refers only to the other miscellaneous expenses. Henkes Direct, 32-33. The sales tax audit expense is not abnormal, but rather is typical of many other similar expenses that must be made on an ongoing basis. John Brown described the situation as follows in his Rebuttal testimony:

> This amount is not abnormal, just part of the regular cost of doing business. This amount in the test year relates to Kentucky sales tax, but Delta is constantly engaged in audits/reviews by various agencies and payments of settlement amounts are not unusual. Even when no amounts are required to be paid to the agency, the Company always incurs legal and accounting professional services fees. To illustrate,

> in the last 12 months, three of the company's employee benefit plans have been audited by the IRS, and the Company is currently undergoing an IRS Revenue Agent Review on its June 30, 1997 consolidated tax return.

Brown Rebuttal, 8. Thus, the sales tax audit settlement is not an abnormal expenditure and should be included for ratemaking purposes.

EXPERIMENTAL ALTERNATIVE REGULATION PLAN

Delta's proposed Alt Reg Plan is a new experimental approach to ratemaking in Kentucky, which, if approved by the Commission, would be in place for three years. If the plan is adopted, this Commission will not be required to labor through general rate cases for Delta (unless a catastrophic event occurs) for the duration of the three year experimental period for which it is proposed to be in place. Instead, information relating to Delta's financial performance will be analyzed annually in the Alt Reg Plan formula and adjustments to Delta's rates and charges can be made within the parameters of the plan without the tremendous amount of effort that has been expended here. The end result would be that Delta would permitted the opportunity to earn a return within a range found to be fair, just and reasonable by this Commission.[5] The Alt Reg Plan is an imminently logical and fair approach to ratemaking.

Delta's goal in proposing adoption of the Alt Reg Plan is to establish an orderly and expeditious process for automatically making rate adjustments to give Delta the opportunity to earn a rate of return within the range to be authorized by the Commission in this case. Letter dated

[5] The Alt Reg Plan does not guarantee a level of revenues or guarantee a specified earned return for Delta as the Attorney General has argued.

February 5, 1999, from John Hall to Helen C. Helton, Case No. 99-046, ("February 5 Letter") at 3. The Alt Reg Plan will produce several benefits for the ratepayers, the Commission and Delta.

First, the Alt Reg Plan would ensure that Delta's rate of return falls within the range authorized by the Commission. Under Delta's proposal, the Commission would establish a zone of reasonableness for Delta's rate of return and the proposed mechanism would help to keep Delta's rate of return within this range. Subject to certain constraints, Delta's rates would be adjusted to bring its rate of return within the range established by the Commission. Delta's proposed mechanism would ensure that it is not over-earning or under-earning. February 5 Letter at 3.

Second, the Alt Reg Plan would be more consistent with the ratemaking principle of "gradualism" than traditional regulation. Because there is often a number of years between adjustments in base rates, traditional regulation frequently results in abrupt changes in rates. By providing a mechanism for examining a utility's earned rate of return and adjusting rates on an annual basis, Delta's proposed mechanism would provide a more gradual mechanism for increasing or decreasing rates than traditional regulation. February 5 Letter at 3-4.

Third, by providing a less resource intensive process for keeping Delta's rate of return within a Commission prescribed zone of reasonableness, the Alt Reg Plan would allow the utility to focus on improving utility operations rather than using management talent to conduct a full blown rate case. When a utility files an application for a general adjustment in rates, a significant amount of management time, attention and resources must be committed to the process. During a rate case, a utility must divert management attention from making operational improvements, connecting new customers, developing new marketing initiatives, strategic business development, and other activities generally involved with running the business and instead focus its attention on preparing financial pro-formas, conducting cost of service studies, determining where to spread a rate increase, developing pre-filed written testimony, responding to data requests, attending hearings, preparing pleadings, and the like. These activities are particularly burdensome and costly for small utilities, such as Delta, and their customers. February 5 Letter at 4.

Fourth, by providing a less resource intensive process for keeping Delta's rate of return within a Commission prescribed zone of reasonableness, the Alt Reg Plan would result in cost savings to the utility. Conducting a general rate proceeding is resource intensive and costly. Utilities incur significant internal and external costs in conducting general rate cases. Once an alternative ratemaking mechanism is operational, the cost of keeping Delta's rate of return within a Commission prescribed zone of reasonableness will be significantly lower. Although the Alt Reg Plan will involve a comprehensive 3-year review, it is anticipated that such a review would be less resource intensive and costly than a full-blown rate case. February 5 Letter at 4.

Fifth, the Alt Reg Plan would save time and resources at the Commission while still allowing the Commission to fulfill its obligations of ensuring that the utility is not over or under earning. As with utilities, the Commission and its staff devotes considerable resources in conducting general rate cases. Streamlining the process for keeping Delta's rate of return within a Commission prescribed zone of reasonableness would leave more time for considering important public policy issues instead of managing data requests, conducting hearings and performing other tasks involved with a formal rate case. Streamlining the process, however, would not impede the Commission's ability to prevent customers from being overcharged by allowing the utility to earn an excessive rate of return. Unlike traditional regulation, under Delta's proposal there would be an annual review of the utility's earned rate of return. February 5 Letter at 4-5.

Sixth, the Alt Reg Plan would free up the resources necessary for the Commission to prepare for competition. In a competitive environment, the Commission will need to devote resources to setting and enforcing the rules of the competitive game by addressing such issues as cross subsidization, affiliate transactions and non-discriminatory access to essential monopoly facilities which provide competitors with access to the market. One means of freeing up resources to devote to such issues is by utilizing alternative ratemaking mechanisms like the one that Delta is proposing. February 5 Letter at 5.

Seventh, the Alt Reg Plan would likely result in a less adversarial process for adjusting rates. The process for making general adjustments in rates set forth in 807 KAR 5:001, Section 10, is inherently adversarial. Other adjustment mechanisms utilized by utilities in Kentucky, such as purchased gas adjustment mechanisms (PGAs) and fuel adjustment clause mechanisms, have generally proven to be less adversarial. February 5 Letter at 5.

Eighth, Delta's Alt Reg Plan would help it prepare for a more robustly competitive energy services market. From Delta's perspective, the energy services market in Kentucky is already fiercely competitive. Natural gas utilities face competitive pressures from a number of fronts, including: (1) competition for residential customers from propane and fuel oil providers, (2) competition in commercial and industrial markets from alternative fuels such as coal and fuel oil, (3) competition in all sectors from electric utilities, and (4) customers physically bypassing the local distribution provider. Utilities that earn an inadequate return on invested capital are often at a competitive disadvantage to utilities and other energy service providers that have the opportunity to earn a significantly higher rate of return. Businesses with stronger earnings can typically devote resources to providing more and better services to attract new customers and retain existing customers. A solid financial position that reflects a reasonable rate of return would make it easier for Delta to finance the investments needed to provide quality service, to create new services and to enhance existing services in order to attract and retain customers. February 5 Letter at 5-6.

In addition, the Alt Reg Plan contains performance based controls to ensure that Delta's customers are given the opportunity to share in the benefits of O&M savings, protected from O&M increases and are not subjected to an unrealistic capital structure. The plan clearly benefits Delta's customers because it protects them from over-earning by Delta and provides Delta an incentive to improve its performance.

Delta has anticipated implementing the Alt Reg Plan at the beginning of its next fiscal year, July 1, 2000. That date coincides with the beginning of Delta's budget year, if the budget is utilized in the plan's AAC, or the end of Delta's fiscal year, if actual financial results are utilized in the plan's AAC.[6] As the Delta witnesses stated several times during the hearing, Delta is willing to discuss with the Commission Staff the most efficient and appropriate way to begin implementation of the Alt Reg Plan.

WEATHER NORMALIZATION ADJUSTMENT

Delta has proposed a Weather Normalization Adjustment ("WNA") tariff which will adjust rates monthly from November through March each year to produce the same revenue that thirty year normal weather would produce. The Attorney General is not opposed to the WNA. No evidence has been introduced in this proceeding that would suggest that the proposed mechanism should not

[6] The tariff sheets setting forth the use of actual financial results which are Seelye Rebuttal Exhibit 5 are offered to show an alternative to using budget information to calculate the AAC. Delta believes that either approach could be workable.

be adopted as filed. Delta believes that it will function well with the Alt Reg Plan because it will make monthly adjustments for weather and, thus, ameliorate the annual adjustment resulting from the Alt Reg Plan. Delta proposes to implement the WNA immediately following the issuance of an order in this case. Should the Commission determine that the annual adjustments under the Alt Reg Plan will be gradual enough to reduce the need for the WNA, Delta is willing to implement the WNA on a one year experimental basis, provided, however, that it must be permitted to implement the WNA for the 1999-2000 heating season.

CANADA MOUNTAIN GAS STORAGE FIELD

Gas storage services are provided for Delta by Deltran, Inc., a subsidiary, pursuant to an agreement approved by the Commission in Case No. 95-531. Delta recovers gas storage expenses through its Gas Cost Recovery mechanism. Therefore, Canada Mountain was excluded by Delta from this case. Canada Mountain has been regulated in this fashion since 1996 with no apparent problems. In addition, Canada Mountain was not factored into Delta's Cost of Service Study nor into its proposed rate design on which the proposed rates are based. Consequently, Delta has proposed to continue treating Canada Mountain in this fashion.

COST OF SERVICE AND RATE DESIGN

Delta's Cost of Service Study classifies a portion of distribution mains costs as customer-related and a portion as demand-related. The customer-related portion of mains costs are determined by calculating the average cost per foot of mains at the zero intercept (zero inch diameter pipe) and multiplying such unit cost by the number of feet of distribution mains. The customer-related portion of costs are then allocated to the customer classes on the basis of the numbers of customers in each rate class. The remaining costs are deemed to be demand-related costs and are allocated to the customer classes on the basis of the maximum class demands.

The cost of service approach, including the zero intercept methodology for classifying distribution mains, utilized by Delta in this proceeding is the same cost of service method that this Commission described as ". . . acceptable and should be used as a starting point for gas rate design" in Case No. 90-158.[7] The Commission also evaluated this same cost of service methodology in Case No. 10064 wherein it found that it ". . . provides an adequate starting point for rate design and should be used as the guide for the allocation of revenues to the customer classes."[8] On page 22 of his rebuttal testimony, Mr. Seelye pointed out that the Commission, in its Order in Case No. 10064, also addressed the theoretical soundness of zero-intercept methodology in determining the customer component of distribution mains costs. On page 80 of that order, the Commission stated that " the Commission is convinced that the zero-intercept method is theoretically sound and less subjective than the minimum system method, in which a minimum size main must be subjectively chosen in order to determine the customer component." In his rebuttal testimony at page 23, Mr. Seelye also pointed out that NARUC's Gas Rate Design Manual, 1989, at page 32, states the following with respect to the classification of distribution mains: "The distribution plant investment in mains may be classified as both demand and customer related. The customer component was determine[d] as the amount of investment that would be required i[f] all mains were comprised of a theoretically minimum size."

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[7] Commission Order dated December 21, 1990, in Case No. 90-158, page 63.

[8] Commission Order dated July 14, 1988, in Case No. 10064, page 81.

The cost of service study was then used as a guide by Delta in the allocation of the proposed revenue increase between customer classes and the design of the proposed rates. The objective was to achieve some movement toward a better balance between class rates of return while giving recognition to other rate making objectives such as marketplace realities, customer acceptance and the need for gradualism in avoiding overly disruptive changes.

Attorney General witness Estomin filed testimony claiming that Mr. Seelye used an incorrect formulation of weighted least squares in applying the zero intercept methodology in the cost of service study. Estomin Direct, 6-7. However, Mr. Seelye utilized the same zero intercept methodology which the Commission has endorsed in previous rate orders. See for example the Commission's Orders in Case Nos. 90-158, 10064, and 8924, described hereinabove. As shown in Mr. Seelye's rebuttal testimony, Dr. Estomin made serious mathematical errors and applied an incorrect formulation of weighted least squares which produces incorrect results. Seelye Rebuttal, 2. Dr. Estomin appears to have developed this approach in an attempt to try and convince the Commission to allocate a smaller percentage of cost on the basis of number of customers, thus reducing the percentage of cost allocated to the residential customer class. Oddly enough, after going to the trouble of bringing in a witness to present testimony on weighted least squares, the Attorney General's rate design witness, Mr. Galligan, did not even use the zero intercept methodology.

Mr. Galligan took the position that no distribution mains costs are customer-related and, therefore, no such costs should be allocated to the customer classes on the basis of the numbers of customers served within the classes. Galligan Direct, 8-9. In his direct testimony, he stated that he modified Delta's Cost of Service Study methodology and assigned 50% of distribution mains costs on the basis of average demand (annual volumes) and 50% as peak demand-related. Galligan Direct, 14. Mr. Galligan's proposed methodology in this case is very similar to the average and peak methodology. In its Order dated December 8, 1997, in Case No. 97-066 (Delta's last rate case), at page 24, the Commission stated as follows:

> The Commission is not convinced that the average and peak methodology has sufficient reliability to warrant it the Commission's complete reliance. Absent the use of another methodology to corroborate the average and peak methodology's results, preferably the zero-intercept method, this Commission will not give conclusive weight to studies using such methodology.

In addition, functionalization of costs as 50% commodity- and 50% demand-related by Mr. Galligan is capricious. His only justification for the 50-50 split was that it ". . . represents a conservative recognition of annual volumes in the allocation of Delta's distribution mains cost," whatever that is supposed to mean in this instance. Galligan Direct, 15.

Nowhere in his direct testimony does he indicate that he re-assigned and re-allocated anything other than distribution mains costs. On page 6 of his direct testimony, he identifies the mains investment as being "in excess of $39 million" which corresponds with the test-year net plant investment for distribution mains of $39.2 million. In addition, in response to the Commission's Data Request, Item 26, he reiterated that he had only modified the Delta Cost of Service Study by allocating distribution mains differently. His complete cost of service study was not submitted as a part of his testimony. It was not until he responded to Delta's Data Request Item No. 83 that it was revealed that he also re-assigned and re-allocated transmission costs on the same basis as distribution mains costs.

Transmission plant serves an entirely different function than does the distribution mains plant. Distribution mains are the lines that run up and down the streets and represent the last link in the gas delivery system to the service lines of the individual customers. For this reason, a portion of distribution mains costs are considered customer- related and a portion demand-related in terms of cost causation and allocated accordingly. Transmission plant, on the other hand, is used to move bulk supplies of gas from gas suppliers and the interstate pipelines to the distribution mains. As a result, transmission plant is considered solely demand-related and is, therefore, allocated to the customer classes on the basis of maximum demands.

Mr. Galligan never discussed or attempted to support the rationale behind why he elected to re-assign and re-allocate transmission plant based on 50% commodity- and 50% demand-related. All the evidence available prior to cross-examination, led Delta to believe that Mr. Galligan had merely made a mistake in his Cost of Service Study calculations and had not intended to re-assign and re-allocate transmission plant. There was certainly no support whatsoever in his testimony nor in his responses to the data requests that addressed why he departed from a previously accepted methodology. When cross-examined, Mr. Galligan admitted that he did not mention the re-allocation of transmission mains in his response to Item 26 of the Commission's Data Request. TE II, 243. In fact, he said in the data request response that he had only modified the Delta Cost of Service Study by allocating **distribution mains** differently.[9] Clearly, considerably more costs were re-assigned and then re-allocated to the customer classes than Delta and the Commission were led to believe by Mr. Galligan. Net transmission plant represents an additional $22.2 million in

[9] See response to PSC Data Request , Item 26.

investment which was neither mentioned in his direct testimony nor was there any evidence offered as support for the re-assignment and re-allocation thereof.

Mr. Galligan's treatment of four other items shown under the Expense Adjustments is also mysterious. In his revised testimony at the hearing and responses to data requests, he indicated that his only change in the cost of service methodology filed by Delta related to distribution mains and transmission mains. However, if he properly reallocated distribution mains and transmission mains as he claimed, the amounts assigned to each customer class for the adjustments to Payroll Expenses, To Eliminate Test-Year Expenses, Customer Deposits and Medical Expenses could not have been precisely the same as the amounts contained in Delta's Cost of Service Study. Nevertheless, his response to Item 83 of Delta's Data Request showed that these amounts were, in fact, identical to the amounts contained in Delta's Cost of Service Study. It appears that Mr. Galligan merely copied some numbers from Mr. Seelye's study without properly carrying through the reallocation. Thus, the Commission should not accept or rely upon Mr. Galligan's proposed re-allocation.

Mr. Galligan's approach to allocating the proposed revenue increase among the customer classes was also rather curious. After preparing a cost of service study that showed some fairly significant variations in rates of return between the rate classes, he then proposed an equal percentage allocation of the rate increase among the rate classes on the basis of their non-gas revenues spread. Mr. Galligan's cost of service study as well as his proposed apportionment of the rate increase should be rejected.

Mr. Galligan's analysis of Delta's interruptible rates is likewise flawed. He seems to have set out to show that Delta's interruptible rate was somehow unjustified. Mr. Galligan speculates that, since Delta has not been required to interrupt its interruptible customers frequently and has experienced design day conditions six times, the value of interruptible customers is not apparent. Galligan Direct, 24-25. Mr. Galligan fails to recognize that, except for underground storage, interruptible customers received a full allocation of all costs in Delta's cost of service study. Even with this level of cost assignment, the interruptible class rate of return of 27.37% was more than twice that of the next highest class and nearly four times Delta's overall return of 7.31%.

Mr. Galligan did not consider that Delta plans its storage operation around design winter conditions, not simply one or two design days during the winter season. Storage deliverability declines as storage inventory is lowered during the winter withdrawal season. As a result, Delta must make sure that enough gas is in storage on a given day to provide the capability, coupled with the daily gas purchases, to serve firm customers under design winter conditions for the remainder of the season and have adequate capacity to meet firm requirements on an extremely cold day late in the season. The elimination of the interruptible rate would place Delta at risk of losing the capability of meeting the human needs requirements on the system, which is not acceptable.

In summary, Delta's Cost of Service Study was prepared utilizing methodology approved repeatedly by this Commission in the past and approved by the Commission in Delta's last rate case. The Attorney General's Cost of Service Study was prepared using a methodology that conflicts with past Commission practice. Delta's rate design was nearly identical to the rate design approved by this Commission for Delta in its last rate case. The only small changes in rate design relate to the rates applicable to larger volume customers served under the General Service Rate Schedule which both reflect cost causation and help Delta compete more effectively in those markets. The thrust of the Attorney General's approach to cost of service and rate design is contrary to cost causation and would have the added detriment of placing Delta at a disadvantage in a competitive environment. The Attorney General's approach should be rejected and Delta's approach adopted in full.

CONCLUSION

Delta's need for dramatic and immediate rate relief is manifest. Its earnings are dismal and they must be higher so that Delta may pay its dividends, restore its retained earnings, place equity securities in the marketplace and correct its upside down capital structure. Thus, Delta's rates must be increased to the level that it may have the opportunity to earn an adequate return. Delta's Alt Reg Plan and Weather Normalization Adjustment must be approved so that Delta will be assured that it has the opportunity to earn an adequate return on a going forward basis. This process is nearing the end of its tenth month. Delta needs the entry of an order as promptly as possible and, to make the implementation of the new rates proceed more smoothly, the new rates should be effective for final meter reads on and after the date of the order. For all of the foregoing reasons, Delta respectfully requests that this Commission approve in full its proposed adjustment of rates and its new tariffs effective for final meter reads on and after the date of the order.

Respectfully submitted,

STOLL, KEENON & PARK, LLP

By________________________

Robert M. Watt, III
201 East Main Street, Suite 1000
Lexington, KY 40507
606-231-3000

Counsel for Delta Natural Gas Company, Inc.

CERTIFICATE OF SERVICE

This is to certify that the foregoing pleading has been served by mailing a copy of same, postage prepaid, to the following person on this 29th day of November 1999:

Elizabeth E. Blackford, Esq.
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY 40601-8204

Robert Watt

Robert M. Watt, III

Commonwealth of Kentucky
Before the Kentucky Public Service Commission

RECEIVED

NOV 17 1999

PUBLIC SERVICE
COMMISSION

In the Matter of:

Adjustment of Rates of Delta Natural Gas Company, Inc.	))	Case No. 99-176

ATTORNEY GENERAL'S RESPONSE
TO POSTHEARING DATA REQUESTS PROPOUNDED BY
THE KENTUCKY PUBLIC SERVICE COMMISSION
ON NOVEMBER 3, 1999

NOTICE OF FILING AND CERTIFICATE OF SERVICE

I hereby certify that this the 17th day of November, 1999, I have filed the original and eight true copied of the attached with the Kentucky Public Service Commission at 730 Schenkel Lane, Frankfort, Kentucky, 40601, and that I have served the parties by mailing a true copy of same, postage prepaid, this same date to:

JOHN F HALL
VICE PRESIDENT-FINANCE SEC TREAS
DELTA NATURAL GAS COMPANY INC
3617 LEXINGTON ROAD
WINCHESTER KY 40391

HONORABLE ROBERT M WATT III
STOLL KEENON & PARK LLP
201 EAST MAIN STREET SUITE 1000
LEXINGTON KY 40507 1380

[signature]

RESPONSE TO INTERROGATORIES FROM
THE KENTUCKY PUBLIC UTILITY COMMISSION STAFF
CASE NO. 99-176

DELTA NATURAL GAS COMPANY

1. Using Mr. Seelye's data and the minimum intercept model, Commission Staff obtained the following results:

Y = 1.81 + 0.77X (no weighting)[1],
where Y = Unit cost ($/foot)
X = diameter of pipe (inches).

When Commission Staff used the square root of Q is used [sic] as the weight, it obtained following results:

$$\sqrt{Q_i}\,Y_i = 389.3 + 1.089(\sqrt{Q_i}X_i)$$

$$\sqrt{Q_i}\,Y_i = -0.15885\sqrt{Q_i} + 1.296(\sqrt{Q_i}X_i)$$

In his direct testimony, Dr.. Estomin obtained the predicted equation of $Y = 1.89 + 156X_i$. See Direct Testimony of Steven L. Estomin at 6.

a. Describe in detail how Dr. Estomin obtained his results. Show each step of the calculations and state all assumptions used.

b. Describe all transformations (e.g., scaling of data or conversions from feet to inches and vice versa) performed to obtain Dr. Estomin's results.

c. What observations, if any, were deleted? Why?

d. Why is $\Sigma w_i^2(Y - (\alpha_i + \beta_i{*}X_i))^2$ estimated instead of $\Sigma w_i(Y - (\alpha_i + \beta_i{*}X_i))^2$? (See Direct Testimony of Steven L. Estomin at 5.)

e. Dr. Estomin states that this regression results in predicted equation that is given by $Y = 1.891 + 1.562{*}X_i$. What customer-related charge does this predicted equation yield?

[1] This result yields a Minimum intercept cost of $11,726,829.

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Question 1 (cont'd.)

f. According to Kmenta[2], a weighted least squares equation such as $\Sigma w_i Y_i = \alpha \Sigma w_i + \beta^* X_i \Sigma w_i$ "can only be estimated if Σw_i is known and the intercept of the regression equation is zero." Given this proposition, how did Dr. Estomin obtain the intercept equal to 1.891 in the equation shown in Question 1(e)?

Response

1.a. To obtain the results shown in Estomin's Direct Testimony at p. 6 (i.e., $Y_i = 1.89 + 1.56 X_i$), the following steps were used:

1. Mr. Seelye's data series for feet of pipe (by type of pipe and diameter) were normalized, that is, each observation was divided by the mean of the series to form a new series w, where

$$w_i = \text{feet}_i/(\text{mean of feet})$$

2. These eleven data points representing the normalized weights, w_i, were then multiplied by Mr. Seelye's unit cost series (Y_i), the series of average costs per foot of pipe of various diameters and type (X_i) and the constant term (a vector of ones).

[2] Jan Kmenta, Elements of Econometrics 257 (MacMillan Publishing Co. 1971) (emphasis added).

Response 1 (cont'd.)

3. A linear regression was then run whereby the w_i Y_i were regressed on w_i and wi X_i.

Employing steps 1-3 yielded the subject equation. No assumptions other than the standard assumptions associated with ordinary least squares regression were relied upon.

1.b. No transformations of the data other than those described in the response to Question 1.a. were relied upon.

1.c. No observations were deleted.

1.d. The regression algorithm operates by minimizing the sum of squared residuals. In an unweight regression, the expansion minimized is:

$$\Sigma e_i^2 = \Sigma(Y_i - \beta X_i)^2$$

For a weighted regression, what is minimized is:

$$\Sigma w_i^2 e_i^2 = \Sigma w_i^2 (Y_i - \beta X_i)^2$$

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Response 1 (cont'd.)

The above expression is consistent with the following estimation equation:

$$w_iY_i = \beta_{wls}\, w_iX_i$$

Where the X_i matrix include a column of ones to represent the constant term.

If the equation estimated is:

$$\sqrt{w_i}Y_i = \beta_{wls}\sqrt{w_i}X_i$$

then the expression minimized would be:

$$\Sigma\sqrt{w_i}^2e_i^2 = \Sigma\sqrt{w_i}^2\,(Y_i - \beta X_i)^2$$

or, alternatively expressed

$$\Sigma w_ie_i^2 = \Sigma w_i\,(Y_i - \beta X_i)^2$$

1.e. The $1.89/foot estimate corresponds to Mr. Seelye's $3.14/foot estimate. The customer-related charge suggested by this equation would therefore be approximately 39.8 percent lower than that suggested by the Company.

1.f. As seen from Kmenta, as well as my response to part (a) of this question, the equation estimated using weighted least squares does not technically contain a constant term since the constant term from the unweighted regression (a vector of ones) is multiplied by the vector of weights to obtain a second explanatory variable, i.e., the weights. The estimated parameter on the weights variable was taken as the zero intercept.

Question 1.A.

	Mr. Seelye's Data			Transformed Data			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
				(2) / Mean_Feet	(3) * (4)	(1) * (4)	(4)
# of Obs.	Size	Feet	Cost_ft	Scaled_wt	Cost_ft2	Size2	Constant2
1	1.50	442,766	5.03896	0.751735	3.787964	1.127603	0.751735
2	2.00	3,625,826	5.01638	6.155986	30.880766	12.311972	6.155986
3	3.00	56,307	2.38983	0.095599	0.228465	0.286797	0.095599
4	4.00	1,077,977	9.20162	1.830207	16.840868	7.320827	1.830207
5	6.00	51,168	8.27142	0.086874	0.718570	0.521243	0.086874
6	1.50	108,137	1.44549	0.183597	0.265387	0.275395	0.183597
7	2.00	429,630	1.32747	0.729433	0.968300	1.458866	0.729433
8	3.00	73,925	1.28091	0.125511	0.160768	0.376533	0.125511
9	4.00	259,512	5.38478	0.440604	2.372554	1.762415	0.440604
10	6.00	273,679	5.72755	0.464657	2.661344	2.787940	0.464657
11	8.00	79,984	6.43705	0.135798	0.874139	1.086385	0.135798

Sum		6,478,911
Mean		588,992

Microsoft Excel Spreadsheet

Question 1a: Imported Transformed Data in E-Views

obs	COST_FT2	SIZE2	CONSTANT2
1	3.787964	1.127603	0.751735
2	30.88077	12.31197	6.155986
3	0.228465	0.286797	0.095599
4	16.84087	7.320827	1.830207
5	0.718570	0.521243	0.086874
6	0.265387	0.275395	0.183597
7	0.968300	1.458866	0.729433
8	0.160768	0.376533	0.125511
9	2.372554	1.762415	0.440604
10	2.661344	2.787940	0.464657
11	0.874139	1.086385	0.135798

Question 1a: Output for Transformed Cost_ft on Size

Dependent Variable: COST_FT2
Method: Least Squares
Date: 11/11/99 Time: 16:03
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CONSTANT2	1.890932	0.849174	2.226790	0.0530
SIZE2	1.561923	0.373687	4.179767	0.0024

R-squared	0.977103	Mean dependent var	5.432648
Adjusted R-squared	0.974559	S.D. dependent var	9.705736
S.E. of regression	1.548084	Akaike info criterion	3.874879
Sum squared resid	21.56907	Schwarz criterion	3.947223
Log likelihood	-19.31183	Durbin-Watson stat	1.120536

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2. Provide the results of the following tests for Heteroskedasticity:

   a. Glesjer Test

   b. Goldfeld – Quandt Test

   c. White's Test

<u>Response</u>

2.a. <u>Glejser Test for Heteroskedasticity (9 Tests)</u>

1. The test statistic obtained from computing the linear regressions of the absolute values of the residuals on pipe size (ii.), square root of pipe size (ii.), reciprocal of pipe size (iii), square root of the reciprocal of pipe size (iv.), and the square root of (c(1)+c(2)*size) (v.) are as follows, respectively.

   i. -0.561206
   ii. -0.476168
   iii. 0.176439
   iv. 0.273259
   v. -0.632828

   For a 5 percent level of significance and 9 df, the critical value is 2.262. We accept the null hypothesis that the slope coefficient equals zero for all tests, hence homoskedasticity can be assumed.

Response 2 (cont'd.)

2. The test static obtained from computing the linear regressions of the absolute values of the residuals on the number of feet (i.), square root of the number of feet (ii.), reciprocal of the number of feet (iii.), and square root of the reciprocal of the number of feet (iv.) are as follows, respectively.

i.	0.353781
ii.	0.587887
iii.	-0.216771
iv.	-0.427791

For a 5 percent level of significance and 9 df, the critical value is 2.262. We accept the null hypothesis that the slope coefficient equals zero for all tests, hence homoskedasticity can be assumed.

2.b. Goldfeld-Quandt Test of Heteroskedasticity

The critical F value for 3 numeration and 3 denominator df at 5 percent level is 19.2. Since the estimated F value of 0.7916 does not exceed the critical value, we cannot conclude that there is heteroskedasticity in the error variance.

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Response 2 (cont'd.)

2.c. White's Heteroskedasticity Test

The test statistic (observations times R-squared) equals 1.245926. Asymptotically, it has a Chi-square distribution with 2 degrees of freedom (df). The 5 percent critical Chi-square value for 2 df is 5.99147; the 10 percent critical value is 4.60517. Since our test statistic does not exceed the critical Chi-square values, no evidence of heteroskedasticity exists.

In addition to the three tests noted, a Park Test was also performed. For the Park Test, the t-statistic is -0.752141. For a 5 percent level of significance and 9 df, the critical t-value is 2.262. The null hypothesis that the slope coefficient equals zero is not rejected. Hence, we may accept the assumption of homoskedasticity. The test output results for all tests performed are attached.

Question 2a: Glejser Test on Size

Dependent Variable: ABS_RESID
Method: Least Squares
Date: 10/26/99 Time: 13:15
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.214018	0.667019	3.319275	0.0090
SIZE	-0.088120	0.157020	-0.561206	0.5884

R-squared	0.033811	Mean dependent var	1.885569
Adjusted R-squared	-0.073543	S.D. dependent var	1.024274
S.E. of regression	1.061270	Akaike info criterion	3.119775
Sum squared resid	10.13664	Schwarz criterion	3.192119
Log likelihood	-15.15876	F-statistic	0.314952
Durbin-Watson stat	2.016527	Prob(F-statistic)	0.588356

Question 2a: Glejser Test on Sq Root of Size

Dependent Variable: ABS_RESID
Method: Least Squares
Date: 10/26/99 Time: 13:28
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.439517	1.206955	2.021216	0.0740
SIZE_SQRT	-0.297684	0.625166	-0.476168	0.6453

R-squared	0.024574	Mean dependent var	1.885569
Adjusted R-squared	-0.083807	S.D. dependent var	1.024274
S.E. of regression	1.066331	Akaike info criterion	3.129290
Sum squared resid	10.23355	Schwarz criterion	3.201635
Log likelihood	-15.21110	F-statistic	0.226736
Durbin-Watson stat	1.998289	Prob(F-statistic)	0.645301

Question 2a: Glejser Test on Reciprocal of Size

Dependent Variable: ABS_RESID
Method: Least Squares
Date: 10/26/99 Time: 13:31
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.774978	0.706033	2.514016	0.0331
SIZE_RECIP	0.307327	1.741836	0.176439	0.8639

R-squared	0.003447	Mean dependent var	1.885569
Adjusted R-squared	-0.107281	S.D. dependent var	1.024274
S.E. of regression	1.077817	Akaike info criterion	3.150718
Sum squared resid	10.45520	Schwarz criterion	3.223063
Log likelihood	-15.32895	F-statistic	0.031131
Durbin-Watson stat	1.946844	Prob(F-statistic)	0.863856

Question 2a: Glejser Test on Sq. Rt. of Recip. of Size

Dependent Variable: ABS_RESID
Method: Least Squares
Date: 10/26/99 Time: 13:32
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.556345	1.247659	1.247412	0.2437
SIZE_RECIP_SQRT	0.568344	2.079869	0.273259	0.7908

R-squared	0.008228	Mean dependent var	1.885569
Adjusted R-squared	-0.101968	S.D. dependent var	1.024274
S.E. of regression	1.075228	Akaike info criterion	3.145908
Sum squared resid	10.40504	Schwarz criterion	3.218253
Log likelihood	-15.30250	F-statistic	0.074671
Durbin-Watson stat	1.961620	Prob(F-statistic)	0.790821

Question 2a: Glejser Test on (c1+c2*Size)^0.5

Dependent Variable: ABS_RESID
Method: Least Squares
Date: 10/26/99 Time: 13:35
Sample: 1 11
Included observations: 11
Convergence achieved after 4 iterations
ABS_RESID=(C(1)+ C(2)*SIZE)^0.5

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	4.859800	2.555125	1.901981	0.0896
C(2)	-0.340632	0.538270	-0.632828	0.5426

R-squared	0.036488	Mean dependent var	1.885569
Adjusted R-squared	-0.070569	S.D. dependent var	1.024274
S.E. of regression	1.059799	Akaike info criterion	3.117001
Sum squared resid	10.10856	Schwarz criterion	3.189345
Log likelihood	-15.14350	Durbin-Watson stat	2.025406

Question 2a: Glejser Test on Feet

Dependent Variable: ABS_RESID
Method: Least Squares
Date: 10/26/99 Time: 13:48
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.818340	0.375009	4.848788	0.0009
FEET	1.14E-07	3.23E-07	0.353781	0.7316

R-squared	0.013716	Mean dependent var	1.885569
Adjusted R-squared	-0.095871	S.D. dependent var	1.024274
S.E. of regression	1.072249	Akaike info criterion	3.140360
Sum squared resid	10.34747	Schwarz criterion	3.212705
Log likelihood	-15.27198	F-statistic	0.125161
Durbin-Watson stat	1.920689	Prob(F-statistic)	0.731649

Question 2a: Glejser Test on Sq Root of Feet

Dependent Variable: ABS_RESID
Method: Least Squares
Date: 10/26/99 Time: 13:56
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.646093	0.517677	3.179771	0.0112
FEET_SQRT	0.000397	0.000675	0.587887	0.5711

R-squared	0.036981	Mean dependent var	1.885569
Adjusted R-squared	-0.070021	S.D. dependent var	1.024274
S.E. of regression	1.059527	Akaike info criterion	3.116489
Sum squared resid	10.10339	Schwarz criterion	3.188833
Log likelihood	-15.14069	F-statistic	0.345611
Durbin-Watson stat	1.895663	Prob(F-statistic)	0.571063

Question 2a: Glejser Test on Reciprocal of Feet

Dependent Variable: ABS_RESID
Method: Least Squares
Date: 10/26/99 Time: 13:58
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.967783	0.499264	3.941369	0.0034
FEET_RECIP	-10530.69	48579.79	-0.216771	0.8332

R-squared	0.005194	Mean dependent var	1.885569
Adjusted R-squared	-0.105340	S.D. dependent var	1.024274
S.E. of regression	1.076872	Akaike info criterion	3.148963
Sum squared resid	10.43688	Schwarz criterion	3.221308
Log likelihood	-15.31930	F-statistic	0.046990
Durbin-Watson stat	1.852923	Prob(F-statistic)	0.833221

Question 2a: Glejser Test on Sq. Rt. of Recip. of Feet

Dependent Variable: ABS_RESID
Method: Least Squares
Date: 10/26/99 Time: 14:05
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.151265	0.699722	3.074455	0.0133
FEET_RECIP_SQRT	-107.1307	250.4279	-0.427791	0.6789

R-squared	0.019929	Mean dependent var	1.885569
Adjusted R-squared	-0.088968	S.D. dependent var	1.024274
S.E. of regression	1.068867	Akaike info criterion	3.134041
Sum squared resid	10.28229	Schwarz criterion	3.206386
Log likelihood	-15.23723	F-statistic	0.183005
Durbin-Watson stat	1.825172	Prob(F-statistic)	0.678857

Question 2b: Goldfeld-Quandt Test (1)

Dependent Variable: COST1
Method: Least Squares
Date: 10/26/99 Time: 15:15
Sample: 1 5
Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.180153	3.567018	1.171890	0.3258
SIZE1	-0.568263	1.720169	-0.330353	0.7629

R-squared	0.035101	Mean dependent var	3.043626
Adjusted R-squared	-0.286532	S.D. dependent var	1.857404
S.E. of regression	2.106768	Akaike info criterion	4.617361
Sum squared resid	13.31541	Schwarz criterion	4.461136
Log likelihood	-9.543403	F-statistic	0.109133
Durbin-Watson stat	3.307537	Prob(F-statistic)	0.762859

Question 2b: Goldfeld-Quandt Test (2)

Dependent Variable: COST2
Method: Least Squares
Date: 10/26/99 Time: 15:17
Sample: 1 5
Included observations: 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.149350	3.246599	2.510119	0.0869
SIZE2	-0.204440	0.560091	-0.365012	0.7393

R-squared	0.042523	Mean dependent var	7.004484
Adjusted R-squared	-0.276636	S.D. dependent var	1.658954
S.E. of regression	1.874425	Akaike info criterion	4.383655
Sum squared resid	10.54040	Schwarz criterion	4.227430
Log likelihood	-8.959137	F-statistic	0.133234
Durbin-Watson stat	3.145115	Prob(F-statistic)	0.739317

Question 2c: White's Test

White Heteroskedasticity Test:

F-statistic	0.510935	Probability	0.618263
Obs*R-squared	1.245926	Probability	0.536353

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 11/15/99 Time: 12:35
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.883182	7.289950	-0.121151	0.9066
SIZE	3.423729	3.858273	0.887374	0.4008
SIZE^2	-0.408350	0.421807	-0.968097	0.3613

R-squared	0.113266	Mean dependent var	4.509132
Adjusted R-squared	-0.108418	S.D. dependent var	5.103558
S.E. of regression	5.373098	Akaike info criterion	6.427687
Sum squared resid	230.9615	Schwarz criterion	6.536204
Log likelihood	-32.35228	F-statistic	0.510935
Durbin-Watson stat	2.368809	Prob(F-statistic)	0.618263

Question 2*: Park Test

Dependent Variable: LN_RESID_SQ
Method: Least Squares
Date: 10/26/99 Time: 11:54
Sample: 1 11
Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.565451	0.857501	1.825597	0.1012
LN_SIZE	-0.500147	0.664965	-0.752141	0.4712

R-squared	0.059140	Mean dependent var	0.982098
Adjusted R-squared	-0.045400	S.D. dependent var	1.186391
S.E. of regression	1.213023	Akaike info criterion	3.387075
Sum squared resid	13.24283	Schwarz criterion	3.459419
Log likelihood	-16.62891	F-statistic	0.565716
Durbin-Watson stat	1.799849	Prob(F-statistic)	0.471179

RESPONSE TO INTERROGATORIES FROM
THE KENTUCKY PUBLIC UTILITY COMMISSION STAFF
CASE NO. 99-176
DELTA NATURAL GAS COMPANY

3. Refer to Direct Testimony of Steven L. Estomin, Exhibit 1.

   a. What are the equations that produced the negative r-square values found on pages 1, 2, 4, and 5?

   b. What is the purpose for including unweighted statistics in the Exhibit?

Response

3.a. The unweighted summary of statistics shown on pages 1, 2, 4 and 5 of Exhibit SLE-1 are based on the residuals computed from the original data, i.e., the weighted least squares coefficient applied to the unweighted data, such that

$$v_i = Y_i - \beta_{wls} X_i$$

Negative r-square values are possible due to a computational anomoly in the algorithm that often becomes apparent when the true r-square approaches zero.

b. The unweighted statistics are not relied upon in any sense for this analysis and were included inadvertently as part of the standard output reporting of the statistical package used.

RESPONSE TO INTERROGATORIES FROM
THE KENTUCKY PUBLIC UTILITY COMMISSION STAFF
CASE NO. 99-176
DELTA NATURAL GAS COMPANY

4. Perform and submit the results that are obtained when the minimum system method is used to allocate demand and customer charges.

Response

4.a. The minimum system method, as I understand it, requires engineering expertise to permit the exercise of subjective evaluation of minimum system requirements. Exeter is not qualified to develop an estimate of minimum system costs based on the minimum system method.

RESPONSE TO INTERROGATORIES FROM
THE KENTUCKY PUBLIC UTILITY COMMISSION STAFF
CASE NO. 99-176
DELTA NATURAL GAS COMPANY

5.

a. What is the computed Durbin-Watson statistic? (if the Durbin-Watson statistic has not be calculated, then calculate and submit.)

b.
  i. What other tests for serial correlation, if any, were performed?
  ii. Provide the results of each test performed.
  iii. If no other tests were performed, why not?

Response

5.a. or the equations appearing in Exhibit___SLE-1, pages 1, 2, and 3, the Durbin-Watson (D-W) statistics appear in the "Statistics" sections. These are summarized in the table below:

Exhibit___SLE-1 Page No.	Equation Description	D-W Statistics
1	Replication of Company's Estimation Output	1.346
2	Estimation Output with Feet as the Weighting Series	1.121
3	Unweighted Estimation Output	1.608

5.b.1. None

5.b.2. N/A

5.b.3 While the data underlying the analysis represent costs recorded over numerous years, there is no time dimension to the data series, that is, the data used in the regressions are treated as cross-sectional rather than as time-series data. Consequently, the issue of serial correlation does not apply.

Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, Kentucky 40391-9797
Phone: 606-744-6171
Fax: 606-744-3623

November 12, 1999

RECEIVED
NOV 1 2 1999
PUBLIC SERVICE
COMMISSION

Hon. Helen Helton
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

Re: Delta Natural Gas Company, Inc.
Case No. 99-176

Dear Ms. Helton:

We deliver herewith for filing the original and ten (10) copies of the attached response to Staff Data Request made during the hearing held in the above styled action on October 28-29, 1999. We would appreciate your replacing the response with the other papers in the case. Thank you for your kind assistance.

Sincerely,

John F. Hall
Vice President – Finance
Secretary and Treasurer

/dlk
enclosure
c: Honorable Elizabeth E. Blackford (w/encl.)
Honorable Robert M. Watt III (w/encl.)

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of Glenn Jennings
Staff Hearing Data Request

NOV 12 1999

1. A set of performance comparisons for the last three years.

Answer:

See Attached.

Delta Natural Gas Company, Inc.
Performance Indicators

Data provided by		Year Ended December 31				
		1994	1995	1996	1997	1998
Caudill	(1) Customers Added:					
	Conversion	639	630	666	626	484
	New	769	821	1,040	761	848
	Total	1,408	1,451	1,706	1,387	1,332
Hall	(2) Per new meter installed:					
	Advertising costs	$ 9.81	$ 9.02	$ 11.30	$ 9.05	$ 7.71
	Marketing cost	$ 27.15	$ 40.82	$ 23.75	$ 20.25	$27.09
	Conservation/builder program cost	$ 26.34	$ 40.71	$ 25.88	$ 34.39	$34.99
	Average feet for main extension	132	225	140	131	290

Delta Natural Gas Company, Inc.
Performance Indicators

Hall (3) Total customer bill for retail rates:

	Residential 20 Mcf	Commercial 40 Mcf
Delta Gas (2/1/99)	$132.76	$274.52
Columbia Gas of Ky. (12/1/98)	130.18	268.52
Western Kentucky Gas (1/1/99)	84.81	173.02
Union Light (1/4/99)	121.41	235.14
LG & E (11/1/98)	90.74	181.47

Heath (4) Engineering hours per 1,000 feet of pipe designed

	Year Ended 12/31/94	12/31/95	12/31/96	12/31/97	12/31/98
Engineering hours per 1,000 feet of pipe designed	20.9	14.7	11.7	11.9	9.8

Heath (5) Right of way cost:

	Year Ended December 31,									
	1994		1995		1996		1997		1998	
	Footage	Cost Per Foot	Footage	Cost Per Foot	Footage	Cost Per Foot	Footage	Cost Per Foot	Footage	Cost Per Foot
Transmission footage designed	46,595	$ 1.11	61,004	$ .08	160,958	$ .30	60,085	$ .26	5,784	0
Transmission footage purchased	38,600	1.37	8,452	1.65	26,955	1.90	20,107	.90	0	0.00
Distribution footage designed	242,039	0.00	250,929	0.00	252,370	0.00	350,090	0.00	211,520	.005
Distribution footage purchased	0	0.00	0	0.00	0	0.00	0	0.00	1,120	.89

Delta Natural Gas Company, Inc.
Performance Indicators

		January				
		1994	1995	1996	1997	1998
Caudill	(6) Customers per:					
	Customer Service Representative	894	971	1,000	955	979
	Customer Representative	1,698	1,792	1,846	1,911	1,910

		December				
		1994	1995	1996	1997	1998
Caudill	(7) Inventory turnover ratio	2.48	2.24	2.67	2.55	1.64

Heath (8) Productivity of construction crews:

	12/31/95		12/31/96		12/31/97*		12/31/98*	
	Company Crews	Contractor Hourly Crews	Company Crews	Contractor Hourly Crews	Company Crews	Contractor Hourly Crews	Company Crews	Contractor Hourly Crews
Average hours per foot of pipe	.16	.14	.17	.17	.17	.17	.17	.14
Total footage	80,663	200,767	74,311	189,177	77,719	214,305	65,474	142,024
Number of jobs	231	158	239	159	45	28	40	22

*Specific workorders only; included blanket workorders prior to 1997.

Delta Natural Gas Company, Inc.
Performance Indicators

			Year Ended								
		12/31/94	% Change	12/31/95	% Change	12/31/96	% Change	12/31/97	% Change	12/31/98	% Change
Heath	(9) Average Gas Costs:										
	Delta Gas	$3.5053	18.0	$3.1510	(10.1)	$3.2097	1.8	$4.7275	47.3	$3.6220	(23.4)
	Columbia Gas of Ky.	4.1064	15.0	3.5903	(12.5)	3.5134	(2.1)	4.3223	23.0	3.7144	(14.1)
	Western Ky. Gas	2.9500	(9.2)	2.6206	(11.1)	3.5957	37.2	3.8115	6.0	2.8274	(25.8)
	Union Light	3.5205	(1.7)	3.0245	(14.1)	3.1270	3.4	3.8744	23.9	2.2582	(41.7)
	L G & E	2.8766	2.5	2.5266	(12.1)	3.1264	23.7	3.7217	19.0	3.4500	(7.3)

* This information is not yet available.

		12 months ended				
		12/31/94	12/31/95	12/31/96	12/31/97	12/31/98
Heath	(10) Safety:					
	Lost time injuries	10	2	3	5	2
	Lost time days	63	3	89	25	4
	Injuries per 10,000 hours worked	.264	.053	.075	.119	.050
	Reportable vehicle accidents	5	4	0	13	5
	Accidents per 10,000 miles driven	.027	.024	0	.065	.025

Delta Natural Gas Company, Inc.
Performance Indicators

			12 months ended				
			12/31/94	12/31/95	12/31/96	12/31/97	12/31/98
Caudill/ Hall	(11)	Employee data:					
		% employee benefits to payroll					
		- Delta	48.6%	48.3%	46.5%	42.1%	41.9%
		- U.S. Chamber data	45.9%	46.8%	47.0%	*	*
		- SGA data	48.6%	49.4%	*	*	*
		- Local	44.0%	42.3%	41.3%	48.9%	51.6%
		* Data no longer available					
			3/1/95	3/1/96	3/1/97	3/1/98	3/1/99
		Number of full-time employees	171	168	180	181	182
		Turnover percentage	1.8%	1.2%	2.8%	2.7%	1.6%
		Per employee data:					
			2/28/95	2/28/96	2/29/97	2/28/98	2/28/99
		Medical expense	$3,955	$4,346	$3,746	$4,249	$4,332
			3/31/95	3/31/96	3/31/97	12/31/97	12/31/98
		Pension expense	$2,490	$2,898	$2,500	$1,839	$1,609
			12/31/94	12/31/95	12/31/96	12/31/97	12/31/98
		Customers	204.4	216.9	205.9	211.1	213.8
		Mcf of total throughput	47,403	46,966	46,552	50,135	49,503

Delta Natural Gas Company, Inc.
Performance Indicators

			12 months ended				
			12/31/94	12/31/95	12/31/96	12/31/97	12/31/98
Hall	(12)	Per Mcf of total throughput:					
		Total revenue	$3.74	$3.70	$3.92	$4.32	$3.87
		Operating expenses	.96	.95	.92	.90	.91
		Maintenance expenses	.05	.07	.06	.07	.06
		Total payroll	.71	.71	.69	.70	.68
		Administrative and general expenses	.34	.36	.35	.33	.34
Caudill	(13)	Company vehicle data:					
		Mileage driven per customer	52.0 miles	45.8 miles	53.7 miles	52.1 miles	49.8 miles
		Operations and maintenance expense per mile driven	$.129	$.130	$.120	$.146	$.120

			12 months ended December 31,				
			1994	1995	1996	1997	1998
Hall	(14)	Percentage of gross plant additions to:					
		Gross plant at year end	10.19%	13.28%	12.92%	10.64%	6.11%
		Net plant at year end	14.35%	18.29%	17.37%	14.27%	8.33%

Delta Natural Gas Company, Inc.
Performance Indicators

			12 months ended December 31,				
			1994	1995	1996	1997	1998
Hall	(15)	Footage of pipe constructed:	296,365	338,961	258,070	301,455	482,878
		Extensions %	71.3%	87.6%	85.6%	75.2%	83.9%
		Replacements %	28.7%	12.4%	14.4%	24.8%	16.1%

perfmemo

DELTA NATURAL GAS
RECORD OF INSURANCE COVERAGES

	COST COMPARISON EXPIRING VS RENEWAL			
	POLICY EFFECTIVE DATE	1999-2000 RENEWAL PREMIUM*	1999-1999 EXPIRING PREMIUM*	PERCENT INCREASE -DECREASE
GENERAL LIABILITY - National Union Fire Insurance Company/AIG	3/9/99-3/9/00	$ 69,768	$ 92,570	-24.63% (1)
Coverage Limits $1,000,000 (as expiring) with $2,000,000 General Aggregate				
First Dollar - No Deductible				
Premium Basis - Payroll (subject to audit) - Occurrence Form				
AUTOMOBILE - National Union Fire Insurance Company/AIG	3/9/99-3/9/00	$ 49,580	$ 52,161	-4.95% (2)
Bodily Injury and Property Damage				
Liability $1,000,000				
Comprehensive - Owned Vehicles - $250 Deductible				
Collision - Self Insured				
Premium Basis - Composite Rate Per Class of Vehicle				
Rate Guaranteed for 3 years if loss ratio at 65% or less				
EXCESS LIABILITY - AEGIS	3/9/99-3/9/00	$ 89,999	$ 106,834	-15.76% (3)
Limit of Liability $35,000,000 (each occurrence)				
Underlying Limit $1,000,000				
Claims Made - Retroactive Date 3/9/86				
DIRECTORS & OFFICERS - AEGIS	3/9/99-3/9/00	$ 52,764	$ 59,731	-11.66% (4)
Limit of Liability $10,000,000 (each occurrence and aggregate)				
Corporate Retention - $200,000				
Directors and Officers Retention - Nil				
Includes Corporate Defense Costs Coverage				
Claims Made - Retroactive Date 10/20/49				
EMPLOYMENT PRACTICES LIABILITY - American International/AIG	3/9/99-3/9/00	$ 12,448	$ 13,500	-7.79%
Limit of Liability $1,000,000 (each loss)				
Deductible - $25,000				
Claims Made				
Retroactive Date - 9/25/92				
EXCESS FIDUCIARY & EMPLOYEE BENEFIT LIABILITY - AEGIS	3/9/99-3/9/00	$ 5,445	$ 2,750	98.00% (5)
Limit of Liability $35,000,000 (each wrongful act & aggregate)				
Underlying Limits $1,000,000				
Claims Made				
Retroactive Date - 3/09/86				

*Includes Fees, Credits and Workers Compensation Tax and Assessment does not include Municipal and Kentucky Surplus Lines Tax

Inscmp

DELTA NATURAL GAS
RECORD OF INSURANCE COVERAGES

	POLICY EFFECTIVE DATE	COST COMPARISON EXPIRING VS RENEWAL 1999-2000 RENEWAL PREMIUM*	1999-1999 EXPIRING PREMIUM*	PERCENT INCREASE -DECREASE
:IDUCIARY LIABILITY - American International/AIG	3/9/99-3/9/00	$ 3,870	$ 3,700	4.59%
Limit of Liability $4,000,000 (each loss)				
Deductible - $5,000				
Claims Made				
Retroactive Date - 8/20/91				
:RIME - American International/AIG	3/9/99-3/9/00	$ 1,465	$ 4,250	-65.53%
Limit of Liability - $500,000				
Form A - Employee Theft, Form B - Forgery or Alterations, Form C - Inside/Outside				
Money and Securities				
Deductible - $5,000				
)PERATORS EXTRA EXPENSE- St. Paul Surplus Lines/Swett&Crawford	3/9/99-3/9/00	$ 4,370	$ 4,610	-5.21%
Limit of Liability - $3,000,000				
Retention/Deductible - $25,000 Operators Extra Expense				
$10,000 Care, Custody & Control				
Premium Basis - Per Well Schedule (subject to annual audit & adjustment)				
'ROPERTY/GAS IN STORAGE - American International/Starr Technical	3/9/99-3/9/00	$ 24,726	$ 25,191	-1.85% (8)
Limit of Liability				
Building/Personal Property - $11,218,000				
Premium Basis - Statement of Values				
Deductible - $5,000 (earthquake $25,000)				
Gas in Storage $3,000,000				
Deductible - $25,000 (earthquake $50,000)				
Millennium Exclusion Applies				
:LECTRONIC DATA PROCESSING - Fireman's Fund	3/9/99-3/9/00	$ 3,492	$ 4,089	-14.60% (7)
Coverage Limits - $1,354,607 Hardware/Equipment - $366,217 Media				
Premium Basis - Scheduled Hardware/Software				
Deductible - $1,000				
Rate Guaranteed for 3 years if loss ratio at 60% or less				

*Includes Fees, Credits and Workers Compensation Tax and Assessment does not include Municipal and Kentucky Surplus Lines Tax
Insemp

DELTA NATURAL GAS
RECORD OF INSURANCE COVERAGES

	COST COMPARISON EXPIRING VS RENEWAL			
	POLICY EFFECTIVE DATE	1999-2000 RENEWAL PREMIUM*	1999-1999 EXPIRING PREMIUM*	PERCENT INCREASE -DECREASE
QUIPMENT FLOATER - Fireman's Fund	3/9/99-3/9/00	$ 6,273	$ 6,328	-0.87% (8)
Coverage Limits - $1,634,150				
Premium Basis - Scheduled Equipment				
Deductible - $1,000; Miscellaneous Employee Tools $250				
Rate guaranteed for 3 years if loss ratio is 60% or less				
OILER & MACHINERY - CNA Insurance	3/9/99-3/9/00	$ 5,310	$ 6,515	-18.50% (9)
Coverage - $5,000,000/Accident				
Deductible - $1,000				
Comprehensive including production machinery				
Rate Guaranteed for 3 years				
VORKERS COMPENSATION - Anthem Casualty Group	3/9/99-3/9/00	$ 48,986	$ 59,756	-18.02% (10)
Limit of Liability - $1,000,000				
Premium Basis - Payroll Subject to Audit				
No Change in Coverage				
		$ 378,496	$ 441,985	-14.36%

1) General Liability premium subject to audit; rate per $1000 decreased from $29.173 to $20.00; Employee Benefit Liability included
2) Premium basis - composite rate - decreased from $383/power unit to $370/power unit
3) Continuity credit increased from $4,880 98/99 to $10,013 - 99/00; rates premium decreased from $102,002 - 98/99 to $100,012 - 99/00 insurance year
4) Continuity credit increased from $34,954 - 98/99 to $38,541 - 99/00 insurance year; rated premium decreased from $89,185 - 98/99 to $86,509 - 99/00 insurance year
5) Excess EBL premium decreased from $2,750 to $2,500; total premium increased due to adding Excess Fiduciary coverage to match the EBL limit with AEGIS
6) $25,191 - Annualized premium for 98/99 due to endorsements during year; scheduled values increased from $11,027,900 - 98/99 to11,218,000 - 99/00
7) $4,089 - Annualized premium for 98/99 due to revised schedule; scheduled values increased from $1,706,190 - 98/99 to $1,720,824 - 99/00
8) $6,328 - Annualized premium for 98/99 due to endorsements during year; scheduled values increased from $1,616,600 - 98/99 to $11,218,000 - 99/00
9) Comprehensive coverage includes boilers, electrical apparatus, heating & cooling systems and duplicating equipment for direct damage caused by an accident
10) Premium based on payroll; rate for class code 7502 increased from $2.40/$100 to $2.41/$100; rate for class code 8810 decreased from $0.25/$100 to 40.23/$100; credits increased

*Includes Fees, Credits and Workers Compensation Tax and Assessment does not include Municipal and Kentucky Surplus Lines Tax
Insomp

DELTA NATURAL GAS
RECORD OF INSURANCE COVERAGES

	POLICY EFFECTIVE DATE	PREMIUM	
FLOOD INSURANCE- National Flood Insurance Program	05/29/98 - 05/29/99	$	1,238
Limit of Liability - As Scheduled for Williamsburg & Barbourville			
Deductible - $1,000 Building/Location - $1,000 Contents/Location			
No Change in Coverage			
OIL WELL DRILLING BOND - CNA Insurance Company	03/02/97 - 03/02/00	$	250
Limit of Liability - $10,000			
Obligee - Commonwealth of Kentucky			
Three Year Pre-paid Premium			
PERMIT BOND - CNA Insurance Company	03/07/97 - 03/07/00	$	250
Limit of Liability - $5,000			
Street Restoration			
Obligee - City of Williamsburg, Kentucky			
Three Year Pre-paid Premium			
PERMIT BOND - CNA Insurance Company	11/07/98 - 11/07/99	$	100
Limit of Liability - $5,000			
Street Restoration			
Obligee - Whitley County, Kentucky			
PERMIT BOND - CNA Insurance Company	11/13/99-11/13/02	$	250
Limit of Liability - $5,000			
Street Restoration			
Obligee - Knox County, Kentucky			
Three Year Pre-paid Premium			
KENTUCKY HIGHWAY USE BOND - CNA Insurance Company	06/18/98 - 06/18/99	$	100
Limit of Liability - $1,000			
Obligee - Commonwealth of Kentucky			
OIL WELL DRILLING BOND - CNA Insurance Company	04/13/99 - 04/13/00	$	100
Limit of Liability - $10,000			
Obligee - Commonwealth of Kentucky			
Kettle Island			

*Includes Fees, Credits and Workers Compensation Tax and Assessment does not Include Municipal and Kentucky Surplus Lines Tax
Insemp

DELTA NATURAL GAS
RECORD OF INSURANCE COVERAGES

	POLICY EFFECTIVE DATE	PREMIUM
PERMIT BOND - CNA Insurance Company Limit of Liability - $5,000 Street Restoration Obligee - City of Middlesboro, Kentucky	09/21/97 - 09/21/98	$ 100

*Includes Fees, Credits and Workers Compensation Tax and Assessment does not Include Municipal and Kentucky Surplus Lines Tax

Inscmp

GATHERING, TRANSMISSION AND DISTRIBUTION MAINS
12 MONTHS ENDED 12/98 VS 12 MONTHS ENDED 12/97

REPLACEMENTS

BLANKET WORK ORDERS

TYPE	FOOTAGE		COST PER FOOT	
	12/98 CURRENT	12/97 PRIOR	12/98 CURRENT	12/97 PRIOR
UNDER 2" PLASTIC	1,386	976	-	-
2" PLASTIC	11,573	17,674	-	-
3" PLASTIC	0	0	-	-
4" PLASTIC	632	3,212	-	-
6" PLASTIC	0	0	-	-
1" STEEL	0	128	-	-
2" STEEL	0	184	-	-
3" STEEL	0	0	-	-
4" STEEL	0	493	-	-
6" STEEL	124	0	-	-
TOTAL BWO'S	13,715	22,667	22.76	14.59

SPECIFIC WORK ORDERS

TYPE	FOOTAGE		COST PER FOOT	
	12/98 CURRENT	12/97 PRIOR	12/98 CURRENT	12/97 PRIOR
UNDER 2" PLASTIC	2,455	2,295	18.55	16.02
2" PLASTIC	29,120	24,426	10.38	9.01
3" PLASTIC	0	0	0.00	0.00
4" PLASTIC	20,793	22,398	21.52	20.82
6" PLASTIC	813	451	60.90	62.47
UNDER 2" STEEL	380	0	12.31	0.00
2" STEEL	444	0	33.08	0.00
3" STEEL	0	0	0.00	0.00
4" STEEL	1,375	672	19.22	82.98
6" STEEL	5,420	199	71.74	38.80
8" STEEL	3,001	1,507	50.59	49.74
TOTAL SWO'S	63,801	51,948	--	--

EXTENSIONS

BLANKET WORK ORDERS

TYPE	FOOTAGE		COST PER FOOT	
	12/98 CURRENT	12/97 PRIOR	12/98 CURRENT	12/97 PRIOR
UNDER 2" PLASTIC	5,848	10,329	-	-
2" PLASTIC	19,199	38,275	-	-
3" PLASTIC	0	0	-	-
4" PLASTIC	272	692	-	-
6" PLASTIC	0	0	-	-
1" STEEL	272	324	-	-
2" STEEL	0	0	-	-
3" STEEL	0	0	-	-
4" STEEL	0	0	-	-
6" STEEL	0	0	-	-
TOTAL BWO'S	25,591	49,620	18.03	8.03

SPECIFIC WORK ORDERS

TYPE	FOOTAGE		COST PER FOOT	
	12/98 CURRENT	12/97 PRIOR	12/98 CURRENT	12/97 PRIOR
UNDER 2" PLASTIC	7,498	5,008	12.80	12.74
2" PLASTIC	149,655	98,921	7.74	6.61
3" PLASTIC	0	0	0.00	0.00
4" PLASTIC	104,806	44,077	12.25	11.47
6" PLASTIC	0	0	0.00	0.00
UNDER 2" STEEL	194	0	14.26	0.00
2" STEEL	353	0	8.54	0.00
3" STEEL	0	0	0.00	0.00
4" STEEL	5,869	22,215	14.51	13.07
6" STEEL	0	6,999	0.00	32.73
8" STEEL	36,767	0	26.13	0.00
12" STEEL	74,629	0	56.59	0.00
TOTAL SWO'S	379,771	177,220	--	--

DELTA NATURAL GAS

COMPARISON OF MAIN INSTALLATION COST

3/16/98

GATHERING, TRANSMISSION AND DISTRIBUTION MAINS
12 MONTHS ENDED 12/97 VS 12 MONTHS ENDED 12/96

REPLACEMENTS

BLANKET WORK ORDERS

TYPE	FOOTAGE 12/97 CURRENT	FOOTAGE 12/96 PRIOR	COST PER FOOT 12/97 CURRENT	COST PER FOOT 12/96 PRIOR
UNDER 2" PLASTIC	976	537	-	-
2" PLASTIC	17,674	12,090	-	-
3" PLASTIC	0	0	-	-
4" PLASTIC	3,212	352	-	-
6" PLASTIC	0	0	-	-
1" STEEL	128	0	-	-
2" STEEL	184	277	-	-
3" STEEL	0	0	-	-
4" STEEL	493	109	-	-
6" STEEL	0	0	-	-
TOTAL BWO'S	22,667	13,365	14.59	17.67

SPECIFIC WORK ORDERS

TYPE	FOOTAGE 12/97 CURRENT	FOOTAGE 12/96 PRIOR	COST PER FOOT 12/97 CURRENT	COST PER FOOT 12/96 PRIOR
UNDER 2" PLASTIC	2,295	781	16.02	17.02
2" PLASTIC	24,426	13,372	9.01	9.63
3" PLASTIC	0	0	0.00	0.00
4" PLASTIC	22,398	9,007	20.82	16.61
6" PLASTIC	451	0	62.47	0.00
UNDER 2" STEEL	0	0	0.00	0.00
2" STEEL	0	15	0.00	12.69
3" STEEL	0	0	0.00	0.00
4" STEEL	672	897	82.98	37.94
6" STEEL	199	6,781	38.80	38.05
8" STEEL	1,507	59,635	49.74	24.78
TOTAL SWO'S	51,948	90,488	--	--

EXTENSIONS

BLANKET WORK ORDERS

TYPE	FOOTAGE 12/97 CURRENT	FOOTAGE 12/96 PRIOR	COST PER FOOT 12/97 CURRENT	COST PER FOOT 12/96 PRIOR
UNDER 2" PLASTIC	10,329	7,672	-	-
2" PLASTIC	38,275	37,738	-	-
3" PLASTIC	0	0	-	-
4" PLASTIC	692	503	-	-
6" PLASTIC	0	0	-	-
1" STEEL	324	741	-	-
2" STEEL	0	330	-	-
3" STEEL	0	0	-	-
4" STEEL	0	0	-	-
6" STEEL	0	0	-	-
TOTAL BWO'S	49,620	46,984	8.03	9.06

SPECIFIC WORK ORDERS

TYPE	FOOTAGE 12/97 CURRENT	FOOTAGE 12/96 PRIOR	COST PER FOOT 12/97 CURRENT	COST PER FOOT 12/96 PRIOR
UNDER 2" PLASTIC	5,008	5,104	12.74	9.64
2" PLASTIC	98,921	82,697	6.61	6.62
3" PLASTIC	0	0	0.00	0.00
4" PLASTIC	44,077	85,961	11.47	10.00
6" PLASTIC	0	0	0.00	0.00
UNDER 2" STEEL	0	110	0.00	16.97
2" STEEL	0	102	0.00	11.23
3" STEEL	0	0	0.00	0.00
4" STEEL	22,215	0	13.07	0.00
6" STEEL	6,999	4,893	32.73	23.11
8" STEEL	0	4,718	0.00	39.22
TOTAL SWO'S	177,220	183,585	--	--

DELTA NATURAL GAS COMPANY

1998 CUSTOMER RESPONSES - CUSTOMER SERVICE CARDS

Customer Responses Received:		Service Requests:			
Owingsville	9	Turn on	576	CO_2 check	5
Berea	48	Reconnect	122	Ck. furnace	4
Nicholasville/Wilmore	710	Set meters	86	Ck.after repairs	2
Stanton	18	1st set/turn on	41	Ck. dryer	2
London	15	Rotation	64	Meter hit by truck	2
Williamsburg	89	New Service	38	Shut off	2
Barbourville	26	Relight	25	Check meter	2
Middlesboro/Pineville	69	Check/leak	23	Misc.	2
Corbin	86	Light pilots	20	Adj.pilots	1
Manchester	4	Reset/turn on	14	Ck.boiler unit	1
		Check piping	6	Broken yd.line	1
		Ck.water heater	5	Billing date inqy.	1
		High bill	5	Not indicated	24
Total	**1074**	**Total**			**1074**

Timely Response To Request	Yes.....1045	No.....8	Not indicated.....21
Service Satisfactory	Yes.....1057	No.....1	Not indicated.....16
Courteous/Professional Service Rendered	Yes.....1058	No.....1	Not indicated.....15

Comments/Suggestions:

- Excellent/great/good/courteous/professional/satisfactory/very helpful/prompt service, etc. (96)
- Reduce rates. (6)
- Send bills on the 1st-5th of the month. (5)
- Cut deposit into 2 or 3 monthly payments. (2)
- Pay your people more money. They do a good job.
- Issue requirements for new service installation. Inform customers what must be ready prior to permanent service.
- I belive 48 hours to get service turned on is ridiculous!!
- Manpower seems to be a problem.
- Keep up the good work - a very special thanks to Norma Duncan!!
- The drive-thru is too little. The rates are too high...should be put back on the rent.
- Please give more time or notice before discontinuance...we work too!
- Serve more rural homes. (Corbin)
- I do not get my social security check until 3rd of month, can't pay until 4th.
- Lower prices and higher dividend on stock! Duh!
- Probably just hire a few more people.
- Extend daily hours to 5 p.m. and have Saturday a.m. hours.
- Bobby Spurlock is a very fine, courteous employee.
- Discount for paying bill on time each month would be nice.
- Please change budget requirements. I have been on budget for 8 years. Now that I am moving, I have to wait a year to get back on. Very disappointing.
- Thank you for being so prompt. (Nicholasville)
- It was so good, the only thing I can think of is a month's feee gas! (Nicholasville)
- Bill us for reconnect fee instead of making us come to your office to pay first.
- I was very happy with the work done in my yard and on the street. Your men were very professional and treated my property with respect. Everyone was very helpful.
- After 25 years as a customer, I had to pay $95 security deposit. Working out of town - got hurt on the job.
- I was grateful for the quick response. My problem was with gas logs. They also checked furnace while here!. However, they both left muddy boot prints on my parquet/ kitchen and a couple of throw rugs. Whatever happened to taking muddy shoes off at the fornt door?
- My gas bill has tripled and that's not good.
- More help. (Nicholasville)
- New heaters -- and representative didn't know how to turn them on.
- This service is for heating a church and we pay $20/month whether gas used or not. I feel that the $40 reconnect fee is very excessive. (2)
- Free natural gas.

cc: Glenn, Bob H., Johnny C., Audit File

sccrdrpt-waller

DELTA NATURAL GAS COMPANY, INC.

COMMENTS & COMPLAINTS SUMMARY

Original/P&CA/2yrs.

PERIOD Annual 1998

BRANCH	NUMBER OF COMPLAINTS	COMMENTS (#7-OTHER)	NATURE OF COMPLAINT (SEE LEGEND BELOW)						
			1	2	3	4	5	6	7
OWINGSVILLE	91		91						
BEREA	12	1-Dead meter 1-No bill for 3 mo.	9			1			2
NICHOLASVILLE	179	3-Low bill 1-No bill received 1-Change in bill	174						5
STANTON	152	150-Bill too high, long billing periods & budget revisions.		1		1			150
LONDON	18		18						
WILLIAMSBURG	31	2-Estimated bills 1-Disputed Final bill 3-Dep.refund not rec.	25						6
BARBOURVILLE	72		72						
MIDDLESBORO	53	1-Didn't understand bill 1-Rates &Billing period 2-Wants dep. refunded 1-Budget changes	45		1	2			5
CORBIN	72	1-Meter rotation 1-Turned off-illegal use	69		1				2
MANCHESTER	-0-								
WINCHESTER	46	See Reverse	9		1	12		1	23
TOTAL	726		512	1	3	16		1	193

LEGEND: 1 - HIGH BILL 2 - DUE DATE 3 - COLLECTION & RECONNECT FEES 4 - DISCONNECTS

WINCHESTER # 7 First Quarter

1-Damage to sewer line
1-Construction complaint
2-Rate increase & billing period
2-Can't understand bill
2-Billing cycle
1-Auto. Bank draft problem
1-Deposit refunded question
1-Customer charge question

Second Quarter
1-Deposit refund

Third Quarter
1-Final Notice & payment crossed in mail
1-Problem with Auto Bank draft & I.N.S.
1-Ninal Notice
1-Question new budget amount
1-No incentive offered
1-Question about minimum bill

Fourth Quarter
1-Refused turn on (was off under another name for non-payment)
2-Wanted turn on today
1-Wanted service (old bill outstanding under x-husband's name)
1-Wanted service no deposit (has several Final Notices)

DELTA NATURAL GAS COMPANY INC.
SUMMARY OF CUSTOMER SERVICE INTERRUPTIONS
1998

TOTAL NUMBER OF INTERRUPTIONS FOR COMPANY	185	
TOTAL CUSTOMERS INTERRUPTED FOR 1998	956	
TOTAL CUSTOMER HOURS OF INTERRUPTION FOR 1998	575.50	
AVERAGE INTERRUPTION TIME PER CUSTOMER INTERRUPTED	0.60	HOURS

		NUMBER OF INTERRUPTIONS			CUSTOMER COUNT	
		TOTAL			TOTAL	
DISTRIBUTION:	LINE BREAK	146			861	
	EQUIPMENT FAILURE	1			27	
	FREEZE OFF	3			16	
	TOTAL FOR DISTRIBUTION		150			904
TRANSMISSION:	LINE BREAK	0			0	
	EQUIPMENT FAILURE	0			0	
	FREEZE OFF	1			1	
	TOTAL FOR TRANSMISSION		1			1
GATHERING:	LINE BREAK	3			3	
	EQUIPMENT FAILURE	1			1	
	FREEZE OFF	17			17	
	TOTAL FOR GATHERING		21			21
OTHER		13			30	
	TOTAL OTHER		13			30

DELTA NATURAL GAS COMPANY INC.
SUMMARY OF CUSTOMER SERVICE INTERRUPTIONS
1997

TOTAL NUMBER OF INTERRUPTIONS FOR COMPANY	183	
TOTAL CUSTOMERS INTERRUPTED FOR 1997	468	
TOTAL CUSTOMER HOURS OF INTERRUPTION FOR 1997	359.00	
AVERAGE INTERRUPTION TIME PER CUSTOMER INTERRUPTED	0.77	HOURS

		NUMBER OF INTERRUPTIONS			CUSTOMER COUNT	
DISTRIBUTION:		TOTAL			TOTAL	
	LINE BREAK	101			342	
	EQUIPMENT FAILURE	1			10	
	FREEZE OFF	1			12	
	TOTAL FOR DISTRIBUTION		103			364
TRANSMISSION:						
	LINE BREAK	0			0	
	EQUIPMENT FAILURE	0			0	
	FREEZE OFF	0			0	
	TOTAL FOR TRANSMISSION		0			0
GATHERING:						
	LINE BREAK	3			3	
	EQUIPMENT FAILURE	1			1	
	FREEZE OFF	67			82	
	TOTAL FOR GATHERING		71			86
OTHER		9			18	
	TOTAL OTHER		9			18

DELTA NATURAL GAS COMPANY INC.
SUMMARY OF CUSTOMER SERVICE INTERRUPTIONS
1996

TOTAL NUMBER OF INTERRUPTIONS FOR COMPANY	297	
TOTAL CUSTOMERS INTERRUPTED FOR 1996	975	
TOTAL CUSTOMER HOURS OF INTERRUPTION FOR 1995	601.50	
AVERAGE INTERRUPTION TIME PER CUSTOMER INTERRUPTED	0.62	HOURS

		NUMBER OF INTERRUPTIONS			CUSTOMER COUNT	
		TOTAL			TOTAL	
DISTRIBUTION:	LINE BREAK	135			663	
	EQUIPMENT FAILURE	0			0	
	FREEZE OFF	0			0	
	TOTAL FOR DISTRIBUTION		135			663
TRANSMISSION:	LINE BREAK	1			1	
	EQUIPMENT FAILURE	0			0	
	FREEZE OFF	1			1	
	TOTAL FOR TRANSMISSION		2			2
GATHERING:	LINE BREAK	2			2	
	EQUIPMENT FAILURE	9			9	
	FREEZE OFF	126			154	
	TOTAL FOR GATHERING		137			165
OTHER		23			145	
	TOTAL OTHER		23			145

Exhibit 5

DELTA NATURAL GAS CO., INC.
SALES AND TRANSPORTATION VOLUMES
DECEMBER 31, 1998

		MONTH			YEAR TO DATE			YEAR ENDED	
		This Year Over (Under) Budget	This Year	Last Year	This Year Over (Under) Budget	This Year	Last Year	This Year	Last Year
DEGREE DAYS BILLED - LEXINGTON AREA		(275)	380	731	(419)	815	1,337	3,875	4,919
MCF'S:	DELTA NATURAL								
	RESIDENTIAL	(104,762)	218,338	352,019	(305,262)	517,238	751,979	2,142,319	2,527,891
	SMALL COMMERCIAL	(31,696)	52,504	90,649	(85,523)	128,277	90,649	553,670	90,649
	COMMERCIAL - OTHER	(36,647)	72,453	116,524	(94,945)	245,555	412,458	821,594	1,500,487
	INDUSTRIAL	(13,366)	17,434	29,880	(50,154)	56,946	102,827	184,674	289,138
	TOTAL SOLD	(186,471)	360,729	589,072	(535,883)	948,017	1,357,913	3,702,257	4,408,165
	OFF SYSTEM	(52,676)	66,555	137,966	(64,206)	643,488	728,544	1,404,111	1,372,205
	ON SYSTEM	(27,668)	406,232	331,680	(246,106)	2,236,294	1,800,242	3,903,096	3,294,047
	TOTAL TRANSPORTED	(80,344)	472,787	469,646	(310,312)	2,879,782	2,528,786	5,307,207	4,666,252
	TOTAL DELTA NATURAL	(266,815)	833,516	1,058,718	(846,195)	3,827,799	3,886,699	9,009,464	9,074,417

		Month			Year to Date			Year Ended	
		This Year Over (Under) Budget	This Year	Last Year	This Year Over (Under) Budget	This Year	Last Year	This Year	Last Year
DEGREE DAYS BILLED - LEXINGTON AREA		(146)	728	734	(294)	1,491	1,285	5,073	5,194
MCF'S:	DELTA NATURAL								
	RESIDENTIAL	(22,681)	352,019	321,758	(67,721)	751,979	688,106	2,527,891	2,704,765
	COMMERCIAL	(34,527)	207,173	191,879	(96,493)	503,107	468,382	1,591,136	1,673,334
	INDUSTRIAL	(920)	29,880	27,854	13,427	102,827	91,803	289,138	282,555
	TOTAL SOLD	(58,128)	589,072	541,491	(150,787)	1,357,913	1,248,291	4,408,165	4,660,654
	OFF SYSTEM	52,766	137,966	76,884	104,744	728,544	561,924	1,372,205	1,051,350
	ON SYSTEM	78,880	331,680	249,278	429,642	1,800,242	1,369,080	3,294,047	2,713,981
	TOTAL TRANSPORTED	131,646	469,646	326,162	534,386	2,528,786	1,931,004	4,666,252	3,765,331
	TOTAL DELTA NATURAL	73,518	1,058,718	867,653	383,599	3,886,699	3,179,295	9,074,417	8,425,985

DECEMBER 31, 1996

		Month			Year to Date			Year Ended	
		This Year Over (Under) Budget	This Year	Last Year	This Year Over (Under) Budget	This Year	Last Year	This Year	Last Year
DEGREE DAYS BILLED - LEXINGTON AREA		(144)	734	767	(501)	1,285	1,371	5,194	4,668
MCF'S:	DELTA NATURAL								
	RESIDENTIAL	(120,042)	321,758	345,708	(245,794)	688,106	724,151	2,704,765	2,345,255
	COMMERCIAL	(46,621)	191,879	201,940	(60,918)	468,382	468,054	1,673,334	1,427,004
	INDUSTRIAL	(2,946)	27,854	35,360	2,403	91,803	99,607	282,555	248,401
	TOTAL SOLD	(169,609)	541,491	583,008	(304,309)	1,248,291	1,291,812	4,660,654	4,020,660
	OFF SYSTEM	(43,916)	76,884	84,325	(255,876)	561,924	644,882	1,051,350	1,283,917
	ON SYSTEM	37,678	249,278	225,658	183,380	1,369,080	1,225,199	2,713,981	2,491,806
	TOTAL TRANSPORTED	(6,238)	326,162	309,983	(72,496)	1,931,004	1,870,081	3,765,331	3,775,723
	TOTAL DELTA NATURAL	(175,847)	867,653	892,991	(376,805)	3,179,295	3,161,893	8,425,985	7,796,383

DELTA NATURAL GAS COMPANY, INC.
COMPARISON OF ESTIMATED PEAK DAY MCF REQUIREMENTS TO ACTUAL USAGE
FOR THE FISCAL YEARS ENDED JUNE 30

	1997	1998	1999
ESTIMATED REQUIREMENTS	62,917	71,247	78,908
REVISED REQUIREMENTS	60,399	52,367	60,551
ACTUAL USAGE	58,559	50,143	61,101
% DIFFERENCE	3.0%	4.2%	.9%

Exhibit 6
Page 2 of 2

DELTA NATURAL GAS CO[illegible] INC.
COMPARISON OF SYSTEM REQUIREMENTS FOR [illegible]1996 (RETAIL SALES ONLY)
VOLUMES SHOWN IN MCF

AREA	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
AL SYSTEM REQUIREMENTS													
ESTIMATED REQUIREMENTS	98,655	87,077	104,049	222,737	426,996	678,736	798,725	673,293	522,623	284,962	168,806	92,876	4,139,534
REVISED REQUIREMENTS	97,649	77,390	79,665	158,428	343,636	618,602	968,295	814,669	655,149	654,416	240,145	114,520	4,822,454
ACTUAL REQUIREMENTS	95,022	69,303	71,252	143,146	330,081	583,008	968,586	812,612	652,182	642,768	227,170	109,065	4,704,175
% DIFFERENCE	-2.69%	-10.45%	-10.56%	-9.65%	-3.94%	-5.75%	0.03%	-0.24%	-0.45%	-1.78%	-5.40%	-4.77%	-2.45%

DELTA NATURAL GAS COMPANY, INC.
COMPARISON OF SYSTEM REQUIREMENTS FOR 1996-1997 (RETAIL SALES ONLY)
VOLUMES SHOWN IN MCF

AREA	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
TAL SYSTEM REQUIREMENTS													
ESTIMATED REQUIREMENTS	92,883	91,186	109,700	231,753	446,937	716,170	848,496	704,573	544,544	314,285	171,964	99,569	4,372,060
REVISED REQUIREMENTS	96,610	77,660	78,754	164,715	298,892	571,291	825,230	757,707	521,495	548,581	328,550	191,481	4,460,966
ACTUAL REQUIREMENTS	95,482	78,911	78,147	163,188	291,072	541,491	863,546	770,847	510,184	469,175	276,580	159,808	4,298,431
% DIFFERENCE	-1.17%	1.61%	-0.77%	-0.93%	-2.62%	-5.22%	4.64%	1.73%	-2.17%	-14.47%	-15.82%	-16.54%	-3.64%

DELTA NATURAL GAS COMPANY, INC.
COMPARISON OF SYSTEM REQUIREMENTS FOR 1997-1998 (RETAIL SALES ONLY)
VOLUMES SHOWN IN MCF

AREA	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
TAL SYSTEM REQUIREMENTS													
ESTIMATED REQUIREMENTS	101,672	99,404	113,995	213,127	487,850	778,310	917,147	756,580	588,428	272,352	162,930	105,890	4,597,685
REVISED REQUIREMENTS	110,956	88,859	87,996	151,769	384,245	637,624	830,245	693,273	589,905	514,317	228,880	100,640	4,418,709
ACTUAL REQUIREMENTS	114,263	85,292	74,137	133,100	362,108	589,095	776,271	649,457	538,418	487,460	209,117	93,576	4,112,294
% DIFFERENCE	2.98%	-4.01%	-15.75%	-12.30%	-5.76%	-7.61%	-6.50%	-6.32%	-8.73%	-5.22%	-8.63%	-7.02%	-6.93%

ELTA\SYS\GSUPPLY\EBB\TOTAL\SYSREQ\[SYSCOM97.xls]1997-1998 COMPARISONS

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of John Hall
Staff Hearing Data Request

1. The date the cash surrender value of life insurance was no longer part of the capital structure.

Answer:

Dividends from the life insurance policies are more than the annual premiums. $252, 558 was paid up in April of 1984. The balance was paid up in August 1998.

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of John Hall
Staff Hearing Data Request

2. Whether or not the deferred gas cost is in short term debt.

Answer:

Delta uses its short-term debt to pay its gas costs.

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of John Hall
Staff Hearing Data Request

3. Calculations to show that Delta would be short changed by the application of rate of return times rate base rather than times capital structure per Mr. Henkes testimony.

Answer:

See Attached.

INCOME STATEMENT:

PER AG TESTIMONY SEPT 23,1999	Adjusted Test Period	Increase Required	Adjusted For Increase
Net Operating Revenues	20,794,664	(193,819)	20,600,845
Operating Expenses			
Gas Purchased	0		0
Operations & Maintenance	8,402,041		8,402,041
Depreciation	3,550,142		3,550,142
Other Taxes	1,116,904		1,116,904
Income Taxes	1,424,215	(77,238)	1,346,977
Total	14,493,302	(77,238)	14,416,064
Operating Income	6,301,362	(116,581)	6,184,781
	0		0
Interest on Debt	3,868,649		3,868,649
Total Debt Expense	3,868,649		3,868,649
Net Income	2,432,713	(116,581)	2,316,132

Equity 22,867,526

Return on Equity 10.12%

PER AG TESTIMONY SEPT 23,1999	Adjusted Test Period	Increase Required	Adjusted For Increase
Net Operating Revenues	20,794,664	(136,912)	20,657,752
Operating Expenses			
Gas Purchased	0		0
Operations & Maintenance	8,402,041		8,402,041
Depreciation	3,550,142		3,550,142
Other Taxes	1,116,904		1,116,904
Income Taxes	1,458,445	(54,560)	1,403,885
Total	14,527,532	(54,560)	14,472,971
Operating Income	6,267,132	(82,351)	6,184,781
	0		0
Interest on Debt	3,781,871		3,781,871
Amort of Debt Expense	0		0
Total Debt Expense	3,781,871		3,781,871
Net Income	2,485,261	(82,351)	2,402,910

Equity 22,867,526

Return on Equity 10.5%

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of John Hall
Staff Hearing Data Request

4. The Staff requested evidence to support the current rate on Delta's short term debt.

Answer:

See Attached.

Page: 1 Document Name: Carol Weatherholt 502-566-1779

LOAN REQ: 0164 FINANCIAL TRANSACTION HISTORY PAGE 0037 OF 0037
BANK: 34 AP: 1 OBGOR: 0122919863 OBGAT: 0000000026 DELTA NATURAL G
DATE: CHG CODE: INVOICE/ITEM: PAGE:
FORMAT: A (A/B)

TRAN CODE	DESCRIPTION	POST DATE	EFFECT DATE	CHG	DBID	TRO	RATE--OR--TRAN AMT	BTCH
3902	ADVANCE PRINC	10-20-99	10-20-99	001	MC061		180,000.00	430
4042	CURR PRIN PYMNT	10-22-99	10-22-99	001	MC061		100,000.00-	433
4042	CURR PRIN PYMNT	10-22-99	10-22-99	001	MC151		100,000.00-	433
4042	CURR PRIN PYMNT	10-22-99	10-22-99	001	MC524		100,000.00-	433
1350	NEW ACCRUAL	10-25-99	10-25-99	100			5.89000000 BASIS 5	000
3902	ADVANCE PRINC	10-27-99	10-27-99	001	MC061		85,000.00	430
3902	ADVANCE PRINC	10-28-99	10-28-99	001	MC061		985,000.00	432
3902	ADVANCE PRINC	11-01-99	11-01-99	001	MC061		130,000.00	432

Fax Transmittal

To: Donisa King
Company: Delta Natural Gas
Fax: 606-744-3623
# of pages: 1
(including this one)

Bank One Kentucky NA
Carol Weatherholt KY1-2208 Voice: 502-566-1779
Commercial Client Services Fax: 502-566-1938

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of John Brown
Staff Hearing Data Request

1. 2000 Hand & Associates Actuary Report.

Answer:

See Attached

Delta Natural Gas Company, Inc. Retirement Plan
Statement of Financial Accounting Standards No. 87
For Fiscal Year Ending 4/1/2000

ASSUMPTIONS

	04/01/99
Discount Rate	6.50%
Expected Long Term Rate of Return	8.00%
Rate of Increase in Compensation	4.00%
Average Remaining Future Service	15 Years
Measurement Date	04/01/99

FUNDED STATUS	ACTUAL 04/01/99	FOR FISCAL 04/01/99	PROJECTED 03/31/2000
Projected Benefit Obligation	(8,286,366.36)		(9,353,876.44)
Plan Assets at Fair Value	9,188,450.03		10,687,236.30
Funded Status	902,083.67		1,333,359.86
Unrecognized Net Obligation or (Asset) Existing at Transition	(127,182.46)		(84,788.32)
Unrecognized Prior Service Cost	0.00		0.00
Unrecognized Net (Gain) or Loss	512,735.95		512,735.95
(Accrued) or Prepaid Pension Cost	1,287,637.16		1,761,307.49

NET PERIODIC PENSION EXPENSE

Service Cost	535,681.03
Interest Cost	538,400.25
Expected Return on Assets	764,449.47
Amortization of:	
Unrecognized Net Obligation or (Asset) Existing at Transition	(42,394.14)
Unrecognized Prior Service Cost	0.00
Unrecognized Net (Gain) or Loss	0.00
Net Pension Expense (Income) at 4/1/2000	267,237.67

RECONCILIATION

(Accrued) / Prepaid Pension Cost 04/01/99	1,287,637.16
Net Periodic Pension Expense (Income)	267,237.67
Company Contributions	740,908.00
(Accrued) / Prepaid Pension Cost 03/31/2000	1,761,307.49

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of John Brown
Staff Hearing Data Request

2. The expense level for Fees-Training Schools during 1999 to date.

Answer:

See Attached.

Fees-Training Schools January 1999 thru October 1999

ACCOUNT 1.880.04	AMOUNT	
1/31/99	1,710.00	
2/28/99	904.66	
3/31/99	7,523.19	
4/30/99	1,325.48	
5/31/99	191.00	
6/30/99	2,537.34	
7/31/99	8,135.00	
8/31/99	4,541.95	
9/30/99	1,120.00	
10/31/99	2,796.00	(1)
TOTAL FEES TRAINING SCHOOLS	**30,784.62**	

(1) As of 11/4/99 month of October not closed - all expenses may not be included

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of John Brown
Staff Hearing Data Request

3. The expense level for Small Tools during 1999 to date.

Answer:

See Attached.

Small Tools January 1999 thru October 1999

ACCOUNT 1.900.03	AMOUNT	
1/31/99	4,481.23	
2/28/99	7,364.97	
3/31/99	7,668.28	
4/30/99	4,664.14	
5/31/99	3,953.75	
6/30/99	6,504.60	
7/31/99	2,374.09	
8/31/99	6,318.63	
9/30/99	6,872.43	
10/31/99	3,586.04	(1)
TOTAL SMALL TOOLS	**53,788.16**	

(1) As of 11/4/99 month of October not closed - all expenses may not be included

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of John Brown
Staff Hearing Data Request

4. 1999 and 2000 expenses to Hand & Associates, American Industry Trust Co. and Pension Benefit Guaranty Corporation.

Answer:

See Attached.

Hand and Associates

July 1998 - June 1999

Pension		
Inv. No.	117037	6,079.80
	117154	3,467.80
	117462	372.80
	117565	270.90
	117620	3,374.70
	117692	358.10
	117804	5,146.60
		19,070.70

July 1999 - June 2000

Pension 0 to date

American Industries

July 1998 - June 1999

Inv. No. 982050004	21,007.52	(Trustee's Fee)
Plan Year Ended	615,921.00	Contributions
03/31/99	78,888.50	Death Benefit Reserve

July 1999 - June 2000

Inv. No. 991970006	22,328.58	(Trustee's Fee)
Est. Plan Year Ended	740,908.00	Contributions
03/31/00	82,077.40	Death Benefit Reserve

Pension Benefit Guaranty Corporation

July 1998 - June 1999

No expense

July 1999 - June 2000

Pension 3,420.00

5. Verify if the amounts for the loan forgiveness for Glenn are included in the schedule in the response to Item 23 of the September 14 Data Request.

Answer:

It is not included.

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of John Brown
Staff Hearing Data Request

6. Update on rate case expense broken down between Case no. 99-046 and 99-176, with copies of invoices.

Answer:

See Attached.

SUMMARY RATE CASE EXPENSES

	CASE NO	AMOUNT
ALT REG EXPENSES	#99-046	$ 35,518.11
RATE CASE EXPENSES	#99-176	$ 183,235.07
TOTAL RATE CASE EXPENSES @ 11/08/99		$ 218,753.18

Item 48a

DELTA NATURAL GAS COMPANY, INC.
CASE #99-046
Alt Reg Case Expenses
for period ended 10/01/99

AC#	Date	Check #	Vendor	Vendor Name	Amount	Description	Hours	Rate/Hr
11860700000000	1999-05-31	156482	3640	PRIME GROUP, THE	$2,310.00	#99-046	14.0	165
11860700000000	1999-06-30	157403	3640	PRIME GROUP, THE	$15,427.72	#99-046	101.0	153
11860700000000	1999-08-19	158773	3640	PRIME GROUP, THE	$7,375.00	#99-046	47.0	157
11860700000000	1999-09-10	159322	3640	PRIME GROUP, THE	$420.00	#99-046	3.0	140
				TOTAL CONSULTANTS	**$25,532.72**			
11860700000000	1999-05-31	156485	2334	STOLL,KEENON & PARK LLP	$863.00	#99-046	5.2	165
11860700000000	1999-06-30	157156	2334	STOLL,KEENON & PARK LLP	$2,264.36	#99-046	13.4	165
11860700000000	1999-07-22	157895	2334	STOLL,KEENON & PARK LLP	$3,307.60	#99-046	19.3	165
11860700000000	1999-08-25	158926	2334	STOLL,KEENON & PARK LLP	$914.06	#99-046	4.8	165
11860700000000	1999-09-30	AP	2334	STOLL,KEENON & PARK LLP	$642.00	#99-047	3.7	165
				TOTAL LEGAL	**$7,991.02**			
11860700000000	1999-05-31	156211	33	ADVOCATE PUBLISHING CO	$82.50	#99-046		
11860700000000	1999-05-31	156745	210	BATH CO NEWS OUTLOOK	$39.00	#99-046		
11860700000000	1999-05-31	156231	256	BEREA CITIZEN	$111.38	#99-046		
11860700000000	1999-05-31	156529	485	CENTRAL RECORD	$39.00	#99-046		
11860700000000	1999-05-31	156533	509	CITIZEN VOICE	$87.30	#99-046		
11860700000000	1999-05-31	156256	564	CLAY CITY TIMES	$87.30	#99-046		
11860700000000	1999-05-31	156597	1261	JESSAMINE JOURNAL	$56.25	#99-046		
11860700000000	1999-06-15	156608	NA	LEDGER-INDEPENDENT	$34.14	#99-046		
11860700000000	1999-05-31	156342	3319	LESLIE COUNTY NEWS	$94.50	#99-046		
11860700000000	1999-06-24	156836	1473	LEXINGTON HERALD LEADE	$262.13	#99-046		
11860700000000	1999-06-30	157800	1557	MANCHESTER ENTERPRISE	$96.05	#99-046		
11860700000000	1999-05-31	156369	1645	MIDDLESBORO DAILY NEWS	$135.20	#99-046		
11860700000000	1999-05-31	156382	1789	NEWS JOURNAL	$178.13	#99-046		
11860700000000	1999-05-31	156383	3607	NEWSPAPER HOLDINGS,INC	$249.38	#99-046		
11860700000000	1999-06-24	156869	1923	PINEVILLE SUN	$120.00	#99-046		
11860700000000	1999-05-31	156649	2069	RICHMOND REGISTER	$93.66	#99-046		
11860700000000	1999-05-31	156664	2152	SENTINEL-ECHO	$84.94	#99-046		
11860700000000	1999-05-31	156438	2409	THREE FORKS TRADITION	$63.00	#99-046		
11860700000000	1999-05-31	156176	2411	TIMES-TRIBUNE	$80.51	#99-046		
				TOTAL NEWSPAPER ADS	**$1,994.37**			

Item 48a

DELTA NATURAL GAS COMPANY, INC.
CASE #99-046
Alt Reg Case Expenses
for period ended 10/01/99

AC#	Date	Check #	Vendor	Vendor Name	Amount	Description	Hours	Rate/Hr
				TOTAL SUPPLIES - OTHER	$0.00			
		TOTAL ALT REG #99-046 EXPENSE @ 11/08/99			$35,518.11			

The Prime Group

Priority Marketing, Planning and Regulatory Support

Invoice for Services Rendered

Alt Reg

Invoice date: June 4, 1999

To: Delta Natural Gas Company
3617 Lexington Road
R. R. #1, Box 30-A
Winchester, Kentucky 40391

Attn: Mr. John Hall

14.0 hours of consulting work by Steve Seelye @ $165.00/hr during May in assisting with the development of an amendment to the experimental alternative regulatory mechanism and in writing testimony.	$ 2,310.00
36.0 hours of consulting work by Steve Seelye @ $165.00/hr during May in preparing a cost of service study to support the rate case that Delta is preparing to file.	$ 5,940.00
57.0 hours of consulting work by Randall Walker @ $140.00/hr during May in preparing pro forma adjustments, billing analysis and determination of class load requirements to support the rate case that Delta is preparing to file.	$ 7,980.00
36.5 hours of consulting work by Martin Blake @ $200.00/hr during May in preparing of cost of money testimony to support the rate case that Delta is preparing to file.	$ 7,300.00
Total amount due for May	$23,530.00

93.5 hrs.

21,220.

PAID
JUN 14 1999
Per.............

Please remit to: The Prime Group
P.O. Box 7469
Louisville, KY 40257-7469

OK to pay
JH
6/7/99

The Prime Group, LLC
6711 Fallen Leaf • P. O. Box 7469 • Louisville, KY • 40257-7469
Phone 502-425-7882 FAX 502-326-9894

The Prime Group

Priority Marketing, Planning and Regulatory Support

RECEIVED
JUL - 6 1999

Invoice for Services Rendered

Invoice date: July 6, 1999

To: Delta Natural Gas Company
3617 Lexington Road
R. R. #1, Box 30-A
Winchester, Kentucky 40391

PAID
JUL 12 1999

Attn: Mr. John Hall

49.0 hours of consulting work by Steve Seelye @ $165.00/hr during June in answering data requests regarding the experimental alternative regulatory mechanism.	$ 8,085.00
52.0 hours of consulting work by Randall Walker @ $140.00/hr during June in answering data requests regarding the experimental alternative regulatory mechanism.	$ 7,280.00
<u>Expenses for Alternative Regulatory Mechanism</u> June 15 meeting in Winchester, KY 193 @ $0.325	$ 62.72
Total for Alternative Regulatory Mechanism	$15,427.72 99-046
35.5 hours of consulting work by Martin Blake @ $200.00/hr during June in preparing of cost of money testimony to support the rate case filing.	$ 7,100.00
56.0 hours of consulting work by Steve Seelye @ $165.00/hr during June in writing testimony to support the rate case filing and in finalizing the cost of service study.	$ 9,240.00
57.0 hours of consulting work by Randall Walker @ $140.00/hr during June in writing testimony to support the rate case filing and in developing the rate design for the filing.	$ 7,980.00
<u>Expenses for Rate Case Preparation</u> June 21 meeting in Winchester, KY 193 @ $0.325	$ 62.72
Total for Rate Case Preparation	$24,382.72 99-176
Total amount due for June	$39,810.44

Alt Reg

7/6/99
OK to pay

The Prime Group, LLC
6711 Fallen Leaf • P. O. Box 7469 • Louisville, KY • 40257-7469
Phone 502-425-7882 FAX 502-326-9894

The Prime Group

Priority Marketing, Planning and Regulatory Support

INVOICE FOR SERVICES RENDERED

Date: August 15, 1999

Billed to: Delta Natural Gas Company, Inc.
Rural Route #1, Lexington Road
Winchester, KY 40391

Attn: Mr. John Hall

$7375.00

28.0 hours of consulting service @ $165/hour for Steve Seelye during July preparing responses to the second round of data requests in the alternative regulation case	$ 4,620.00
19.0 hours of consulting service @ $145/hour for Randall Walker during July preparing responses to the second round of data requests in the alternative regulation case	$ 2,755.00
3.0 hours of consulting service @ $165/hour for Steve Seelye during July working on the rate case	$ 495.00
2.0 hours of consulting service @ $145/hour for Randall Walker during July working on the rate case	$ 290.00
	$8,160.00

Alt Reg

Rate Case

Alternate - 99-046
Rate Case - 99-176

Please remit **$ 8,160.00** to: The Prime Group, LLC
P.O. Box 7469
Louisville, KY 40257-7469

OK to pay
JH
8/17/99

The Prime Group, LLC
6711 Fallen Leaf • P.O. Box 7469 • Louisville, KY • 40257-7469
Phone 502-425-7882 FAX 502-326-9894

The Prime Group

Priority Marketing, Planning and Regulatory Support

Invoice for Services Rendered

Invoice date: September 3, 1999

To: Delta Natural Gas Company
3617 Lexington Road
R. R. #1, Box 30-A
Winchester, Kentucky 40391

Attn: Mr. John Hall

3.0 hours of consulting work by Randall Walker @ $140.00/hr during August in reviewing the AG's testimony in the alternative regulatory mechanism proceeding and preparing data requests for the AG witness.	$ 420.00
Sub-Total for Alternative Regulatory Mechanism	$ 420.00
17.5 hours of consulting work by Martin Blake @ $200.00/hr during August in answering data requests regarding the rate case filing.	$ 3,500.00
24.0 hours of consulting work by Steve Seelye @ $165.00/hr during August in answering data requests regarding the rate case filing.	$ 3,960.00
22.0 hours of consulting work by Randall Walker @ $140.00/hr during August in answering data requests regarding the rate case filing.	$ 3,080.00
Sub-Total for Rate Case Preparation	$10,540.00
Total amount due for August	$10,960.00

OK to pay.
all to rate case.
JH
9/7/99

PAID
SEP 13 1999

The Prime Group, LLC
6711 Fallen Leaf • P. O. Box 7469 • Louisville, KY • 40257-7469
Phone 502-425-7882 FAX 502-326-9894

STOLL, KEENON & PARK, LLP
201 East Main Street
Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000
Tax Id # 61-0421389

May 21, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

REFERENCE: 91975
5522/105183

MATTER NAME: Alternative Regulation Plan

BEGINNING BALANCE	$ 0.00
TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED	858.00
TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED	5.00
BALANCE DUE	$ 863.00

BILL DATE: May 21, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
04/19/99	RMW	Tel Hall, Seelye, Blackford; revise and finalize Response to Motion to Dismiss; send Response to PSC and fax to Blackford, Seelye and Walker	2.00	165.00	$ 330.00
04/20/99	RMW	Tel Wuetcher, Jennings office	0.40	165.00	66.00
04/20/99	RMW	Tel Hall and Jennings re Wuetcher conversation and discussion of options	0.40	165.00	66.00
04/21/99	RMW	Tel Jennings and Hall re Alt Reg alternative courses of action	0.40	165.00	66.00
04/22/99	RMW	Tel Jennings re courses of action	0.40	165.00	66.00
04/26/99	RMW	Examine Alt reply; tel Hall	0.60	165.00	99.00
04/27/99	RMW	Tel Hall, Jennings; revise notice of intent to file rate case	1.00	165.00	165.00
		SUBTOTAL	**5.20**		**$858.00**

DISBURSEMENTS AND SERVICE CHARGES

DATE	DESCRIPTION	AMOUNT
04/26/99	Telecopier Charges (Long Distance)	5.00
	SUBTOTAL	**5.00**
GRAND TOTAL:		**$863.00**

R. M Watt	5.20	858.00

STOLL, KEENON & PARK, LLP
201 East Main Street
Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000
Tax Id # 61-0421389

June 25, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

REFERENCE: 93335
5522/105183

MATTER NAME: Alternative Regulation Plan

BEGINNING BALANCE	$ 0.00
TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED	2,211.00
TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED	53.36
BALANCE DUE	**$ 2,264.36**

BILL DATE: June 25, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
05/03/99	RMW	Examine and revise Hall testimony; examine Seelye testimony; tel Jennings	2.00	165.00	$ 330.00
05/04/99	RMW	Examine and revise Seelye testimony; tel Seelye and Hall; review file and prepare for meeting with AG	3.00	165.00	495.00
05/05/99	RMW	Travel to Frankfort; meet with Taylor, Hall, Jennings and then meet with Attorney General; travel to Lexington	3.00	165.00	495.00
05/05/99	RMW	Examine testimony; tel Seelye and Hall	1.00	165.00	165.00
05/06/99	RMW	Tel Hall re testimony	0.20	165.00	33.00
05/10/99	RMW	Examine 5/7/99 Order; tel Hall, Seelye; research and draft newspaper notice	1.50	165.00	247.50
05/12/99	RMW	Tel Seelye, Jennings, Hall, Raff; examine newspaper notice and send to Wuetcher	1.00	165.00	165.00
05/13/99	RMW	Tel Seelye, PSC re newspaper notice	0.50	165.00	82.50
05/20/99	RMW	Conf Stephens; tel Hall, Hazelrigg; examine messages re newspaper notice	0.80	165.00	132.00
05/21/99	RMW	Examine testimony and letter to Helton	0.40	165.00	66.00
		SUBTOTAL	**13.40**		**$2,211.00**

DISBURSEMENTS AND SERVICE CHARGES

DATE	DESCRIPTION	AMOUNT
04/20/99	Telephone Expense	0.30
04/20/99	Telephone Expense	6.00
04/26/99	Telephone Expense	2.70
04/27/99	Telephone Expense	1.50
05/03/99	Duplicating Charges	0.40
05/03/99	Duplicating Charges	0.10
05/03/99	Telecopier Charges (Long Distance)	6.00
05/04/99	Duplicating Charges	1.20
05/04/99	Duplicating Charges	7.70
05/04/99	Duplicating Charges	0.30
05/04/99	Telephone Expense	2.10
05/04/99	Telephone Expense	1.20
05/05/99	Telephone Expense	0.30
05/05/99	Telephone Expense	3.60
05/05/99	Telephone Expense	1.80
05/10/99	Telephone Expense	3.90
05/10/99	Telephone Expense	2.70
05/12/99	Telephone Expense	1.50
05/12/99	Telephone Expense	2.40
05/13/99	Telephone Expense	0.60
05/20/99	Telephone Expense	1.80
05/20/99	Telephone Expense	2.40
05/21/99	Duplicating Charges	0.50
05/21/99	Duplicating Charges	0.50
05/28/99	Travel Expense	1.86
	SUBTOTAL	**53.36**
GRAND TOTAL:		**$2,264.36**

R. M Watt	13.40	2,211.00

STOLL, KEENON & PARK, LLP
201 East Main Street
Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000
Tax Id # 61-0421389

July 14, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

REFERENCE: 93977
5522/105183

MATTER NAME: Alternative Regulation Plan

BEGINNING BALANCE	$ 0.00
TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED	3,184.50
TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED	123.10
BALANCE DUE	**$ 3,307.60**

BILL DATE: July 14, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
06/01/99	RMW	Tel Jennings re status	0.30	165.00	$ 49.50
06/07/99	RMW	Tel Jennings, Hall, Slattery re discovery requests and re complaint	0.50	165.00	82.50
06/08/99	RMW	Tel Hall; examine AG Complaint and memo; research authorities cited in Memo	1.50	165.00	247.50
06/10/99	RMW	Conf Jennings and conf call with Peet and Hall re strategy for case, appeal and rate case	2.00	165.00	330.00
06/11/99	RMW	Tel Jennings re status	0.30	165.00	49.50
06/14/99	RMW	Tel Hazelrigg re newspaper notices	0.30	165.00	49.50
06/15/99	RMW	Examine and revise Seelye testimony; tel Jennings; tel Wuetcher	1.50	165.00	247.50
06/16/99	RMW	Tel Jennings, Hall; draft notice for newspaper; research re certificate of good standing	1.30	165.00	214.50
06/17/99	RMW	Tel Seelye; examine Responses to Data Requests; letter to Helton	0.50	165.00	82.50
06/18/99	RMW	Arrange for filing Responses to Data Requests; tel Hazelrigg and Wuetcher re publication of notices	0.80	165.00	132.00
06/23/99	RMW	Examine newspaper notice; tel Hall, Jennings, Hazelrigg, Wuetcher re various rate case and Alt Reg issues	1.50	165.00	247.50
06/24/99	RMW	Tel Hazelrigg re testimony; research re motion to dismiss AG appeal	1.50	165.00	247.50
06/25/99	RMW	Examine and revise Notice and Statement, Blake testimony; tel Hall with revisions	2.00	165.00	330.00

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
06/26/99	RMW	Draft and revise motion to dismiss appeal	3.50	165.00	577.50
06/28/99	RMW	Revise and file Motion to Dismiss Appeal; research cases in Motion	1.50	165.00	247.50
06/29/99	RMW	Examine PSC answer to appeal	0.30	165.00	49.50
		SUBTOTAL	**19.30**		**$3,184.50**

DISBURSEMENTS AND SERVICE CHARGES

DATE	DESCRIPTION	AMOUNT
06/05/99	Telecopier Charges (Long Distance)	13.00
06/05/99	Telecopier Charges (Long Distance)	5.00
06/05/99	Telecopier Charges (Long Distance)	5.00
06/09/99	Duplicating Charges	0.40
06/10/99	Duplicating Charges	2.80
06/18/99	Duplicating Charges	0.50
06/21/99	Travel Expense	9.30
06/23/99	Duplicating Charges	10.00
06/28/99	Duplicating Charges	5.00
06/29/99	Duplicating Charges	7.90
06/29/99	Duplicating Charges	0.10
06/29/99	Duplicating Charges	63.60
06/29/99	Duplicating Charges	0.50
	SUBTOTAL	**123.10**
GRAND TOTAL:		**$3,307.60**

STOLL, KEENON & PARK, LLP
201 East Main Street
Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000
Tax Id # 61-0421389

August 11, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

REFERENCE: 95226
5522/105183

MATTER NAME: Alternative Regulation Plan

BEGINNING BALANCE	$ 0.00
TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED	792.00
TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED	122.06
BALANCE DUE	**$ 914.06**

1.186.07
99046
Rate Case

BILL DATE: August 11, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
07/07/99	RMW	Prepare for Franklin Circuit Court hearing	1.00	165.00	$ 165.00
07/07/99	RMW	Travel to Frankfort; appear Franklin Circuit Court; tel Jennings; travel to Harrodsburg	3.00	165.00	495.00
07/12/99	RMW	Examine response to motion to consolidate	0.30	165.00	49.50
07/16/99	RMW	Examine responses to data requests; letter to Helton	0.50	165.00	82.50
		SUBTOTAL	**4.80**		**$792.00**

DISBURSEMENTS AND SERVICE CHARGES

DATE	DESCRIPTION	AMOUNT
06/07/99	Telephone Expense	1.50
06/08/99	Telephone Expense	0.30
06/09/99	Telephone Expense	8.40
06/09/99	Telephone Expense	2.70
06/10/99	Telephone Expense	0.30
06/15/99	Telephone Expense	0.60
06/15/99	Telephone Expense	5.40
06/17/99	Telephone Expense	0.60
06/23/99	Telephone Expense	3.60
06/23/99	Telephone Expense	0.90

DATE	DESCRIPTION	AMOUNT
06/25/99	Telephone Expense	5.10
06/25/99	Telephone Expense	0.30
06/25/99	Telephone Expense	2.70
06/25/99	Telephone Expense	0.60
06/25/99	Telephone Expense	0.30
07/01/99	Travel Expense	18.60
07/06/99	Duplicating Charges	3.30
07/09/99	Travel Expense	18.60
07/13/99	Duplicating Charges	4.70
07/13/99	Telecopier Charges (Long Distance)	3.00
07/16/99	Travel Expense	9.30
07/16/99	Duplicating Charges	0.50
07/21/99	Duplicating Charges	1.00
07/23/99	Travel Expense	18.60
07/23/99	Travel Expense	5.58
07/23/99	Travel Expense	5.58
	SUBTOTAL	**122.06**
GRAND TOTAL:		**$914.06**

R. M Watt	4.80	792.00

STOLL, KEENON & PARK, LLP
201 East Main Street
Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000
Tax Id # 61-0421389

September 17, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

REFERENCE: 97111
5522/105183

MATTER NAME: Alternative Regulation Plan

BEGINNING BALANCE	$ 0.00
TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED	610.50
TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED	31.50
BALANCE DUE	**$ 642.00**

1.186.07
#99-046

BILL DATE: September 17, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
08/02/99	RMW	Tel John Hall office	0.20	165.00	$ 33.00
08/04/99	RMW	Examine Henkes testimony	1.00	165.00	165.00
08/05/99	RMW	Examine testimony of Henkes, Catlin	1.50	165.00	247.50
08/06/99	RMW	Tel Jennings, Seelye, Hazelrigg re order dismissing; examine order dismissing	1.00	165.00	165.00
		SUBTOTAL	**3.70**		**$610.50**

DISBURSEMENTS AND SERVICE CHARGES

DATE	DESCRIPTION	AMOUNT
08/03/99	Duplicating Charges	20.00
08/06/99	Telecopier Charges (Long Distance)	5.00
08/06/99	Telecopier Charges (Long Distance)	5.00
08/06/99	Telephone Expense	1.50
	SUBTOTAL	**31.50**
GRAND TOTAL:		**$642.00**

APCo.
The Advocate Publishing Co., Inc.
214 Knox St. • P.O. Box 190 • BARBOURVILLE, KY. 40906
606-546-9225

R	PAGE
60	1

STATEMENT

DELTA GAS
3617 LEXINGTON ROAD
WINCHESTER, KY 40391-9797

1-800-432-0771

ACCOUNT NO.
000373

STATEMENT DATE
05/31/99

FINANCE CHARGE is computed by a Periodic Rate of 1½% per month which is an **ANNUAL PERCENTAGE RATE** of 18% applied to previous balance less current payments and or credits

CODES I=INVOICE DR=DEBIT MEMO CR=CREDIT MEMO BF=BALANCE FORWARD P=PAYMENT DA=DISCOUNT ALLOWED FC=FINANCE CHARGE

DATE	CODE	REFERENCES	APPLY TO	PURCHASE ORDER NO.	CHARGES	CREDITS	BALANCE
04/30/99	I	62570	62570		167.06		167.06
05/18/99	P	155343	62570			167.06	.00
05/28/99	I	63260	63260		82.50		82.50

D PRICE
82.50

Thank You Your Business is Appreciated

RECEIVED
JUN - 4 1999

PLEASE RETURN STATEMENT STUB
WHEN MAKING PAYMENT THANK YOU

CURRENT	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	PLEASE PAY
82.50	.00	.00	.00	82.50

THANK YOU FOR YOUR ORDER

TERMS: Full payment due upon receipt of this invoice. Balances past due 30 days are subject to 1½% service charge per month.

SALE AMOUNT	82.50
MISC. CHARGES	.00
SALES TAX	.00
FREIGHT	.00
TOTAL ➡	82.50

apCo.
The Advocate Publishing Co., Inc.
Knox St. • P.O. Box 190 • BARBOURVILLE, KY. 40906
606-546-9225

INVOICE

DATE	NUMBER	PAGE
05/28/99	63260	1

SOLD TO: DELTA GAS
3617 LEXINGTON ROAD
WINCHESTER, KY 40391-9797

SHIP TO: DELTA GAS
3617 LEXINGTON ROAD
WINCHESTER, KY 40391-9797

ORDER NO.	ORDER DATE	CUSTOMER NO.	SALESMAN NO.	PURCHASE ORDER NO.	SHIP VIA	SHIP DATE	TERMS
65399	05/28/99	000373	011		NO SHIP VIA	ASAP	NET 30

QUANTITY ORDERED	QUANTITY TO SHIP	QUANTITY BACK ORDERED	ITEM NO.	ITEM DESCRIPTION	UNIT PRICE	EXTENDED PRICE
1	1		*ADVERTISING MAY 27- 13.75"@ 6.00		82.50 EA	82.50

Okay Rick C-P Info

OK Run Cust Pub

THANK YOU FOR YOUR ORDER

TERMS: Full payment due upon receipt of this invoice. Balances past due 30 days are subject to 1½% service charge per month.

SALE AMOUNT	82.50
MISC. CHARGES	.00
SALES TAX	.00
FREIGHT	.00
TOTAL	82.50

Bath County News-Outlook
P.O. Box 577
Owingsville, KY 40360
Phone: 606-674-2181

Invoice

DATE	INVOICE NO.
06/04/99	16450

BILL TO
Delta Natural Gas 3617 Lexington Road Winchester, KY 40391

DUE DATE	AMOUNT DUE	AMOUNT ENC.
07/04/99	39.00	–

DATE	DESCRIPTION	QTY	RATE	AMOUNT
6-4-99	Public notice ran 5-27-99	13	3.00	39.00
			Total	$39.00

RECEIVED
JUN 1 1 1999

PREVIEW BALANCE ▶ $0.00

DATE	DESCRIPTION	CHARGES	CREDITS	BALANCE
5/20/99	LEGAL NOTICE	$111.38		$111.38

RECEIVED
JUN - 3 1999

PAID
JUN 14 1999

CURRENT	OVER 30	OVER 60	OVER 90	OVER 120	TOTAL AMOUNT DUE
$111.38	$0.00	$0.00	$0.00	$0.00	$111.38

ESSAGES / COMMENTS THIS STATEMENT INCLUDES ONLY THE ITEMS THAT AVE NOT BEEN PAID. IF YOUR RECORDS DO NOT AGREE WITH THIS TATEMENT, PLEASE CALL US AND WE WILL REVIEW YOUR ACCOUNT.

BEREA CITIZEN

...e Central Rcord, Inc.
P.O.Box 800
106 Richmond St.
Lancaster, Kv. 40444

Statement

DATE
05/31/99

BILL TO

Delta Natural Gas
Nell C Waller
3617 Lexington Road
Winchester, Ky. 40391-9797

AMOUNT DUE	AMOUNT ENC.
$39.00	

DATE	DESCRIPTION	AMOUNT	BALANCE
04/30/99	Balance forward		97.50
05/18/99	PMT	-97.50	0.00
05/31/99	L/N-Notice for Approval	39.00	39.00

OK/Rus Cd Pnts

PAID
JUN 2 1 1999
Per

RECE[illegible]
JUN - 4 1999

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
39.00	0.00	0.00	0.00	0.00	$39.00

CITIZEN VOICE, INC

PO BOX 660
108 COURT ST
IRVINE, KY 40336
606-723-5161 EXT 25

INVOICE-STATEMENT

DATE

5/31/1999

BILL TO

DELTA GAS
NELLE WALLER
3617 LEXINGTON RD
WINCHESTER KY 40391
261

TERMS	AMOUNT DUE
Due on receipt	$87.30

DATE	DESCRIPTION	QTY/COL INC...	RATE	AMOUNT	BALANCE
04/30/1999	Balance forward				138.60
05/18/1999	PMT #155379			-138.60	0.00
05/27/1999	Legal Ads/LEGAL NOTICE	15	5.82	87.30	87.30

OK | Rec
Carl Pupo

RECEIVED
JUN - 9 1999

PAID
JUN 2
Per............

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
87.30	0.00	0.00	0.00	0.00	$87.30

Clay City Times

P O Box 547
Stanton, KY 40380

606-723-5161/EXT 25

INVOICE-STATEMENT

DATE

5/31/1999

BILL TO

DELTA GAS
NELLE WALLER
3617 LEXINGTON ROAD
WINCHESTER KY 40391
301

TERMS	AMOUNT DUE
Due on receipt	$87.30

DATE	DESCRIPTION	QTY/COL INC...	RATE	AMOUNT	BALANCE
04/30/1999	Balance forward				138.60
05/18/1999	PMT #155381			-138.60	0.00
05/27/1999	CCT Legal Display/NOTICE	15	5.82	87.30	87.30

Ok-to Nelle C+P Info (Alternative Reg. Plan)

OK / Run C&P Info

RECEIVED
JUN - 9 1999

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
87.30	0.00	0.00	0.00	0.00	$87.30

THE JESSAMINE JOURNAL
P.O. BOX 8 NICHOLASVILLE, KY 40340-0008
(606) 885-5381
(606) 887-2966 FAX
A REPUBLIC NEWSPAPER

DATE 05/31/99
ACCOUNT NUMBER 14 8

Copy No. 1

DELTA NATURAL GAS
3617 LEXINGTON ROAD
WINCHESTER KY 40391

PAGE NO. 1

REFERENCE	DATE	CODE	DESCRIPTION	AMOUNT	BALANCE
			Balance Forward		155.35
14574	05/27/99	IN	9 IN @ 6.25 LEGAL AD	56.25	211.60
			ALT REGULATION PLAN		
ON ACCT	05/11/99	PO	PAID ON ACCOUNT	155.35-	56.25

PAID
JUN 21 1999
Per.........

okay - Neil
ad for
alternative Reg Plan

OK/RWL

RECEIVED
MAY 28 1999

DUE

CODES: C-CR MEMO D-DR MEMO P-PAYMENT I-INVOICE A-DISCOUNT ALLOWED F-FINANCE CHARGE

PLEASE PAY 56.25

30 DAYS	60 DAYS	90 DAYS	120 DAYS
.00	.00	.00	.00

RETAIN THIS PORTION FOR YOUR RECORDS

REMITTANCE ADDRESS				BILL TO	
THE LEDGER - INDEPENDENT P.O. BOX 518, MAYSVILLE, KY 41056				DELTA NATURAL GAS CO. INC	
AD NUMBER 98099	CLASS 0205 LEGALS		SALESPERSON 26	BILLING DATE 06/11/99	LINES 22
AD DESCRIPTION NOTICE ~~OF HEARING~~ NOTICE IS HEREBY				START DATE 06/11/99	STOP DATE 06/11/99
PUBLICATION	INSERTIONS	RATE		NET AMOUNT	GROSS AMOUNT
1 THE LEDGER-INDEPENDENT	1	LEGAL		19.14	
TOTAL AD CHARGE				19.14	
1 AFFADAVIT CHARGE		AAFF		5.00	
1 AFFADAVIT CHARGE		AAFF		5.00	
1 AFFADAVIT CHARGE		AAFF		5.00	
DAYS RUN					
PURCHASE ORDER	PAY THIS AMOUNT			34.14	40.97*

* AFTER 06/26/99

MESSAGE:

There will be a new Classified Advertising Rate Card effective April 1, 1999 - For more information call your Advertising Sales Rep at 606-564-9091 or 800-264-9091.

notice of hearing

OK/Rate Card Info

RECEIVED
JUN 14 1999

STATEMENT

C. Waller Date 5-31, 1999

Delta Natural Gas Co., Inc.
3617 Lexington Road
Winchester, Ky. 40391-9797

THE LESLIE COUNTY NEWS

VERNON BAKER, Publisher

Ph. (606) 672-2841

P. O. Box 967
Hyden, Kentucky 41749

5-27	ad 1 X 18 @ 5.25			94 50

OK
RECEIVED
JUN - 4 1999

Lexington Herald-Lea[illegible]r Co.
A KNIGHT-RIDDER NEWSPAPER
100 MIDLAND AVENUE
LEXINGTON, KENTUCKY 40508-1999
(606) 231-3100

Federal [illegible]o. 61-0259090

CLASSIFIED INVOICE

If you are paying an amount that is different from the TOTAL DUE, please explain the difference on a separate sheet and return it with your payment. If you need to report billing errors, or have questions about your account, please call:
(606) 231-3119 or 1 800 274-7355, ext 3119
(606) 231-3122 or 1 800 274-7355, ext 3122

ACCOUNT NO.	BILLING DATE
6067446171	06/22/99

DELTA NATURAL GAS CO
3617 LEXINGTON RD.
WINCHESTER, KY 40391

MAIL PAYMENT TO
Dept CL
The Lexington Herald-Leader Co
PO Box 300
Lexington Ky 40584-0300

THANK YOU FOR YOUR BUSINESS - PLEASE KEEP THIS PART FOR YOUR RECORDS

AD NUMBER	CLASS	DESCRIPTION	REP	STARTED	STOPPED	TIMES	SIZE		AMOUNT
TQ18027908	L556	NOTICE...027908	852	05/25/99	05/25/99	1	6.25IN		262.13

RECEIVED
JUN 22 1999

PAID
JUN 28 1999

THANK YOU FOR USING HERALD-LEADER CLASSIFIEDS.

TO PLACE A CLASSIFIED AD, CALL 233-7878, OR
CALL TOLL FREE, 1-800-933-7355
(M-F) 7:30 A.M. - 5:30 P.M. (SAT) 8 A.M. - NOON.

TOTAL DUE	DATE DUE
$262.13	06/28/1999

PLEASE FOLD ON DOTTED LINE TO DETACH LOWER PART

The Manchester Enterprise

103 Third Street
Post Office Box 449
Manchester, KY 40962
606-598-6174

Statement

DATE

5/31/99

BILL TO

Delta Gas
3627 Lexington Road
Winchester, KY 40391

AMOUNT DUE	AMOUNT ENC.
$96.05	

PLEASE DETACH AND RETURN WITH YOUR PAYMENT

DATE	TRANSACTION	AMOUNT	BALANCE
04/30/99	Balance forward		613.00
05/18/99	PMT #155447	-613.00	0.00
05/27/99	INV #725 - Regulation Plan	96.05	96.05

May
Reg p Info
C+

RECEIVED
JUN - 9 1999

JUL 2 6 1999
Per...........

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
96.05	0.00	0.00	0.00	0.00	$96.05

MIDDLESBORO DAILY NEWS
P.O. Box 579
Middlesboro, Kentucky 40965-0579
Phone (606) 248-1010
Fax (606) 248-7614

INVOICE

INVOICE NO.	PAGE	BILLING DATE	BILLING PERIOD
	1	5/31/99	5/01/99 - 5/31/99

BILLED ACCOUNT

DELTA NATURAL GAS CO.
3617 LEXINGTON ROAD
WINCHESTER, KY 40391-0000

BILLED ACCOUNT NO.	ADVERTISER/CLIENT NO.
481845	

NAME OF ADVERTISER/CLIENT

FOR INVOICE INFORMATION CALL (606) 248-1010

DATE	REFERENCE NUMBER	CHARGE OR CREDITS DESCRIPTION/PRODUCT CODE	SAU/ DIMENSIONS	TIMES	BILLED UNITS	RATE	GROSS AMOUNT	NET AMOUNT
/01		BALANCE FORWARD						343.00
/11	MD 900	PAYMENT - THANK YOU					-	343.00-
/25	MD 480	LEGAL ADS	2X 8.00	1	16.00	8.45		135.20
	CONTRACT	SIZE PERIOD	C-TO-DATE					
	ROP CON	150.00 I	1258.01					

RECEIVED
JUN - 3 1999

Ok / Rw
Cnd Pmfo

AGING 30 DAYS	60 DAYS	90 DAYS	TOTAL AMOUNT DUE
.00	.00	.00	135.20

CURRENT GROSS AMOUNT	CURRENT NET AMOUNT
	135.20

VE A GREAT DAY !!!
..LING ?? CALL GINA @ 606-248-1010
JUNT DUE BY 6/15/99. ACCTS NOT PAID IN 30 DAYS WILL BE CHARGED 1.5% PER MONTH,
ICH IS EQUAL TO 18.0% PER ANNUM.

DETACH AND RETURN THIS PORTION WITH YOUR PAYMENT

OTHER CHARGES/CREDIT LEGEND

DETACH AND RETURN THIS PORTION

... by contacting John F. ... Gas Company, Inc., at the address ...nber shown below. A copy of the ap... ...nony shall be available for public in... ...fices of Delta or the Public Service ...e addresses and telephone number

...mpany, Inc.

Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, KY 40602
504-564-3940

NOTICE

...Bank of Middlesboro, Kentucky for... Bank of Middlesboro, will offer for ...t bidder a Advance Convertamatic ...er serial # 1153642 and a Clarke hi... ...00RPM serial # QG1062. ...held promptly at 4:30 P.M. ...

...Gilead Baptist Church will have their regular 5th Saturday night singing May 29th, 7pm. Little Creek Baptist Church will be guest singers along with others. All singers & everyone welcome. Rev. Tony Massengill, Pastor.

200 Help Wanted

OTR - Truck drivers needed. Must have clean MVR & CDL's. 3 yrs exp. Home most weekends. Apply in person at City Service behind Krogers.

Part time cook, daytime hours. Minimum requirement ...

OBER GATLINBURG
Gatlinburg, TN - All Seaso... Premier Attraction will b... conducting a job fair o... Tuesday, May 25th fro... 9am - 4:30pm at the Day... Inn Hotel located off of 2... East at 1252 North 12t... Street. Interviews for yea... round or seasonal position... will be conducted. Discoun... meals, employee benef... package, periodic review... and reasonably price... housing available in ou... employee center. EOE

NEWS JOURNAL
WHITLEY/CORBIN
P.O. BOX 418
LLIAMSBURG, KY 40769
5) 549-0643

INVOICE AND STATEMENT

Advertiser: DELTA NATURAL GAS CO

4202 DELTA NATURAL GAS CO
3617 LEXINGTON RD
WINCHESTER, KY 40391-9797
ATTN NELL C WALLER

BILLING DATE 05/31/99
Invoice # 49321

DATE	PAPER	ACCOUNT / RUN DETAIL	INCHES	RATE	AMOUNT
		BALANCE FROM LAST STATEMENT			235.63
05/19/99		Payment	0.00	0.000	-235.63
05/26/99	WHIZ	CLASSIFIED	0.00	0.000	178.13

OK llm
C Pif

PAID
JUN 14 1999
Per............

RECEIVED
JUN - 2 1999

Should you have any questions
please call JOYCE 549-0643

CURRENT	30 DAYS	60 DAYS	90 DAYS	TOTAL
178.13	0.00	0.00	0.00	178.13

Newspaper Holdings, Inc.

2 W. First St., Morehead, KY 40351 INVOICE / STATEMENT 606-784-4116 or 800-247-6142

The Morehead News - Pub. 1 The Shopping News/Menifee Co. News - Pub. 2
Grayson Journal Enquirer/Olive Hill Times - Pub. 4
Greenup County News-Times - Pub. 5
The Carlisle Mercury - Pub. 6 Mercury Plus - Pub. 7

ACCOUNT NO.	INV./STMT. DATE	INVOICE/STMT. NO.
957	05/31/99	60219

BILLING PERIOD: MAY 1999

PAYMENT TERMS NET 30 DAYS

ACCOUNT NAME:
DELTA GAS
ATTN: NELL WALLER
3617 LEXINGTON RD
WINCHESTER KY 40391

ADVERTISER CLIENT NAME: DELTA GAS

Please refer to above newspaper names and publications numbers when reading PUB (2nd) column of your statement.

TRANS. DATE	PUB	TRANS. CODE	CHARGE OR CREDIT DESCRIPTION / PRODUCT CODE	SAU / DIMENSIONS		BILLED UNITS	RATE	GROSS AMOUNT	NET AMOUNT
05/25	1	PAY	PAID ON ACCOUNT					295.32-	295.32-
05/25	1	LEG	LEGAL ADVERTISING	03X	9.50	28.50	5.250	149.63	149.63
05/26	2	LEG	LEGAL RATE	03X	9.50	28.50	3.500	99.75	99.75

RECEIVED
JUN - 2 1999

Ok to pay

PREVIOUS BALANCE	PAYMENTS/CREDITS	AMT. SUB. TO SERVICE CHG.	SERVICE CHARGE	CURRENT GROSS AMT.	CURRENT NET AMOUNT
295.32	295.32	.00	.00	249.38	249.38

CASH DISCOUNTS	ACCOUNT STATUS 0-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL NET AMOUNT DUE
.00	249.38	.00	.00	.00	249.38

THIS ACCOUNT IS DUE AND PAYABLE 30 DAYS FROM DATE OF INVOICE. A SERVICE CHARGE OF 1½% PER MONTH WILL BE CHARGED ON ACCOUNTS UNPAID 31 DAYS. ANNUAL RATE IS 18%.

CONTRACT PERFORMANCE	
EXPIRATION DATE	CURRENT MONTH
00/00/00	.00
REQUIREMENT	CUMULATIVE
0	.00

RETAIN FOR YOUR FILE

THANK YOU FOR YOUR BUSINESS. IF YOU HAVE ANY QUESTIONS ABOUT YOUR STATEMENT, PLEASE CALL.

				PREVIOUS BALANCE ►	$0.00
DATE	DESCRIPTION	CHARGES	CREDITS	BALANCE	
05/27/99	LEGAL	$120.00		$120.00	

okay - Wee - alt. Rate
C&P Ofr
6-23-97

RECEIVED
JUN 1 1 1999

OK/Ret
Con Pato

PAID

CURRENT	OVER 30	OVER 60	OVER 90	OVER 120	TOTAL AMOUNT DUE
$120.00	$0.00	$0.00	$0.00	$0.00	$120.00

MESSAGES / COMMENTS THIS STATEMENT INCLUDES ONLY THE ITEMS THAT HAVE NOT BEEN PAID. IF YOUR RECORDS DO NOT AGREE WITH THIS STATEMENT, PLEASE CALL US AND WE WILL REVIEW YOUR ACCOUNT.

Thank You!
PINEVILLE SUN

18.00% ANNUAL SERVICE CHARGE ON PAST DUE BALANCES

ACCOUNT STATUS AS OF THIS BILLING

CURRENT	OVER 30 DAYS	OVER 60 DAYS	OVER 90 DAYS	BALANCE NOW DUE
93.66	0.00	0.00	0.00	93.66

DATE		ORDER #	DESCRIPTION	ED	CL	DEPTH	SIZE	RATE	AMOUNT
*BA	0	Bal Fwd	BALANCE FORWARD						705.11
MAY	18	04528693	155479 PAYMENT						(705.11)
MAY	25	04529766	2X7 LEGAL NOTICE RR	RR		2X7.00	14.00	6.69	93.66
			TOTAL DUE						93.66

Request affidavits & tearsheets

okay - will ct & Gufo alternative Reg plan

OK / Rex Carl Pinto

THE RICHMOND REGISTER

PAID
JUN 21 1999
Per.........

RECEIVED
JUN - 4 1999

THE RICHMOND REGISTER
P.O. BOX 99 • 380 BIG HILL AVENUE • RICHMOND, KY 40475 (606) 623-1669

PAY THIS AMOUNT

93.66

Boyle County inmate walks away from road department

HOME FOR SALE

PLEASE DETACH AND RETURN UPPER PORTION WITH YOUR REMITTANCE

NEWSPAPER REFERENCE	DESCRIPTION-OTHER COMMENTS/CHARGES	SAU SIZE BILLED UNITS	TIMES RUN RATE	GROSS AMOUNT	NET AMOUNT
	PREVIOUS BALANCE				181.03
/18 001 PLC P1SE	PAYMENT - THANK YO CK-155489				181.03-
/26 001 LEG I	ALT. REG. PLAN	1.0x15.2	1		
	SE	15.2	5.570	84.94	84.94
	——— ACCOUNT SUMMARY ———				
	PAYMENTS 181.03-				
	ADJUSTMENTS				
	DISCOUNTS				
	CHARGES 84.94				
	SALES TAXES				
SALES REP	KATHY JONES				

6-8-99
Okay
Ned
C-P

Ok Rate
Calculations

RECEIVED
JUN - 7 1999

PAID
JUN 21 1999
Per.........

MENT OF ACCOUNT AGING OF PAST DUE AMOUNTS

CURRENT NET AMOUNT DUE	30 DAYS	60 DAYS	OVER 90 DAYS	• UNAPPLIED AMOUNT	TOTAL AMOUNT DUE
84.94	0.00	0.00	0.00		84.94

e Sentinel-Echo

123 W. Fifth St. • P.O. Box 830, London, Ky. 40741
Phone 606-878-7400 • Fax 606-878-7404

	BILLING PERIOD	BILLED ACCOUNT NUMBER	ADVERTISER INFORMATION: ADVERTISER/CLIENT NUMBER	ADVERTISER/CLIENT NAME
1465	MAY, 1999	010943	010943	DELTA NATURAL GAS

THREE FORKS TRADITION

.BOX 557 MAIN STREET
BEATTYVILLE, KENTUCKY 41311
(606)464-2888
FAX 464-2388

DATE 5-28-99

SOLD TO: Delta Gas

QTY.	DESCRIPTION	UNIT PRICE	AMOUNT
5-26	3X7 Ad		#63 -

RECEIVED
JUN - 8 1999

PLEASE PAY FROM THIS INVOICE

TAX	
TOTAL	#63 -

BY: ______________________

Times-Tribune

11679 INVOICE FOR CLASSIFIED ADVERTISING

MAKE CHECKS PAYABLE TO

THIS IS YOUR BILL COVERING THE CLASSIFIED ADVERTISING YOU ORDERED PUBLISHED ON THE DATES SHOWN. CREDIT HAS BEEN EXTENDED STRICTLY AS AN ACCOMMODATION AND THE ITEM CHARGED IS NOW DUE.

LINES	TIMES	AMOUNT
108	1	$80.51

INCHES	RATE	MOP	OTHER
11.22	1g		

YOUR CLASSIFIED INVOICE IS NOW DUE. IF NOT PAID WITHIN 10 DAYS AMOUNT DUE WILL BE $88.56

Pd 7 mar

PHONE	CLERK
[illegible]	Brenda

PAID

JUN 7 1999

AD DESC.

NOTICE Notice is hereby given

AD GIVEN BY	CLASSIFICATION
Per	0020

START DATE	STOP DATE	SKIP SCHEDULE S M T W T F S
05/25/99	05/25/99	

KEEP THIS STUB FOR YOUR RECORDS

Item 48a

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 99-176
Rate Case Expenses
for period ended 10/01/99

AC#	Date	Check #	Vendor	Vendor Name	Amount	Description		Hours	Rate/Hr
118607000000000	1999-05-31	156482	3640	PRIME GROUP, THE	$21,220.00	CONSULTANTS	#99-176	129.5	164
118607000000000	1999-06-30	157403	3640	PRIME GROUP, THE	$24,382.72	CONSULTANTS	#99-176	148.5	164
118607000000000	1999-08-19	158773	3640	PRIME GROUP, THE	$785.00	CONSULTANTS	#99-176	5.0	157
118607000000000	1999-09-10	159322	3640	PRIME GROUP, THE	$10,540.00	CONSULTANTS	#99-176	63.5	166
118607000000000	1999-09-23	159701	3742	HISLE & COMPANY	$685.34	CONSULTANTS	#99-176	16.0	43
118607000000000	1999-09-30	160195	3640	PRIME GROUP, THE	$15,173.16	CONSULTANTS	#99-176	95.0	159
118607000000000	1999-10-31	161069	3640	PRIME GROUP, THE	$32,429.22	CONSULTANTS	#99-176	196.0	165
TOTAL ESTIMATE BAL PER STEVE SEELYE				PRIME GROUP, THE	$4,460.00	CONSULTANTS	#99-176		
				TOTAL CONSULTANTS	**$109,675.44**				
118607000000000	1999-07-22	157895	2334	STOLL, KEENON & PARK	$825.00	LEGAL FEES	#99-176	5.0	165
118607000000000	1999-08-25	158926	2334	STOLL, KEENON & PARK	$676.32	LEGAL FEES	#99-176	3.8	165
118607000000000	1999-09-30	AP	2334	STOLL, KEENON & PARK	$1,317.57	LEGAL FEES	#99-176	7.3	165
118607000000000	1999-10-31	AP	2334	STOLL, KEENON & PARK	$4,763.27	LEGAL FEES	#99-176	28.6	165
TOTAL ESTIMATED NOT BILLED				STOLL, KEENON & PARK	$40,400.00	LEGAL FEES	#99-176		165
				TOTAL LEGAL	**$47,982.16**				
118607000000000	1999-07-31	158275	33	ADVOCATE PUBLISHING CO	$724.50	NEWSPAPERS ADS	#99-176		
118607000000000	1999-08-18	156745	210	BATH COUNTY NEWS OUTLOOK	$425.25	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158293	256	BEREA CITIZEN	$182.25	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158312	485	CENTRAL RECORD	$270.00	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-02	157926	3302	CITIZEN ADVERTISER	$525.69	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158313	509	CITIZEN VOICE	$628.56	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158317	564	CLAY CITY TIMES	$628.56	NEWSPAPERS ADS	#99-176		
118607000000000	1999-08-18	157262	3335	FLEMINGSBURG GAZETTE	$157.50	NEWSPAPERS ADS	#99-176		
118607000000000	1999-08-18	158597	3335	FLEMINGSBURG GAZETTE	$157.50	NEWSPAPERS ADS	#99-176		
118607000000000	1999-08-25	158838	1242	JACKSON COUNTY SUN	$850.50	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158378	1261	JESSAMINE JOURNAL	$384.39	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-22	157978	3319	LESLIE COUNTY NEWS	$976.50	NEWSPAPERS ADS	#99-176		
118607000000000	1999-10-20	160615	3319	LESLIE COUNTY NEWS	$20.40	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-30	158058	1473	LEXINGTON HERALD LEADER	$1,934.49	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-30	158398	1557	MANCHESTER ENTERPRISE	$775.47	NEWSPAPERS ADS	#99-176		
118607000000000	1999-10-31	AP	1557	MANCHESTER ENTERPRISE	$16.95	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158266	3688	MAYSVILLE NEWSPAPERS	$1,151.60	NEWSPAPERS ADS	#99-176		
118607000000000	1999-10-31	AP	3688	MAYSVILLE NEWSPAPERS	$42.48	NEWSPAPERS ADS	#99-176		
118607000000000	1999-06-30	157555	1645	MIDDLESBORO DAILY NEWS	$354.90	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158408	1645	MIDDLESBORO DAILY NEWS	$709.80	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158195	1720	MT STERLING ADVOCATE	$133.92	NEWSPAPERS ADS	#99-176		
118607000000000	1999-06-30	157326	1789	NEWS JOURNAL	$420.00	NEWSPAPERS ADS	#99-176		

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 99-176
Rate Case Expenses
for period ended 10/01/99

AC#	Date	Check #	Vendor	Vendor Name	Amount	Description		Hours	Rate/Hr
118607000000000	1999-07-26	157995	1789	NEWS JOURNAL	$840.00	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158423	1789	NEWS JOURNAL	$840.00	NEWSPAPERS ADS	#99-176		
118607000000000	1999-08-16	158423	1789	NEWS JOURNAL	-$840.00	NEWSPAPERS ADS	#99-176		
118607000000000	1999-10-31	AP	1789	NEWS JOURNAL	$33.75	NEWSPAPERS ADS	#99-176		
118607000000000	1999-06-30	157573	3607	NEWSPAPER HOLDINGS INC	$406.88	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158424	3607	NEWSPAPER HOLDINGS INC	$813.76	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158432	1923	PINEVILLE SUN	$775.47	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158442	2069	RICHMOND REGISTER	$722.52	NEWSPAPERS ADS	#99-176		
118607000000000	1999-06-30	157603	2152	SENTINEL-ECHO, THE	$473.45	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158453	2152	SENTINEL-ECHO, THE	$946.90	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-26	158029	2409	THREE FORKS TRADITION	$450.00	NEWSPAPERS ADS	#99-176		
118607000000000	1999-06-30	157619	2411	TIMES-TRIBUNE, THE	$279.63	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-31	158472	2411	TIMES-TRIBUNE, THE	$559.26	NEWSPAPERS ADS	#99-176		
118607000000000	1999-10-31	AP	2411	TIMES-TRIBUNE, THE (TRI CO)	$17.87	NEWSPAPERS ADS	#99-176		
118607000000000	1999-06-30	157899	3148	WINCHESTER SUN, THE	$338.17	NEWSPAPERS ADS	#99-176		
118607000000000	1999-07-22	157899	3148	WINCHESTER SUN, THE	$676.34	NEWSPAPERS ADS	#99-176		
118607000000000	1999-10-31	AP	3148	WINCHESTER SUN, THE	$29.22	NEWSPAPERS ADS	#99-176		
TOTAL ESTIMATED NOT BILLED			18 NEWSPAPERS @ $20 EACH		$360.00	NEWSPAPERS ADS	#99-176		
				TOTAL NEWSPAPER ADS	**$19,194.43**				
118607000000000	1999-06-18	156715	3334	NATIONAL CITY	$134.10	SUPPLIES	#99-176		
118607000000000	1999-06-30	157892	3334	NATIONAL CITY	$508.48	SUPPLIES	#99-176		
118607000000000	1999-06-30	157892	3334	NATIONAL CITY	$769.86	SUPPLIES	#99-176		
118607000000000	1999-06-30	157892	3334	NATIONAL CITY	$1,619.61	SUPPLIES	#99-176		
118607000000000	1999-07-31	158268	3334	NATIONAL CITY	$230.87	SUPPLIES	#99-176		
118607000000000	1999-08-19	158712	3230	MARY STEELE	$850.05	SUPPLIES	#99-176		
118607000000000	1999-08-31	159154	3334	NATIONAL CITY	$240.99	SUPPLIES	#99-176		
118607000000000	1999-08-31	159154	3334	NATIONAL CITY	$1,072.94	SUPPLIES	#99-176		
118607000000000	1999-09-17	159575	58	AMERICAN EXPRESS	$932.38	SUPPLIES	#99-176		
118607000000000	1999-09-30	160192	3334	NATIONAL CITY	$16.92	SUPPLIES	#99-176		
118607000000000	1999-10-22	160575	2595	DNG PETTY CASH	$6.84	SUPPLIES	#99-176		
				TOTAL SUPPLIES - OTHER	**$6,383.04**				
				TOTAL RATE CASE #99-176 EXPENSE @ 11/08/99	**$183,235.07**				

The Prime Group

Priority Marketing, Planning and Regulatory Support

Invoice for Services Rendered

Invoice date: June 4, 1999

To: Delta Natural Gas Company
3617 Lexington Road
R. R. #1, Box 30-A
Winchester, Kentucky 40391

Attn: Mr. John Hall

14.0 hours of consulting work by Steve Seelye @ $165.00/hr during May in assisting with the development of an amendment to the experimental alternative regulatory mechanism and in writing testimony.	$ 2,310.00
36.0 hours of consulting work by Steve Seelye @ $165.00/hr during May in preparing a cost of service study to support the rate case that Delta is preparing to file.	$ 5,940.00
57.0 hours of consulting work by Randall Walker @ $140.00/hr during May in preparing pro forma adjustments, billing analysis and determination of class load requirements to support the rate case that Delta is preparing to file.	$ 7,980.00
36.5 hours of consulting work by Martin Blake @ $200.00/hr during May in preparing of cost of money testimony to support the rate case that Delta is preparing to file.	$ 7,300.00
Total amount due for May	$23,530.00

89.5 hrs.

21,220.

PAID
JUN 14 1999
Per...........

Please remit to: The Prime Group
P.O. Box 7469
Louisville, KY 40257-7469

OK to pay
JH
6/7/99

The Prime Group, LLC
6711 Fallen Leaf • P. O. Box 7469 • Louisville, KY • 40257-7469
Phone 502-425-7882 FAX 502-326-9894

The Prime Group

Priority Marketing, Planning and Regulatory Support

RECEIVED
JUL - 6 1999

Invoice for Services Rendered

Invoice date: July 6, 1999

To: Delta Natural Gas Company
3617 Lexington Road
R. R. #1, Box 30-A
Winchester, Kentucky 40391

PAID
JUL 12 1999

Attn: Mr. John Hall

49.0 hours of consulting work by Steve Seelye @ $165.00/hr during June in answering data requests regarding the experimental alternative regulatory mechanism.	$ 8,085.00
52.0 hours of consulting work by Randall Walker @ $140.00/hr during June in answering data requests regarding the experimental alternative regulatory mechanism.	$ 7,280.00
Expenses for Alternative Regulatory Mechanism June 15 meeting in Winchester, KY 193 @ $0.325	$ 62.72
Total for Alternative Regulatory Mechanism	$15,427.72 99-046
35.5 hours of consulting work by Martin Blake @ $200.00/hr during June in preparing of cost of money testimony to support the rate case filing.	$ 7,100.00
56.0 hours of consulting work by Steve Seelye @ $165.00/hr during June in writing testimony to support the rate case filing and in finalizing the cost of service study.	$ 9,240.00
57.0 hours of consulting work by Randall Walker @ $140.00/hr during June in writing testimony to support the rate case filing and in developing the rate design for the filing.	$ 7,980.00
Expenses for Rate Case Preparation June 21 meeting in Winchester, KY 193 @ $0.325	$ 62.72
Total for Rate Case Preparation	$24,382.72 Rate Case 99-176
Total amount due for June	$39,810.44

7/6/99
OK to pay
[illegible]

The Prime Group, LLC
6711 Fallen Leaf • P. O. Box 7469 • Louisville, KY • 40257-7469
Phone 502-425-7882 FAX 502-326-9894

The Prime Group

Priority Marketing, Planning and Regulatory Support

INVOICE FOR SERVICES RENDERED

Date: August 15, 1999

Billed to: Delta Natural Gas Company, Inc.
Rural Route #1, Lexington Road
Winchester, KY 40391

Attn: Mr. John Hall

28.0 hours of consulting service @ $165/hour for Steve Seelye during July preparing responses to the second round of data requests in the alternative regulation case	$ 4,620.00	Alt Reg
19.0 hours of consulting service @ $145/hour for Randall Walker during July preparing responses to the second round of data requests in the alternative regulation case	$ 2,755.00	
3.0 hours of consulting service @ $165/hour for Steve Seelye during July working on the rate case	$ 495.00	Rate Case
2.0 hours of consulting service @ $145/hour for Randall Walker during July working on the rate case	$ 290.00	
	$8,160.00	

$785

Alternate - 99-046
Rate Case - 99-176

Please remit **$ 8,160.00** to: The Prime Group, LLC
P.O. Box 7469
Louisville, KY 40257-7469

OK to pay
JH
8/17/99

The Prime Group

Priority Marketing, Planning and Regulatory Support

Invoice for Services Rendered

Invoice date: September 3, 1999

To: Delta Natural Gas Company
3617 Lexington Road
R. R. #1, Box 30-A
Winchester, Kentucky 40391

Attn: Mr. John Hall

3.0 hours of consulting work by Randall Walker @ $140.00/hr during August in reviewing the AG's testimony in the alternative regulatory mechanism proceeding and preparing data requests for the AG witness.	$ 420.00
Sub-Total for Alternative Regulatory Mechanism	$ 420.00
17.5 hours of consulting work by Martin Blake @ $200.00/hr during August in answering data requests regarding the rate case filing.	$ 3,500.00
24.0 hours of consulting work by Steve Seelye @ $165.00/hr during August in answering data requests regarding the rate case filing.	$ 3,960.00
22.0 hours of consulting work by Randall Walker @ $140.00/hr during August in answering data requests regarding the rate case filing.	$ 3,080.00
Sub-Total for Rate Case Preparation	$10,540.00
Total amount due for August	$10,960.00

Rate Case

PAID
SEP 13 1999

OK to pay.
all to rate case.
JH
9/7/99

The Prime Group, LLC
6711 Fallen Leaf • P. O. Box 7469 • Louisville, KY • 40257-7469
Phone 502-425-7882 FAX 502-326-9894

Federal ID#
61-0891142

HISLE & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
277 E. HIGH STREET
LEXINGTON, KY 40507
606-259-3403

Delta Natural Gas
3617 Lexington Road
Winchester, KY 40391

RECEIVED
SEP 22 1999

Date	*09/21/1999*
Client No.	*30010*
Invoice No.	*3001*

Services rendered through August 31, 1999:

Received assistance from Christy Crutcher with the Attorney General's &
PSC rate case requests $ 685.34

Case 99-176

Current Amount Due	685.34
Balance Forward	0.00
Total Amount Due	$ 685.34

OK
JBrown

Rate Case

PAID
SEP 27 1999

■ The Prime Group ■

Priority Marketing, Planning and Regulatory Support

Invoice for Services Rendered

Invoice date: October 4, 1999

To: Delta Natural Gas Company
3617 Lexington Road
R. R. #1, Box 30-A
Winchester, Kentucky 40391

Attn: Mr. John Hall

10.0 hours of consulting work by Martin Blake @ $200.00/hr during September in responding to Data Requests from Commission Staff and the Attorney General regarding Delta's rate case filing and preparing data requests for Delta to submit to the Attorney General's witnesses.	$ 2,000.00
48.0 hours of consulting work by Steve Seelye @ $165.00/hr during September in responding to Data Requests from Commission Staff and the Attorney General regarding Delta's rate case filing and preparing data requests for Delta to submit to the Attorney General's witnesses.	$ 7,920.00
37.0 hours of consulting work by Randall Walker @ $140.00/hr during September in responding to Data Requests from Commission Staff and the Attorney General regarding Delta's rate case filing and preparing data requests for Delta to submit to the Attorney General's witnesses.	$ 5,180.00
Expenses for September 30 meeting 236 miles @ $0.31	73.16
Total amount due for September	~~$15,173.16~~

PAID

10/5/99
OK to pay
JH

Please remit payment to: The Prime Group, LLC
P.O. Box 7469
Louisville, KY 40257-7469

The Prime Group

Priority Marketing, Planning and Regulatory Support

Invoice for Services Rendered

Invoice date: November 2, 1999

To: Delta Natural Gas Company
3617 Lexington Road
R. R. #1, Box 30-A
Winchester, Kentucky 40391

Attn: Mr. John Hall

44.0 hours of consulting work by Martin Blake @ $200.00/hr during October in preparing rebuttal testimony, in developing cross examination questions for the Attorney General's witnesses and in preparing for and participating in the hearing in Delta's rate case.	$ 8,800.00
86.0 hours of consulting work by Steve Seelye @ $165.00/hr during October in preparing rebuttal testimony, in developing cross examination questions for the Attorney General's witnesses and in preparing for and participating in the hearing in Delta's rate case.	$14,190.00
66.0 hours of consulting work by Randall Walker @ $140.00/hr during October in developing cross examination questions for the Attorney General's witnesses and in preparing for and participating in the hearing in Delta's rate case.	$ 9,240.00

<u>Expenses for October</u>

October 26 trip to Delta 236 miles @ $0.31	73.16
October 28 trip to Frankfort 162 miles @ $0.31	50.22
October 29 trip to Frankfort 162 miles @ $0.31	50.22
Meals	25.62
Total amount due for October	$32,429.22

PAID
NOV - 8 1999

Rate Case 99-176
OK to pay
JH
11/3/99

Please remit payment to: The Prime Group, LLC
P.O. Box 7469
Louisville, KY 40257-7469

Estimated Prime Group Billings during October - December 1999 for Delta Rate Case

	Estimated Billings
Randall Walker (77 hours @ $140/hr)	$10,780
Steve Seelye (94 hrs @ $165/hr)	$15,510
Marty Seelye (53 hrs @ $200/hr)	$10,600
Total 224 hours	$36,890
Billed 11/2/99	⟨32,429⟩
Remainder Estimated	$4460

Note: The above estimate includes actual time spent preparing rebuttal testimony, preparing cross examination material, preparing for the hearing plus 2 days (8 hrs/day/person) estimated time for attending the hearing and 1 day estimated time (8 hrs/day/person) in providing assistance on the brief and other rate case related matters.

WSS
October 27, 1999

STOLL, KEENON & PARK, LLP
201 East Main Street
Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000
Tax Id # 61-0421389

July 14, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

REFERENCE: 93979
5522/105861

MATTER NAME: 1999 Rate Case

BEGINNING BALANCE	$ 0.00
TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED	825.00
TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED	0.00
BALANCE DUE	**$ 825.00**

BILL DATE: July 14, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
06/28/99	RMW	Travel to Winchester; meet with Hall and Jennings; examine and revise testimony; travel to Versailles	4.00	165.00	$ 660.00
06/29/99	RMW	Examine and revise Brown testimony; tel Hall, Bennett, Jennings	1.00	165.00	165.00
		SUBTOTAL	**5.00**		**$825.00**

DISBURSEMENTS AND SERVICE CHARGES

DATE	DESCRIPTION	AMOUNT
	SUBTOTAL	0.00
GRAND TOTAL:		$825.00

STOLL, KEENON & PARK, LLP
201 East Main Street
Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000
Tax Id # 61-0421389

August 11, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

REFERENCE: 95228
5522/105861

MATTER NAME: 1999 Rate Case

BEGINNING BALANCE	$ 0.00
TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED	627.00
TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED	49.32
BALANCE DUE	**$ 676.32**

1.186.07
99-176

10

BILL DATE: August 11, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
07/01/99	RMW	Tel Hall; arrange for delivery of Rate Application	0.50	165.00	$ 82.50
07/02/99	RMW	Arrange for delivery of application and filing requirements; tel Blackford	0.50	165.00	82.50
07/06/99	RMW	Draft Motion to Consolidate; tel Blackford, Jennings; letter to Helton with Motion to Consolidate	1.00	165.00	165.00
07/13/99	RMW	Draft Reply re Motion to Consolidate; tel Jennings and Hall; letter to Helton	1.00	165.00	165.00
07/27/99	RMW	Tel Hall re data request responses	0.30	165.00	49.50
07/28/99	RMW	Tel Hazelrigg and letter to Helton re data request response	0.50	165.00	82.50
		SUBTOTAL	**3.80**		**$627.00**

DISBURSEMENTS AND SERVICE CHARGES

DATE	DESCRIPTION	AMOUNT
06/28/99	Telephone Expense	3.30
06/28/99	Telephone Expense	0.30
06/29/99	Telephone Expense	3.30
06/29/99	Telephone Expense	1.20
07/02/99	Duplicating Charges	0.40
07/06/99	Telecopier Charges (Long Distance)	3.00
07/09/99	Travel Expense	4.65

DATE	DESCRIPTION	AMOUNT
07/09/99	Travel Expense	4.65
07/30/99	Travel Expense	18.60
07/30/99	Travel Expense	9.92
	SUBTOTAL	**49.32**
GRAND TOTAL:		**$676.32**

STOLL, KEENON & PARK, LLP
201 East Main Street
Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000
Tax Id # 61-0421389

September 17, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

REFERENCE: 97116
5522/105861

MATTER NAME: 1999 Rate Case

BEGINNING BALANCE	$ 0.00
TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED	1,204.50
TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED	113.07
BALANCE DUE	9c **$ 1,317.57**

1,186.07
99-176

BILL DATE: September 17, 1999

DELTA NATURAL GAS COMPANY
3617 LEXINGTON ROAD
WINCHESTER, KY 40391

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
08/03/99	RMW	Tel Jennings re procedural schedule	0.30	165.00	$ 49.50
08/09/99	RMW	Tel Hazelrigg re newspaper notice	0.30	165.00	49.50
08/10/99	RMW	Tel Jennings re alt reg and emergency rates issues	0.30	165.00	49.50
08/11/99	RMW	Research and draft motion for early implementation of rates; tel Hall	2.00	165.00	330.00
08/12/99	RMW	Review motion to implement rates and revise same	0.50	165.00	82.50
08/12/99	RMW	Examine data requests from AG and Staff	0.30	165.00	49.50
08/17/99	RMW	Tel Hazelrigg, Jennings; draft notice of filing proofs of publication and letter to Helton	1.00	165.00	165.00
08/19/99	RMW	Tel Jennings; research "gross negligence" and review file re incorporation by reference	1.00	165.00	165.00
08/20/99	RMW	Tel Hall; arrangements to file data request responses	0.30	165.00	49.50
08/23/99	RMW	Examine Responses to Data Requests; tel Hall; letter to Helton; send Responses to PSC	0.50	165.00	82.50
08/23/99	RMW	Research Admin Regs	0.50	165.00	82.50
08/31/99	RMW	Tel Goff	0.30	165.00	49.50
		SUBTOTAL	**7.30**		**$1,204.50**

DISBURSEMENTS AND SERVICE CHARGES

DATE	DESCRIPTION	AMOUNT
07/08/99	Telephone Expense	5.37
07/09/99	Telephone Expense	2.34
07/19/99	Telephone Expense	0.30
07/19/99	Telephone Expense	0.90
07/26/99	Telephone Expense	0.30
07/26/99	Telephone Expense	12.30
07/26/99	Telephone Expense	0.60
07/28/99	Duplicating Charges	0.50
08/02/99	Telephone Expense	5.40
08/03/99	Telecopier Charges (Long Distance)	4.00
08/03/99	Telephone Expense	2.10
08/03/99	Telephone Expense	0.60
08/03/99	Telephone Expense	2.40
08/10/99	Telephone Expense	7.50
08/11/99	Duplicating Charges	0.40
08/11/99	Telecopier Charges (Long Distance)	4.00
08/17/99	Duplicating Charges	2.80
08/18/99	Duplicating Charges	36.00
08/20/99	Travel Expense	4.96
08/20/99	Telephone Expense	0.60
08/23/99	Duplicating Charges	0.50
08/24/99	Duplicating Charges	0.60
08/27/99	Travel Expense	18.60
	SUBTOTAL	**113.07**
GRAND TOTAL:		**$1,317.57**

STOLL, KEENON & PARK, LLP
201 East Main Street
Suite 1000
Lexington, Kentucky 40507-1380
(606) 231-3000
Tax Id # 61-0421389

October 25, 1999

Delta Natural Gas Company
Attn: Glenn R. Jennings, President
3617 Lexington Road
Winchester, KY 40391

REFERENCE: 98349
5522/105861

MATTER NAME: 1999 Rate Case

BEGINNING BALANCE	
DATE LAST PAYMENT RECEIVED	
TOTAL FEES FOR PROFESSIONAL SERVICES PER ATTACHED	$4,687.50 1.186.07
TOTAL CHARGES FOR EXPENSES AND OTHER SERVICES PER ATTACHED	$75.77
BALANCE DUE	$4,763.27

BILL DATE: October 25, 1999

Delta Natural Gas Company
Attn: Glenn R. Jennings, President
3617 Lexington Road
Winchester, KY 40391

DATE	IND	DESCRIPTION OF SERVICE	HOURS	RATE	AMOUNT
09/01/99	RMW	Tel Hall, Walker, Goff re data request response	1.00	165.00	$ 165.00
09/08/99	RMW	Tel Seelye re data request objections	0.30	165.00	49.50
09/09/99	RMW	Tel Jennings re PSC issues	0.50	165.00	82.50
09/13/99	RMW	Tel Hall office; ltr to Helton; file data request responses	0.50	165.00	82.50
09/15/99	RMW	Tel Jennings, Hall, Goff, Seelye; examine PSC data request; conf Camenisch	1.50	165.00	247.50
09/16/99	RMW	Review file; research PSC regs and Open Records Act; draft and revise motion for confidential treatment; draft objection to 9/14 Order; tel Seelye	2.00	165.00	330.00
09/17/99	RMW	Conf Camenisch; tel Hall, Seelye re data requests	1.00	165.00	165.00
09/27/99	RMW	Tel Hall; review file and organize material	2.00	165.00	330.00
09/28/99	RMW	Review and organize file; review testimony for data requests	5.00	165.00	825.00
09/29/99	MMS	Locate pleadings and copy orders for Robert Watt.	0.30	60.00	18.00
09/29/99	RMW	Review and analyze testimony	5.00	165.00	825.00
09/30/99	RMW	Meet with Jennings, Hall, Brown, Seelye re data requests, rebuttal, cross, settlement, etc. at Delta	9.50	165.00	1,567.50
		SUBTOTAL	**28.60**		**$4,687.50**

DISBURSEMENTS AND SERVICE CHARGES

DATE	DESCRIPTION	AMOUNT
09/03/99	Travel Expense	18.60
09/03/99	Travel Expense	10.85
09/13/99	Duplicating Charges	0.40
09/16/99	Telecopier Charges (Long Distance)	3.00
09/17/99	Travel Expense	9.30
09/17/99	Telecopier Charges (Long Distance)	3.00
09/29/99	Duplicating Charges	2.10
09/30/99	Travel Expense	9.92
09/30/99	Travel Expense	18.60
	SUBTOTAL	**75.77**
GRAND TOTAL:		**$4,763.27**

APCo.

The Advocate Publishing Co., Inc.
214 Knox St. • P.O. Box 190 • BARBOURVILLE, KY. 40906
606-546-9225

	PAGE
6	1

STATEMENT

DELTA GAS
3617 LEXINGTON ROAD
WINCHESTER, KY 40391-9797

1-800-432-0771

ACCOUNT NO.
000373

STATEMENT DATE
07/31/99

FINANCE CHARGE is computed by a Periodic Rate of 1½% per month which is an **ANNUAL PERCENTAGE RATE** of 18% applied to previous balance less current payments and or credits

CODES I=INVOICE DR=DEBIT MEMO CR=CREDIT MEMO BF=BALANCE FORWARD P=PAYMENT DA=DISCOUNT ALLOWED FC=FINANCE CHARGE

DATE	CODE	REFERENCES	APPLY TO	PURCHASE ORDER NO.	CHARGES	CREDITS	BALANCE
07/30/99	I	64516	64516		724.50		724.50

Okay - New
C+P Info
Rate Filing

OK RW

RECEIVED
AUG - 6 1999

PRICE
.00
24.50

EASE RETURN STATEMENT STUB
EN MAKING PAYMENT THANK YOU

RRENT	31-60 DAYS	61-90 DAYS	OVER 90 DAYS
724.50	.00	.00	.00

PLEASE PAY 724.50

10

THANK YOU FOR YOUR ORDER

TERMS: Full payment due upon receipt of this invoice. Balances past due 30 days are subject to 1½% service charge per month.

SALE AMOUNT	724.50
MISC. CHARGES	.00
SALES TAX	.00
FREIGHT	.00

up Co.

INVOICE

DATE	NUMBER	PAGE
07/30/99	64516	1

...vocate Publishing Co., Inc.
...ox St. • P.O. Box 190 • BARBOURVILLE, KY. 40906
606-546-9225

OLD TO: DELTA GAS
3617 LEXINGTON ROAD
WINCHESTER, KY 40391-9797

SHIP TO: DELTA GAS
3617 LEXINGTON ROAD
WINCHESTER, KY 40391-9797

ORDER NO.	ORDER DATE	CUSTOMER NO.	SALESMAN NO.	PURCHASE ORDER NO.	SHIP VIA	SHIP DATE	TERMS
66665	07/30/99	000373	011		NO SHIP VIA	ASAP	NET 30

QUANTITY ORDERED	QUANTITY TO SHIP	QUANTITY BACK ORDERED	ITEM NO.	ITEM DESCRIPTION	UNIT PRICE	EXTENDED PRICE
1	1			*ADVERTISING JULY 1,8,15 @ 40.25"EA	.00 EA	.00
1	1			*ADVERTISING TOTAL= 120.75"@ 6.00	724.50 EA	724.50

THANK YOU FOR YOUR ORDER

TERMS: Full payment due upon receipt of this invoice. Balances past due 30 days are subject to 1½% service charge per month.

SALE AMOUNT	724.50
MISC. CHARGES	.00
SALES TAX	.00
FREIGHT	.00
TOTAL	724.50

Bath County News-Outlook
P.O. Box 577
Owingsville, KY 40360
Phone: 606-674-2181

Invoice

DATE	INVOICE NO.
08/05/99	16826

BILL TO

Delta Natural Gas
3617 Lexington Road
Winchester, KY 40391

DUE DATE	AMOUNT DUE	AMOUNT ENC.
09/05/99	425.25	

DATE	DESCRIPTION	QTY	RATE	AMOUNT
8-5-99	Classified display ran 7-1,8,15-99	121.5	3.50	425.25

Okay-Mac c+p ... Pat file 8

OK | Rul

RECEIVED
AUG 1 0 1999

PAID
SEP - 1 1999

Total $425.25

Date	Transaction	Amount	Balance
/30/99	Balance forward		0.00
07/01/99	INV #478 - 100th Edition	140.00	140.00
07/01/99	INV #623 - Legal Notice	182.25	322.25

*okay - Nell
C + P Info - Rate filing -
(2 notices free due to not publishing on requested dates)

Rate Case

RECEIVED OK/Un
AUG - 3 1999

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
322.25	0.00	0.00	0.00	0.00	$322.25

BEREA CITIZEN / POST OFFICE BOX 207 / BEREA, KY 40403 / (606) 986-0959

...bers.
We plan two trips of interest in our ...tral Kentucky area — one in October and one in April.
We do not limit our membership number or in any other category. ...welcome all women from the ...a vicinity.
We enjoy fellowship, educating, entertaining with our programs, our coming together as friends. If ...are not invited by some members ...e club, call a member and indicate your interest.
Officers for 1999-2000 are: ...Wesley, President; Barbara ...d, Vice President; Dorothy ...ves, Recording Secretary; Joan ...s, Corresponding Secretary; June ...g, Treasurer and Past President, ...red Hart.

mouse swallowing a lion."

This statement was made because Berea was much larger than the small communities Delta had served to that point.

Confidence and the desire to seize an opportunity which Delta exhibited in first serving Berea would continue to be Delta's trademark.

Delta has grown from humble beginnings, an outgrowth of Power Line Construction Company, to a company with almost 39,000 customers, 2,000 miles of pipeline and operations in 20 Kentucky counties.

Delta is now a $100 million investor-owned utility with shares traded on the NASDAQ National Market System.

0.00

.../99	Balance forward			270.00
07/31/99	L/N - Rate Adj. Notice (3)	270.00		270.00

Okay - Nell
as of Info
Rate filing

OK/Run

RECEIVED
AUG - 6 1999

PAID

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
270.00	0.00	0.00	0.00	0.00	$270.00

THE CENTRAL RECORD / P.O. BOX 800 / LANCASTER, KY 40444 / PH (606) 792-2831 FAX (606) 792-3448

118179 (4/99)

...Property on Hammonds Rd. off Fall Lick.....10-99
...rd & Wilma Cornelius Farm on Fall Lick Road.....1-00
...dith C. Kirby Shearer Farm - U. S. 27 & Hwy 1355.....3-00
...lia Kash Rowand - Lots 8 & 9 Tranquil Hills Subdivision
...Off Bryants Camp Road.....4-00
...elen H. Corman Farm - Highway 1355, Sugar Creek Road.....2-00
...erett Logan Farm - Nina Ridge Road.....3-00
...ie V. Long Farm, Kelly Ridge.....3-00
...vight Logan & Doug Ellis Farm, Kelly Ridge.....3-00
...elyn Cotton, Property on Hurt Lane & 1295.....11-99
...nes Hamilton, Property on 1295 & Perry Rogers Road.....11-99
...ie & Bonita Edgington Property in Mt. Hebron Area.....5-00
...my C. Edgington Property on Tuggle Road.....5-00
...hael & Koleta Condon former Tuttle Farm on Highway 1355
...t Three Forks & Dr. Grubbs Farm - Three Forks North.....9-99
...non C. Montgomery Farm on Sugar Creek Road
... two farms on Mt. Hebron Road.....8-99
...by Montgomery Farm on Thompson Rd. & Crab Orchard Rd.....8-99
...vard C. Wuskell Farms - Old Richmond Road
...outh 2.39 South, Stingy Creek Road.....9-98
...nie E. Prewitt, 1225 North Highway 27 (100 Acres).....2-99
...ics Farm - 200 Isaacs Road.....9-00
...y Clark Farm, 1201 Lexington Road.....11-99
... Whittaker Farm - Tom Murphy Road At Buckeye.....1-00
...a Robinson Farm - 613 High Bridge Road.....3-00
...lor Farm - Locust Lane.....4-00
...ny & Nancy Robinson Farm - 107 Ben Naylor Road.....3-99
... Miracle property on Old Danville Road.....4-99
... Mrs. Sam Laurla property on Mt. Hebron Road
(formerly Joe Broaddus Farm).....4-00
...d and Patricia Lane's Farm, 1029 Mt. Hebron Road.....5-99
...nia May Farms.....6-99
...a Broaddus Farm, Sugar Creek Road.....6-99

... Lane & Back Creek.....3-99
J.B. Long Farms, 438 Long Branch Road, Lancaster.....10-99
- Robert & Mae Collett Farm, 1625 Harmon's Lick.....5-99
- Jeffrey & Kim Black's Farm - Sugar Creek Road.....12-99
- Bobby Leavell - 2 farms - 84 acres on Hwy 39 Crab Orchard Rd & 23 acres on Fall Lick Road.....7-99
- Elmer Wilmot Farm - Copper Creek Road.....7-99
- Dudley And Tammy Hacker Farms on J & V Lane, Sugar Creek, Wolf Trail, Crab Orchard Road.....8-99
- Kenneth Land Farm, 893 Richmond Road.....9-99
- Jeff & Vontella Peak Property, 570 Conn Lane.....9-99
- Danny Browning Property, 606 Conn's Lane.....10-99
- William Carpenter Property, Lamb Black Road.....10-99
- Billy Day Property, Flatwoods Road.....10-99
- George Day Property, Hamilton Valley Road.....10-99
- Bobby Preston Property, Back Creek - Nina Ridge.....10-99
- Samuel Clark Farm, Jim Clark Road.....11-99
- Paul & Kathy Tuggle Farm, Jim Clark Road.....11-99
- Alex Helton Jr. & Mollie Helton Farm, Dripping Springs Road.....12-99
- Melissa Helton Farms - Harmons Lick/Dripping Springs Road.....12-99
- McKinley Bishop & Freda Bishop, 1690 Dripping Springs Road.....2-00
- Robert S. East, 379 Canoe Creek.....2-00
- Rebecca & Mitchell Joseph Estate property off Fall Lick Road behind Estes Drive.....3-00
- Edmund C. McNulty and Kymillo VanOuter property at 1650 Danville Road.....4-00
- Homer Lee Farm, Mt. Hebron Road near KY River.....4-00
- Charles & Betty Scott Property Between Hill-n-Dale And Lynnwood Drive.....4-00
- Richard and Teresa Jenkins, property off Mt. Hebron and Bill Layton Road.....5-00
- Jim Bailey Farms, 152acres on Highway 27 - 8 miles north of Lancaster and 132 acres on Highway 753.....7-00
- Eddie & Janet Hasty Farms - end of Jim Clark Road off Sugar Creek and Jack Black Road.....7-00

PHONE (606) 987-1870

THE BOURBON COUNTY CITIZEN

The Citizen-Advertiser

INCORPORATED

"A Voice of the Blue Grass Since 1807"

123 W. Eighth Street — P. O. Box 158 ☐ Paris, Kentucky 40362-0158

Delta Natural Gas
3616 Lexington Rd.
Winchester, Ky. 40391-9997
attn: Neil C. Waller

STATEMENT

All Accounts Due Upon Presentation of Statement

June 30	2 x 14 3/4	$ 175.23
July 7-14-	2 x 14 3/4 @ 175.23	350.46
		$ 525.69

RECEIVED
JUL 19 1999

7-14-99
Okay Steve
c+p Rate Filing 8

OK

CITIZEN VOICE, INC
PO BOX 660
IRVINE KY 40336-0660

606-723-5161 EXT 25

INVOICE-STATEMENT

DATE

7/31/1999

BILL TO

DELTA GAS
NELLE WALLER
3617 LEXINGTON RD
WINCHESTER KY 40391
261

TERMS	AMOUNT DUE
Due on receipt	$628.56

DATE	DESCRIPTION	QTY/COL INC...	RATE	AMOUNT	BALANCE
06/30/1999	Balance forward				0.00
07/01/1999	Legal Ads/NOTICE	36	5.82	209.52	209.52
07/08/1999	Legal Ads/NOTICE	36	5.82	209.52	419.04
07/15/1999	Legal Ads/NOTICE	36	5.82	209.52	628.56

Okay - Nec c/s Rate filing

OK/RW

RECEIVED
AUG - 9 1999

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
628.56	0.00	0.00	0.00	0.00	$628.56

CLAY CITY TIMES

PO BOX 547
STANTON KY 40380-0547

606-723-5161/EXT 25

INVOICE-STATEMENT

DATE

7/31/1999

BILL TO

DELTA GAS
NELLE WALLER
3617 LEXINGTON ROAD
WINCHESTER KY 40391
301

TERMS	AMOUNT DUE
Due on receipt	$564.21

DATE	DESCRIPTION	QTY/COL INC...	RATE	AMOUNT	BALANCE
06/30/1999	Balance forward				~~64.35~~
07/01/1999	CCT Legal Display/BUDGET	36	5.82	209.52	145.17
07/08/1999	CCT Legal Display/BUDGET	36	5.82	209.52	354.69
07/15/1999	CCT Legal Display/BUDGET	36	5.82	209.52	564.21

OK

RECEIVED
AUG - 9 1999

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
564.21	0.00	0.00	0.00	0.00	~~$564.21~~ 628.56

FLEMINGSBURG GAZETTE

PO BOX 32
FLEMINGSBURG KY 41041-0032

606-723-5161/EXT 25

INVOICE-STATEMENT

DATE

7/31/1999

TO:

DELTA GAS
NELLE WALLER
3617 LEXINGTON RD
WINCHESTER KY 40391-9797
219

TERMS	AMOUNT DUE
Due on receipt	$157.50

DATE	DESCRIPTION	QTY/COL INC...	RATE	AMOUNT	BALANCE
06/30/1999	Balance forward				157.50
07/07/1999	Legal Display/NOTICE	1	157.50	157.50	315.00
07/13/1999	PMT #157262			-157.50	157.50

Okay - Need C + P Info Rate filing

OK/RW

RECEIVED AUG 1 1 1999

PAID AUG 2 3 1999

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
157.50	0.00	0.00	0.00	0.00	$157.50

FLEMINGSBURG GAZETTE

PO BOX 32
FLEMINGSBURG KY 41041-0032

606-723-5161/EXT 25

INVOICE-STATEMENT

DATE

6/30/1999

TO:

DELTA GAS
NELLE WALLER
3617 LEXINGTON RD
WINCHESTER KY 40391-9797
219

TERMS	AMOUNT DUE
Due on receipt	$157.50

DATE	DESCRIPTION	QTY/COL INC...	RATE	AMOUNT	BALANCE
05/31/1999	Balance forward				60.38
06/16/1999	PMT #156297			-60.38	0.00
06/30/1999	Legal Display/NOTICE	1	157.50	157.50	157.50

7.6.99 Rate filing
Okay to pay
c+ Nelle
OK Rick
Cond Info

PAID
JUL 12 1999

RECEIVED
JUL - 6 1999

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
157.50	0.00	0.00	0.00	0.00	$157.50

10

The Jackson County Sun, Inc.

P. O Box 130
McKee, KY 40447

Invoice

DATE	INVOICE #
7/8/99	10563

BILL TO
Delta Natural Gas 3617 Lexington Road Winchester, KY 40391

P.O. NO.	TERMS	PROJECT

QUANTITY	DESCRIPTION	RATE	AMOUNT
63	legal notice	4.50	283.50

okay - Neil
c+P Info
Rate filing 7-8-99-ad
Inv #

10563 $ 283.50
10573 283.50
10538 283.50 } See next page
$ 850.50

PAID
AUG 30 1999
Per..........

Total $283.50

The Jackson County Sun, Inc.

P. O Box 130
McKee, KY 40447

Invoice

DATE	INVOICE #
7/15/99	10573

BILL TO
Delta Natural Gas 3617 Lexington Road Winchester, KY 40391

P.O. NO.	TERMS	PROJECT

QUANTITY	DESCRIPTION	RATE	AMOUNT
63	Legal Notice	4.50	283.50

Okay - Nell
C + P Info
Rate Filing
9-15-99 ad

OK |Rw

PAID
AUG 30 1999
Per...........

Total $283.50

Invoice

The Jackson County Sun, Inc.

P. O Box 130
McKee, KY 40447

DATE	INVOICE #
7/1/99	10538

BILL TO
Delta Natural Gas 3617 Lexington Road Winchester, KY 40391

P.O. NO.	TERMS	PROJECT

QUANTITY	DESCRIPTION	RATE	AMOUNT
63	Legal notice	4.50	283.50
	Okay - Rue + B Jones Rate filing - 7-1-99 ad		
	RECEIVED AUG 18 1999		
	PAID AUG 30 1999 Per..............		
	Total		$283.50

THE JESSAMINE JOURNAL

P.O. BOX 8 NICHOLASVILLE, KY 40340-0008
(606) 885-5381
(606) 887-2966 FAX
A REPUBLIC NEWSPAPER

DATE 07/31/99
ACCOUNT NUMBER 14 8

Copy No. 1

DELTA NATURAL GAS
3617 LEXINGTON ROAD
WINCHESTER KY 40391

PAGE NO. 1

REFERENCE	DATE	CODE	DESCRIPTION	AMOUNT	BALANCE
			Balance Forward		70.00
15542	07/01/99	IN	20.5 IN @ 6.25 LEGAL	128.13	198.13
15666	07/08/99	IN	20.5 IN @ 6.25 LEGAL	128.13	326.26
15805	07/15/99	IN	20.5 IN @ 6.25 LEGAL	128.13	454.39
ON ACCT	07/09/99	PD	PAID ON ACCOUNT 1,930.10	70.00	384.39
ON ACCT	07/20/99	PD	PAID ON ACCOUNT 1,930.09	~~70.00~~	314.39

384.39
Rate Case

RECEIVED
AUG - 3 1999

PAID
AUG 16 1999
Per.........

PLEASE PAY 314.39

CODES: C-CR MEMO, D-DR MEMO, P-PAYMENT, I-INVOICE, A-DISCOUNT ALLOWED, F-FINANCE CHARGE

30 DAYS	60 DAYS	90 DAYS	120 DAYS
.00	.00	.00	.00

STATEMENT

Date 7-15, 19 99

Delta Natural Gas Co, Inc.
3617 Lexington Rd.
Winchester, Ky. 40391-9797

THE LESLIE COUNTY NEWS

VERNON BAKER, Publisher

Ph. (606) 672-2841

P. O. Box 967
Hyden, Kentucky 41749

7-1-99	ad 4 x 15.50 @ 5.25			325	50
7-8-99	ad 4 x 15.50 @ 5.25			325	50
7-15-99	ad 4 x 15.50 @ 5.25			325	50
				976	50

OK

RECEIVED
JUL 19 1999

STATEMENT

Date 10-14, 1999

Delta Natural Gas Co., Inc.
3617 Lexington Road
Winchester, Ky. 40391-9797

THE LESLIE COUNTY NEWS

VERNON BAKER, Publisher

Ph. (606) 672-2841

P. O. Box 967
Hyden, Kentucky 41749

10-14-99	ad 1 x 3 @ 6.80		20	40

okay - Rate Hearing
Nell

PAID
OCT 25 1999

Lexington Herald-Leader Co.
A KNIGHT-RIDDER NEWSPAPER
100 MIDLAND AVENUE
LEXINGTON, KENTUCKY 40508-1999
(606) 231-3100

Federal Id No. 61-0259090

CLASSIFIED INVOICE

If you are paying an amount that is different from the TOTAL DUE, please explain the difference on a separate sheet and return it with your payment.
If you need to report billing errors, or have questions about your account, please call:
(606) 231-3119 or 1 800 274-7355, ext 3119
(606) 231-3122 or 1 800 274-7355, ext 3122

ACCOUNT NO.	BILLING DATE
6067446171	07/23/99

MAIL PAYMENT TO
Dept CL
The Lexington Herald-Leader Co
PO Box 300
Lexington Ky 40584-0300

DELTA NATURAL GAS CO
3617 LEXINGTON RD.
WINCHESTER, KY 40391

THANK YOU FOR YOUR BUSINESS - PLEASE KEEP THIS PART FOR YOUR RECORDS

AD NUMBER	CLASS	DESCRIPTION	REP	STARTED	STOPPED	TIMES	SIZE		AMOUNT
TR24038833	L556	NOTICE...038833	852	06/30/99	07/14/99	3	10.25IN		1934.49

7.28.99 OK to pay New Rate Filing
OK / [illegible]

RECEIVED
JUL 28 1999

PAID
AUG 2 1999
Per

THANK YOU FOR USING HERALD-LEADER CLASSIFIEDS.

TO PLACE A CLASSIFIED AD, CALL 233-7878, OR
CALL TOLL FREE, 1-800-933-7355
(M-F) 7:30 A.M. - 5:30 P.M. (SAT) 8 A.M. - NOON

TOTAL DUE	DATE DUE
$1934.49	07/30/1999

PLEASE FOLD ON DOTTED LINE TO DETACH LOWER PART

DATE	TRANSACTION	AMOUNT	BALANCE
06/30/99	Balance forward		96.05
07/01/99	INV #1469 - Adjustment to Rates	258.49	354.54
07/08/99	INV #1591 - Adjustments to Rates	258.49	613.03
07/15/99	INV #1706 - Adjustment to Rates	258.49	871.52
07/27/99	PMT #157800	-96.05	775.47

Okay - Need c/ PSC to Rate filing

OK lkw

RECEIVED
AUG - 3 1999

PAID

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
775.47	0.00	0.00	0.00	0.00	$775.47

MANCHESTER ENTERPRISE / 103 THIRD STREET / POST OFFICE BOX 449 / MANCHESTER, KY 40962

179 (4/99)

DATE	NEWSPAPER REFERENCE	DESCRIPTION-OTHER COMMENTS/CHARGES	SAU SIZE / BILLED UNITS	TIMES RUN / RATE	GROSS AMOUNT	NET AMOUNT
		PREVIOUS BALANCE			.00	.00
	LEG1	NOTICE GAS RATES	4X 12.25 49.00	1 7.800	382.20	382.20
07/01	AFF1	AFFIDAVIT CHARGE	0X 0.00 .00	1 5.000	5.00	5.00
07/08	LEG1	NOTICE GAS RATES	4X 12.25 49.00	1 7.800	382.20	382.20
07/15	LEG1	NOTICE GAS RATES	4X 12.25 49.00	1 7.800	382.20	382.20

8-3-99 Rec'd [illegible]

OK [illegible]

PAID
AUG 9 1999
Per

RECEIVED
AUG - 2 1999

STATEMENT OF ACCOUNT

AGING OF PAST DUE AMOUNTS 09

CURRENT NET AMOUNT DUE	30 DAYS	60 DAYS	OVER 90 DAYS	*UNAPPLIED AMOUNT	TOTAL AMOUNT DUE
1151.60	.00	.00	.00		1,151.60

NEW RATES EFFECTIVE SEPT. 1, 1999. SEE YOUR ADVERTISING REPRESENTATIVE FOR DETAILS.

*UNAPPLIED AMOUNTS ARE INCLUDED IN TOTAL AMOUNT DUE

	ADVERTISER INFORMATION			
	BILLING PERIOD	BILLED ACCOUNT NUMBER	ADVERTISER/CLIENT NUMBER	ADVERTISER/CLIENT NAME
7206	7/01/99- 7/31/99	1542	1542	DELTA NATURAL GAS CO

MAYSVILLE NEWSPAPERS, INC. If you have questions, please call (606)-564-9091 BILL

_DDLESBORO DAILY NEWS
P.O. Box 579
Middlesboro, Kentucky 40965-0579
Phone (606) 248-1010
Fax (606) 248-7614

INVOICE

INVOICE NO.	PAGE	BILLING DATE	BILLING PERIOD
	1	6/30/99	6/01/99 - 6/30/99

BILLED ACCOUNT

DELTA NATURAL GAS CO.
3617 LEXINGTON ROAD
WINCHESTER, KY 40391-0000

BILLED ACCOUNT NO.	ADVERTISER/CLIENT NO.
401045	

NAME OF ADVERTISER/CLIENT

FOR INVOICE INFORMATION CALL ▶ (606) 248-1010

DATE	REFERENCE NUMBER	CHARGE OR CREDITS DESCRIPTION/PRODUCT CODE	SAU/ DIMENSIONS	TIMES	BILLED UNITS	RATE	GROSS AMOUNT	NET AMOUNT
5/01		BALANCE FORWARD						135.20
6/16	MD 900	PAYMENT - THANK YOU						135.20-
6/30	MD 480	LEGAL ADS	3X14.00	1	42.00	8.45	-	354.90
	CONTRACT	SIZE PERIOD	C-TO-DATE					
	ROP CON	150.00 I	1258.01					

OK/Rw

7.12.99
Okay - Neel
C+P Dept - Rate Filing

RECEIVED
JUL - 2 1999

PAID
JUL 19 1999

AGING 30 DAYS	60 DAYS	90 DAYS	TOTAL AMOUNT DUE
.00	.00	.00	354.90

CURRENT GROSS AMOUNT	CURRENT NET AMOUNT
	354.90

AVE A GREAT DAY!!!
ILLING ??? CALL GINA @ 606-248-1010
MOUNT DUE BY 7/15/99. ACCTS NOT PAID IN 30 DAYS WILL BE CHARGED 1.5% PER MONTH,
HICH IS EQUAL TO 18.0% PER ANNUM.

DETACH AND RETURN THIS PORTION WITH YOUR PAYMENT

OTHER CHARGES/CREDIT LEGEND

DETACH AND RETURN THIS PORTION

MIDDLESBORO DAILY NEWS
P.O. Box 579
Middlesboro, Kentucky 40965-0579
Phone (606) 248-1010
Fax (606) 248-7614

INVOICE

INVOICE NO.	PAGE	BILLING DATE	BILLING PERIOD
	1	7/31/99	7/01/99 - 7/31/99

BILLED ACCOUNT

DELTA NATURAL GAS CO.
3617 LEXINGTON ROAD
WINCHESTER, KY 40391-0000

BILLED ACCOUNT NO.	ADVERTISER/CLIENT NO.
481845	

NAME OF ADVERTISER/CLIENT

FOR INVOICE INFORMATION CALL ▶ (606) 248-1010

ATE	REFERENCE NUMBER	CHARGE OR CREDITS DESCRIPTION/PRODUCT CODE	SAU/ DIMENSIONS	TIMES	BILLED UNITS	RATE	GROSS AMOUNT	NET AMOUNT
/01		BALANCE FORWARD					-	354.90
/07	MD 480	LEGAL ADS	3X14.00	1	42.00	8.45		354.90
/14	MD 480	LEGAL ADS	3X14.00	1	42.00	8.45		354.90
/20	MD 900	PAYMENT - THANK YOU						354.90-
	CONTRACT	SIZE PERIOD	C-TO-DATE					
	ROP CON	150.00 I	1258.01					

Okay Nic
P Dufo
c Rate file - 8

RECEIVED
AUG - 5 1999

OK/LWL

AGING 30 DAYS	60 DAYS	90 DAYS	TOTAL AMOUNT DUE
.00	.00	.00	709.80

CURRENT GROSS AMOUNT	CURRENT NET AMOUNT
10	709.80

CH FOR TIMEPIECES COMING SOON !!!
LING QUESTIONS CALL GINA @ 606-248-1010
UNT DUE BY 8/15/99. ACCTS NOT PAID IN 30 DAYS WILL BE CHARGED 1.5% PER MONTH,
CH IS EQUAL TO 18.0% PER ANNUM.

DETACH AND RETURN THIS PORTION WITH YOUR PAYMENT

HER CHARGES/CREDIT LEGEND

DETACH AND RETURN THIS PORTION

Tee

Advertising Statement

24

Mt. Sterling Advocate
40 S. Bank Street
P.O. Box 406
Mt. Sterling, KY 40353
Phone: (606) 498-2222

Delta Natural Gas Company, Inc.
3617 Lexington Rd.
WINCHESTER, KY 40391

Customer : 01100854-000
Phone : (606)744-6171
Date : 07/28/99
Page : 1

Date	Reference #	Type	Description	Runs	Lines	Inches	Total
07/01/99	0100064-000	i	2x13.5 legal				133.92

RECEIVED
JUL 30 1999

7.30.99
Okay-Nell
C+P Info-Rate filing
OK/NL

PAID
AUG 9 1999

Remarks

Sub Total:	133.92
Discounts:	0.00
Total Due:	133.92

Current	0.00	1-30	133.92	31-60	0.00	61-90	0.00	91+	0.00

NEWS JOURNAL
WHITLEY/CORBIN
P.O. BOX 418
[illegible]IAMSBURG, KY 40769
[illegible]) 549-0643

RECEIVED
JUL - 6 1999

INVOICE AND STATEMENT
Advertiser: DELTA NATURAL GAS CO

4202 DELTA NATURAL GAS CO
3617 LEXINGTON RD
WINCHESTER, KY 40391-9797
ATTN NELL C WALLER

BILLING DATE 06/30/99
Invoice # 49996

DATE	PAPER	ACCOUNT / RUN DETAIL	INCHES	RATE	AMOUNT
		BALANCE FROM LAST STATEMENT			178.13
06/18/99		Payment SUBSCRIPTION	0.00	0.000	-22.00
06/18/99		SUBSCRIPTION	0.00	0.000	22.00
06/18/99		Payment	0.00	0.000	-178.13
06/30/99	WHIZ	CLASSIFIED PUB NOTICE	0.00	0.000	420.00

PAID
JUL 12 1999
Per............

7.6.99 Okay late filing
[illegible]

OK [illegible]
Carl [illegible]

Will send affidavit
of Tears when
next 2 publications
finished

Should you have any questions
please call JOYCE 549-0643

CURRENT	30 DAYS	60 DAYS	90 DAYS	TOTAL
420.00	0.00	0.00	0.00	420.00

NEWS JOURNAL
WHITLEY/CORBIN
P.O. BOX 418
IAMSBURG, KY 40769
) 549-0643

INVOICE AND STATEMENT

Advertiser: DELTA NATURAL GAS CO

4202 DELTA NATURAL GAS CO
3617 LEXINGTON RD
WINCHESTER, KY 40391-9797
ATTN NELL C WALLER

BILLING DATE 07/31/99
Invoice # 50395

DATE	PAPER	ACCOUNT / RUN DETAIL	INCHES	RATE	AMOUNT
		BALANCE FROM LAST STATEMENT			178.13
06/18/99		Payment SUBSCRIPTION	0.00	0.000	-22.00
06/18/99		SUBSCRIPTION	0.00	0.000	22.00
06/18/99		Payment	0.00	0.000	-178.13
06/30/99	WHIZ	CLASSIFIED PUB NOTICE	0.00	0.000	420.00
07/07/99	WHIZ	CLASSIFIED PUB NOTICE	0.00	0.000	420.00
07/14/99		Payment	0.00	0.000	-420.00
07/14/99	WHIZ	CLASSIFIED PUBLIC NOTICE	0.00	0.000	420.00

8 8
420 x 2 = 840

7-22-99
Okay - Nell
c/DP Info - late filing

OK / Pmt

PAID
AUG 2 1999
Per.........

RECEIVED
JUL 21 1999

Should you have any questions
please call JOYCE 549-0643

CURRENT	30 DAYS	60 DAYS	90 DAYS	TOTAL
840.00	0.00	0.00	0.00	840.00

Newspaper Holdings, Inc.

22 W. First St., Morehead, KY 40351 *INVOICE / STATEMENT* 606-784-4116 or 800-247-6142

The Morehead News - Pub. 1 The Shopping News/Menifee Co. News - Pub. 2
Grayson Journal Enquirer/Olive Hill Times - Pub. 4
Greenup County News-Times - Pub. 5
The Carlisle Mercury - Pub. 6 Mercury Plus - Pub. 7

ACCOUNT NO.	INV./STMT. DATE	INVOICE/STMT. NO.
957	06/30/99	70204

BILLING PERIOD: JUNE 1999

PAYMENT TERMS NET 30 DAYS

ACCOUNT NAME:
DELTA GAS
ATTN: NELL WALLER
3617 LEXINGTON RD
WINCHESTER KY 40391

ADVERTISER CLIENT NAME: DELTA GAS

Please refer to above newspaper names and publications numbers when reading PUB (2nd) column of your statement.

TRANS. DATE	PUB	TRANS. CODE	CHARGE OR CREDIT DESCRIPTION / PRODUCT CODE	SAU / DIMENSIONS	BILLED UNITS	RATE	GROSS AMOUNT	NET AMOUNT
06/15	1	PAY	PAID ON ACCOUNT				249.38-	249.38-
06/29	1	LEG	LEGAL ADVERTISING	03X 15.50	46.50	5.250	244.13	244.13
06/30	2	LEG	LEGAL RATE	03X 15.50	46.50	3.500	162.75	162.75

7-6-99 Rate filing
Okay - Info
C P
Nee

OK/Rel
Crestfile

RECEIVED
JUL - 2 1999

PREVIOUS BALANCE	PAYMENTS/CREDITS	AMT. SUB. TO SERVICE CHG.	SERVICE CHARGE	CURRENT GROSS AMT.	CURRENT NET AMOUNT
249.38	249.38	.00	.00	406.88	406.88

CASH DISCOUNTS	ACCOUNT STATUS 0-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL NET AMOUNT DUE
.00	406.88	.00	.00	.00	406.88

THIS ACCOUNT IS DUE AND PAYABLE 30 DAYS FROM DATE OF INVOICE. A SERVICE CHARGE OF 1½% PER MONTH WILL BE CHARGED ON ACCOUNTS UNPAID 31 DAYS. ANNUAL RATE IS 18%.

CONTRACT PERFORMANCE	
EXPIRATION DATE	CURRENT MONTH
00/00/00	.00
REQUIREMENT	CUMULATIVE
0	.00

RETAIN FOR YOUR FILE

THANK YOU FOR YOUR BUSINESS. IF YOU HAVE ANY QUESTIONS ABOUT YOUR STATEMENT, PLEASE CALL.

ny, Inc. ... Delta Natural Gas Com... rates reflect a ... per ... customer

Newspaper Holdings, Inc.

... St., Morehead, KY 40351 INVOICE / STATEMENT 606-784-4116 or 800-247-6142

Morehead News - Pub. 1 The Shopping News/Menifee Co. News - Pub. 2

Grayson Journal Enquirer/Olive Hill Times - Pub. 4

Greenup County News-Times - Pub. 5

The Carlisle Mercury - Pub. 6 Mercury Plus - Pub. 7

ACCOUNT NO.	INV./STMT. DATE	INVOICE/STMT. NO.
957	07/31/99	80222

BILLING PERIOD: JULY 1999

PAYMENT TERMS NET 30 DAYS

ACCOUNT NAME: DELTA GAS
ATTN: NELL WALLER
3617 LEXINGTON RD
WINCHESTER KY

Please refer to above newspaper names and publications numbers when reading PUB (2nd) column of your statement.

ADVERTISER CLIENT NAME: DELTA GAS

TRANS. DATE	PUB	TRANS. CODE	CHARGE OR CREDIT DESCRIPTION / PRODUCT CODE	SAU / DIMENSIONS	BILLED UNITS	RATE	GROSS AMOUNT	NET AMOUNT
07/20	1	PAY	PAID ON ACCOUNT				406.88-	406.88-
07/06	1	LEG	LEGAL ADVERTISING	30X 15.50	46.50	5.250	244.13	244.13
07/07	2	LEG	LEGAL RATE	30X 15.50	46.50	3.500	162.75	162.75
07/13	1	LEG	LEGAL ADVERTISING	30X 15.50	46.50	5.250	244.13	244.13
07/14	2	LEG	LEGAL RATE	30X 15.50	46.50	3.500	162.75	162.75

Okay-Nell
CSP Dup.
Rate filing

OK/Nell

RECEIVED
AUG - 6 1999

PREVIOUS BALANCE	PAYMENTS/CREDITS	AMT. SUB. TO SERVICE CHG.	SERVICE CHARGE	CURRENT GROSS AMT.	CURRENT NET AMOUNT
406.88	406.88	.00	.00	813.76	813.76

CASH DISCOUNTS	ACCOUNT STATUS 0-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL NET AMOUNT DUE
.00	813.76	.00	.00	.00	813.76

THIS ACCOUNT IS DUE AND PAYABLE 30 DAYS FROM DATE OF INVOICE. A SERVICE CHARGE OF 1½% PER MONTH WILL BE CHARGED ON ACCOUNTS UNPAID 31 DAYS. ANNUAL RATE IS 18%

RETAIN FOR YOUR FILE

CONTRACT PERFORMANCE	
EXPIRATION DATE	CURRENT MONTH
00/00/00	.00
REQUIREMENT	CUMULATIVE
0	.00

606-784-6868

PAGE B-2

Delta Gas

DATE	TRANSACTION	AMOUNT	BALANCE
			0.00
06/30/99	Balance forward		
07/01/99	INV #155 - Notice-Rates	~~396.00~~	396.00
07/08/99	INV #184 - Notice-Rates 258.49	~~396.00~~	792.00
07/15/99	INV #211 - Notice-Rates	~~396.00~~	1,188.00
			775.47

Rate filing

D – they agreed to a revision / Bob

RECEIVED
AUG - 9 1999

PAID
AUG 1 6 1999

CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	AMOUNT DUE
1,188.00	0.00	0.00	0.00	0.00	775.47 ~~$1,188.00~~

PINEVILLE SUN / POST OFFICE BOX 250 / PINEVILLE, KY 40977 / (606) 337-2333

3179 (4/99)

Residen[illegible] $ 18.36 [illegible] 6.4918 per Mcf
Small Commercial $ 25.00

18.00% ANNUAL SERVICE CHARGE ON PAST DUE BALANCES

ACCOUNT STATUS AS OF THIS BILLING

CURRENT	OVER 30 DAYS	OVER 60 DAYS	OVER 90 DAYS	BALANCE NOW DUE
722.52	0.00	0.00	0.00	722.52

DATE	ORDER #	DESCRIPTION	ED	CL	DEPTH	SIZE	RATE	AMOUNT
*BA 0	Bal Fwd	BALANCE FORWARD						240.84
JUL 7	04531597	3X12 LEGAL NOTICE RR	RR			36.00	6.69	240.84
JUL 14	04531597	3X12 LEGAL NOTICE RR	RR			36.00	6.69	240.84
		TOTAL DUE						722.52

okay-Neel
c.s/P Info
Rate filing

OK/Rsl

THE RICHMOND REGISTER

RECEIVED
AUG - 6 1999

PAST DUE

PAID
AUG 1 6 1999
Per.........

THE RICHMOND REGISTER
P.O. BOX 99 • 380 BIG HILL AVENUE • RICHMOND, KY 40475 (606) 623-1669

PAY THIS AMOUNT 722.52

...nt selected ... in both urban and rural settings ...fficials in both urban and rural settings ...serve as liaison between court officials ...tral administrative office. ...ate of a college or university with a ...in accounting, or an equivalent ...ation of related training and ...nce. Entry salary is $1,819.00 per ... and includes all state benefits. Salary ...nsurate with experience. Send resume ...than 4:30p July 13, 1999 to:

Ms. DJ Simpson, Manager
...ministrative Office of the Courts
Division of Court Services
100 Millcreek Park
Frankfort, KY 40601

Interruptible
Industrial $(222.60) or (5.4)%
On-System Transportation

The rates contained in this notice are the rates proposed by Delta Natural Gas Company, Inc. However, the Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for consumers other than the rates included in this notice.

Notice is further given that any corporation, association, body politic or person with a substantial interest in the matter may request leave to intervene by motion within 30 days after notice of the proposed rate changes is given. The motion shall be submitted to the Public Service Commission, 730 Schenkel Lane, PO Box 615, Frankfort, Kentucky 40602, and shall set forth the grounds for the request, including the status and interest of the party. Any person who has been granted intervention may obtain copies of the rate application and testimony by contacting John F. Hall, Delta Natural Gas Company, Inc., at the address and telephone number shown below. A copy of the application and testimony shall be available for public inspection at the office of Delta Natural Gas Company, Inc. or the Public Service Commission at the addresses and telephone numbers shown below.

Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391
606-744-6171

Public Service Commission
730 Schenkel Lane, PO Box 615
Frankfort, KY 40602
502-564-3940

Delta Natural

PLEASE DETACH AND RETURN UPPER PORTION WITH YOUR REMITTANCE

PAPER REFERENCE	DESCRIPTION-OTHER COMMENTS/CHARGES	SAU SIZE BILLED UNITS	TIMES RUN RATE	GROSS AMOUNT	NET AMOUNT
	PREVIOUS BALANCE				84.94
001 PLG P1SE	PAYMENT - THANK YO CK-156664				84.94-
001 LEG I	RATES	5.0x17.0	1		
	SE	85.0	5.570	473.45	473.45
	------ ACCOUNT SUMMARY ------				
	PAYMENTS 84.94-				
	ADJUSTMENTS				
	DISCOUNTS				
	CHARGES 473.45				
	SALES TAXES				
SALES REP	KATHY JONES				

OK/Rvtr

7.12.99

Okay-Noel
C+P-Info - Rate filling

RECEIVED
JUL - 7 1999

PAID
JUL 1 9 1999

EMENT OF ACCOUNT AGING OF PAST DUE AMOUNTS

CURRENT NET AMOUNT DUE	30 DAYS	60 DAYS	OVER 90 DAYS	UNAPPLIED AMOUNT	TOTAL AMOUNT DUE
473.45	0.00	0.00	0.00		473.45

.e Sentinel-Echo

123 W. Fifth St. • P.O. Box 830, London, Ky. 40741
Phone 606-878-7400 • Fax 606-878-7404

	BILLING PERIOD	BILLED ACCOUNT NUMBER	ADVERTISER/CLIENT NUMBER	ADVERTISER/CLIENT NAME
1848	JUNE, 1999	010943	010943	DELTA NATURAL GAS

PLEASE DETACH AND RETURN UPPER PORTION WITH YOUR REMITTANCE

DATE	NEWSPAPER REFERENCE	DESCRIPTION-OTHER COMMENTS/CHARGES	SAU SIZE BILLED UNITS	TIMES RUN RATE	GROSS AMOUNT	NET AMOUNT
5/30		PREVIOUS BALANCE				473.45
7/20	001 PLG P1SE	PAYMENT - THANK YO CK-157603				473.45-
7/07	001 LEG I	RATES	5.0x17.0	1		
		SE	85.0	5.570	473.45	473.45
7/[illegible]	002 LEG I	RATES	5.0x17.0	1		
		SE	85.0	5.570	473.45	473.45

------ ACCOUNT SUMMARY ------

PAYMENTS	473.45-
ADJUSTMENTS	
DISCOUNTS	
CHARGES	946.90
SALES TAXES	

SALES REP: KATHY JONES

Okay - Neil
[illegible] Info
Rate Filing

RECEIVED
AUG - 5 1999

[illegible]

PAID
AUG 16 1999

STATEMENT OF ACCOUNT AGING OF PAST DUE AMOUNTS

CURRENT NET AMOUNT DUE	30 DAYS	60 DAYS	OVER 90 DAYS	* UNAPPLIED AMOUNT	TOTAL AMOUNT DUE
946.90	0.00	0.00	0.00		946.90

The Sentinel-Echo
123 W. Fifth St. • P.O. Box 830, London, Ky. 40741
Phone 606-878-7400 • Fax 606-878-7404

	BILLING PERIOD	BILLED ACCOUNT NUMBER	ADVERTISER/CLIENT NUMBER	ADVERTISER/CLIENT NAME
2226	JULY, 1999	010943	010943	DELTA NATURAL GAS

			$ 18.36
All Others	$ 25.00		$ 25.00
1 - 200 Mcf	$ 2.7212	$3.7706	$ 6.4918 per Mcf
200 - 1,000 Mcf	$ 2.5000	$3.7706	$ 6.2706 per Mcf
1,000 - 5,000 Mcf	$ 2.1000	$3.7706	$ 5.8706 per Mcf
5,000 - 10,000 Mcf	$ 1.5000	$3.7706	$ 5.2706 per Mcf
Over 10,000 Mcf	$ 1.1000	$3.7706	$ 4.8706 per Mcf
Interruptible			
Monthly Customer Charge	$200.00		$200.00
1 - 1,000 Mcf	$ 1.7000	$3.7706	$ 5.4706 per Mcf
1,001 - 5,000 Mcf	$ 1.3000	$3.7706	$ 5.0706 per Mcf
5,001 - 10,000 Mcf	$ .9000	$3.7706	$ 4.6706 per Mcf
Over 10,000 Mcf	$ .5000	$3.7706	$ 4.2706 per Mcf

The proposed rates to be charged in all territories served by Delta Natural Gas Company, Inc. are as follows:

PROPOSED RATES

097126

INVOICE

Sold To Delta Natural Gas				
Address				
City, State, Zip				
~~Ship To~~ From: Three Forks Tradition				
Address PO Box 557				
City, State, Zip Beattyville Ky 41311				
Customer Order No.	Sold By	Terms	F.O.B.	Date

ORDERED	SHIPPED	DESCRIPTION	PRICE	UNIT	AMOUNT
6-30		3X17	$30		150 –
7-7		3X17			150 –
7-14		3X17			150 –
					$450 –

7-22-99 Rec'd Okay for Payment

OK / RLW

RECEIVED
JUL 2 2 1999

PAID
AUG 2

Adams DC5848

6/30/99

THE TIMES-TRIBUNE
201 NORTH KY STREET
P O BOX 516
CORBIN KY 40702-0516

INVOICE/STATEMENT
Copy No. 1
Page No. 1

CUST# 541 07

DELTA NATURAL GAS
ATTN: JEFF STEELE
3617 LEXINGTON RD.
WINCHESTER KY 40391

INVOICE	DATE	DESCRIPTION	QUANTITY	RATE	TAX	AMOUNT
******	FOR PROMPT CREDIT TO YOUR ACCOUNT,			******		
******	PLEASE INCLUDE STATEMENT CARBON COPY			******		
				BALANCE FORWARD		.00
5061702	06/30/99	LEGAL AD TT	39.00I	7.1700	.00	279.63

OK/RW

7.12.99
Okay-Mae
C & P Info-Rate Filing

PAID
JUL 19 1999

RECEIVED
JUL - 7 1999

CURRENT	30 DAYS	60 DAYS	90 DAYS	PLEASE PAY -->	279.63
279.63	.00	.00	.00		

/99

THE TIMES-TRIBUNE
201 NORTH KY STREET
P O BOX 516
CORBIN KY 40702-0516

INVOICE/STATEMENT
Copy No. 1
Page No. 1

CUST# 541 07

DELTA NATURAL GAS
ATTN: JEFF STEELE
3617 LEXINGTON RD.
WINCHESTER KY 40391

INVOICE	DATE	DESCRIPTION	QUANTITY	RATE	TAX	AMOUNT
****** PLEASE INCLUDE ENCLOSED STATEMENT COPY ******						
****** FOR PROMPT CREDIT. THANK YOU ******						
				BALANCE FORWARD		279.63
5071702	07/07/99	LEGAL AD TT	39.00I	7.1700	.00	279.63
5071702	07/14/99	LEGAL AD TT	39.00I	7.1700	.00	279.63
ON ACCT	07/20/99	PAYMENT RECEIPT	.00	.0000	.00	279.63-

okay - Need Info
c+ Rate filing

OK | Rml

PAID
AUG 16 1999

RECEIVED
AUG - 4 1999

CURRENT	30 DAYS	60 DAYS	90 DAYS	PLEASE PAY ->	559.26
559.26	.00	.00	.00		

-...ITION

CLASSIFIED ADVERTISING INVOICE

The Winchester Sun

20 Wall Street P.O. Box 4300 Winchester, KY 40392 744-7253 FAX: 745-0638

DELTA NATURAL GAS COMPANY
NEE WALLER
Your Customer Number: 37

Salesperson: ALB 744-6171

Ref. No.	Ads and Charges	Start	Stop	Notice	Ref/P.O. No.			Amount
						PREVIOUS BALANCE:		0.00
171	3X13.50 RATE CHANGES Original charge- 1 insertions Ad changed or renewed Final insert. Wincheste 06/30/99	06/30/99	06/30/99	1st				~~338.17~~
						NEW CHARGES:		338.17
	Payments and Credits							

7-15-99 Kay - Nell C+P Info - Rate Filing

CLASSIFIED ADVERTISING INVOICE

The Winchester Sun

20 Wall Street P.O. Box 4300 Winchester, KY 40392 744-7253 FAX: 745-0638

DELTA NATURAL GAS COMPANY
NEE WALLER
Your Customer Number: 37
From: 06/29/99 to 07/15/99
Salesperson: ALB 744-6171

						PREVIOUS BALANCE:		338.17
Ref. No.	Ads and Charges	Start	Stop	Notice	Ref/P.O. No.			Amount
172	3X13.50 RATE CHANGES	07/07/99	07/14/99	1st				
	Original charge- 2 insertions				06/30/99			338.18
	Ad changed or renewed				06/30/99			338.16
	Issue Winchester Sun 07/07/99				07/07/99			
	Final insert. Wincheste 07/14/99				07/14/99			
					NEW CHARGES:			676.34
	Payments and Credits							

7-15-99
Okay - Neil
C+P Info-Rate Filing

OK/Rev

ionalCity®

Account number	5476 3240 1000 6276
redit Limit	$2,000.00
vailable Credit	$1,720.00
Available for Cash Advance	$1,720.00
Days in Billing Cycle	29
Statement Closing Date	06/02/99

ACCOUNT SUMMARY:

Previous Balance	$91.44
Payments/Credits	$91.44
Purchases/Debits	$159.74
Cash Advances	$0.00
Finance Charges	$0.00
Other Charges	$0.00
New Balance	$159.74

TRANSACTIONS

Tran Date	Post Date	Reference Number	Description	Amount
05/18	05/18	60410194B5F59SR34	OFFICE MAX 00008292 LEXINGTON KY	134.10
05/18	05/18	68483824AAFFND049	WM SUPERCENTER SE2 WINCHESTER KY	25.64
05/25	05/25	85482304KX2G6ADDF	PAYMENTS-THANK YOU LOUISVILLE KY	91.44CR

PSC binders, files etc. Exp

FINANCE CHARGES SUMMARY

Rate Type	MONTHLY PERIODIC RATE*	CORRESPONDING ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AVERAGE DAILY BALANCE
Current Purchases	1.450%	17.400%	$0.00	$0.00
Current Cash Advances	1.450%	17.400%	$0.00	$0.00

BLENDED ANNUAL PERCENTAGE RATE: 17.40%

*THIS RATE MAY VARY

RECEIVED
JUN - 9 1999

CUSTOMER SERVICE 1-800-282-7541

CUSTOMER SERVICE PO BOX 2349 KALAMAZOO MI 49003-2349

Notice: See reverse side for important information on your account and its renewal.

OfficeMax

JUN 21 1999

122568

SPECIAL TRANSACTION RECORD

STORE #	ASSOCIATE NAME	DATE
816	GEORGE	6-16-99

CUSTOMER NAME: DELTA NATURAL GAS COMPANY / EMILY B.

ADDRESS: 3617 LEXINGTON ROAD

CITY, STATE, ZIP: WINCHESTER, KENTUCKY 40391

CUSTOMER PHONE NUMBER: 744-6171

CUSTOMER SIGNATURE

REASON FOR RETURN (IF APPLICABLE)

SELLING STORE #	REG/TRANS #	DATE PURCHASED	METHOD OF PAYMENT

CUSTOMER NOTICE: MERCHANDISE CREDITS ISSUED CANNOT BE REPLACED IF LOST OR STOLEN.

- ☐ PAID IN: ACCT # ______
- ☐ PAID OUT: ACCT # ______
- ☐ SPECIAL ORDER SALE
- ☐ SPECIAL ORDER PAYMENT
- ☐ SPECIAL ORDER CANCEL
- ☐ POST VOID (IPV)
- ☐ FORM SALE
- ☐ C.O.D. / LEASE SALE
- ☑ C.O.D. / LEASE PAYMENT
- ☐ C.O.D. / LEASE CANCEL
- ☐ CUSTOMER CASH REFUND
- ☐ CUST. CREDIT CARD REFUND
- ☐ CUSTOMER MAIL CHECK REFUND
- ☐ MERCHANDISE CREDIT
- ☐ CUSTOMER EXCHANGE

QTY	SKU/UPC	DESCRIPTION/EXPLANATION
		EMILY, THANKS FOR
		YOUR ORDER.
		G.A. DURBIN SR.

APPROVAL

STORE / *WHITE* – CUSTOMER / *PINK*

OfficeMax #816
100 Richmond Mall
Richmond, KY 40475 (606)624-4437
ORDER BY PHONE 1-800-788-8080

DELIVERY 0816 00001 65993 06/17/99
SALE 199199 08:47 AM

STR # 122568

55009988 S P RICHARDS 479.70
30 @ $15.99

30 ITEMS SUBTOTAL 479.70
479.70 ky TAX 6.000% 28.78
TOTAL $508.48
XXXXXXXXXXXX3138 MSTRCRD 508.48

We Go to the Max For You!

Nat'l City

PSC filings labels, binders, tabs, etc
EpB

OfficeMax #829
2200 Sir Barton Way
Lexington, KY 40509 (606)263-4400
ORDER BY PHONE 1-800-788-8080

0829 00001 32126 07/01/99
SALE 640790 09:23 AM

072782260958 TABS 1.5 CLEAR 4.98
2 @ $2.49
LIST: $3.63

072782114374 INDEX MAKER STA 87.96
4 @ $21.99
LIST: $27.13

072782114176 INDEX MAKER 8-T 89.82
18 @ $4.99
LIST: $7.00

075353099865 PADDED ENV.-8-1 14.37
3 @ $4.79
LIST: $8.64

072782230784 8 TAB INDEX DIV 68.54
46 @ $1.49
LIST: $2.38

073333799866 5 EZD RING BDR 24.99
LIST: $47.70

072782111298 READY INDEX 1-3 111.84
16 @ $6.99
LIST: $8.83

90 ITEMS SUBTOTAL 402.50
402.50 ky TAX 6.000% 24.15
TOTAL $426.65
5476324010035770 MSTRCRD 426.65
CARDHOLDER: CONNIE H KING

I AGREE TO PAY ABOVE TOTAL AMOUNT
ACCORDING TO CARD ISSUER AGREEMENT.

Emily Bennett
Connie King

PSC
Rate Case
Filing Exp

OFFICE DEPOT
1555 NEW CIRCLE ROAD N.E.
LEXINGTON, KY 40509
(606) 268-4647

Associate 52 06/24/99 14:59
Store #0042 Reg #004 Tran #2684
SALE POS Version 4.00

7897317002 FILE,EXPANDI 8.99
MFG. LIST $ 11.77
7897317002 FILE,EXPANDI 8.99
MFG. LIST $ 11.77
7897318170 EX FILE 12X1 8.99
MFG. LIST $ 9.63
7897319171 EX FILE 12X1 10.49
MFG. LIST $ 12.04
2120059251 NOTES,POST-I 14.97
3 @ 4.99
MFG. LIST $ 8.33
7251205405 ERASER,MECH 2.69
MFG. LIST $ 3.60
7251205969 LEAD,PENTEL, 1.99
MFG. LIST $ 3.00
7251203705 REFILL,ERASE 1.29
MFG. LIST $ 1.60
7251203705 REFILL,ERASE 1.29
MFG. LIST $ 1.60
7251205405 ERASER,MECH 2.69
MFG. LIST $ 3.60
7278211133 1-8 TAB LASR 75.11
29 @ 2.59
MFG. LIST $ 3.68
349029 INDEX,8,WRITE-O 76.32
48 @ 1.59
MFG. LIST $ 2.38
7278223078 INDEX,8,WRIT 62.01
39 @ 1.59
MFG. LIST $ 2.38
7891080741 BINDER,DR,LB 47.96
4 @ 11.99
MFG. LIST $ 28.00
SUBTOTAL 323.78
KY 6% SALES TAX 19.43
TOTAL 343.21

ACCOUNT NUMBER 5476324010035770
EXPIRATION DATE 01/01
MASTERCARD 343.21
APPROVAL CODE 024719

CHANGE .00

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Nat'l City
MCard.

769.86

...onalCity®

Account number	5476 3240 1000 6276
Credit Limit	$2,000.00
...lable Credit	$225.00
...ilable for Cash Advance	$225.00
Days in Billing Cycle	30
Statement Closing Date	07/02/99

ACCOUNT SUMMARY:

Previous Balance	$159.74
Payments/Credits	$159.74
Purchases/Debits	$1,774.48
Cash Advances	$0.00
Finance Charges	$0.00
Other Charges	$0.00
New Balance	$1,774.48

TRANSACTIONS

rate case supplies pd 1.18607

Tran Date	Post Date	Reference Number	Description		Amount
06/03	06/03	68483824SAFP45MFH	WM SUPERCENTER SE2 WINCHESTER KY		39.09
06/02	06/03	68483824TAFNNATF9	WM SUPERCENTER SE2 WINCHESTER KY	92106	120.72
06/07	06/07	68483824YAFRY1Q72	WM SUPERCENTER SE2 WINCHESTER KY	92106	12.20
06/09	06/09	6041019515F59SRZG	OFFICE MAX 00008292 LEXINGTON KY	1 18607	104.75
06/09	06/09	6044474514JXXWDXQ	OFFICE DEPOT #42 LEXINGTON KY	1 18607	915.14
06/15	06/15	6741019575F58K3GF	OFFICE MAX 00008169 RICHMOND KY	1 18607	560.63
06/15	06/15	684505058D4QSZ1Y0	GAUNCES MARKET WINCHESTER KY	92129	21.95
06/21	06/21	85482305GX2G6AEGN	PAYMENTS-THANK YOU LOUISVILLE KY		159.74CR

Rate Case 99-176

$1,619.61

FINANCE CHARGES SUMMARY

Rate Type	MONTHLY PERIODIC RATE*	CORRESPONDING ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AVERAGE DAILY BALANCE
Current Purchases	1.450%	17.400%	$0.00	$0.00
Current Cash Advances	1.450%	17.400%	$0.00	$0.00

BLENDED ANNUAL PERCENTAGE RATE: 17.40%

*THIS RATE MAY VARY

RECEIV...
JUL 1 ... 1999

JUL 2 6 1999

CUSTOMER SERVICE 1-800-282-7541
CUSTOMER SERVICE PO BOX 2349 KALAMAZOO MI 49003-2349

Notice: See reverse side for important information on your account and its renewal.

Page 1 of 1 1421 3200 K166 0001 990702 839

5170 DAD 1 2 7

OFFICE DEPOT
1555 NEW CIRCLE ROAD N.E.
LEXINGTON, KY 40509
(606) 268-4647
06/09/99 15:17 Associate 38
Reg #004 Tran #1253 Store #0042
POS Version 4.00 SALE
READY INDEX 55.92
7278211129 1-3 279.60 159.90

OfficeMax

12 549

SPECIAL TRANSACTION RECORD

STORE # 816 | ASSOCIATE NAME GEORGE | DATE 6-15-99

NAME DELTA N GAS CO.

ADDRESS 3617 LEXINGTON ROAD

CITY, STATE, ZIP WINCHESTER, KENTUCKY 40391

CUSTOMER PHONE NUMBER

CUSTOMER SIGNATURE

REASON FOR RETURN (IF APPLICABLE)

Rate Case

SELLING STORE # | REG/TRANS # | DATE PURCHASED | METHOD OF PAYMENT

CUSTOMER NOTICE: MERCHANDISE CREDITS ISSUED CANNOT BE REPLACED IF LOST OR STOLEN.

- ☐ PAID IN: ACCT # ______
- ☐ PAID OUT: ACCT # ______
- ☐ SPECIAL ORDER SALE
- ☐ C.O.D. / LEASE SALE
- ☐ C.O.D. / LEASE PAYMENT
- ☐ C.O.D. / LEASE CANCEL

100 Richmond Mall
Richmond, KY 40475 (606)624-4437
ORDER BY PHONE 1-800-788-8080

DELIVERY 0816 00001 63030 06/15/99
SALE 199199 12:19 PM

STR # 122549

050505251018 PRESSTEX REPORT 159.90
10 @ $15.99
LIST: $25.38

072782111298 READY INDEX 1-3 279.60
40 @ $6.99
LIST: $8.83

Apr'16 072782230784 8 TAB INDEX DIV 89.40
60 @ $1.49
LIST: $2.38

110 ITEMS SUBTOTAL 528.90
528.90 ky TAX 6.000% ~~31.73~~
TOTAL $560.63
XXXXXXXXXXXX6276 MSTRCRD 560.63

We Go to the Max for You!

PSC filings Exp

OFFICE DEPOT
1555 NEW CIRCLE ROAD N.E.
LEXINGTON, KY 40509
(606) 268-4647

sociate 38 06/09/99 15:17
or 2 Reg #004 Tran #1253
.B POS Version 4.00

'8211129 READY INDEX 55.92
8 @ 6.99
MFG. LIST $ 8.83
'8211129 READY INDEX 139.80
20 @ 6.99
MFG. LIST $ 8.83
50522251 CVR,RPRT,LTR 113.70
30 @ 3.79
MFG. LIST $ 6.02
029 INDEX,8,WRITE-O 44.52
28 @ 1.59
MFG. LIST $ 2.38
187 INDEX,MARKER,8T 219.90
10 @ 21.99
MFG. LIST $ 33.43
'8211129 READY INDEX 90.87
13 @ 6.99
MFG. LIST $ 8.83
'8205164 LABEL,LASER, 27.99
MFG. LIST $ 42.01
8223078 INDEX,8,WRIT 82.68
52 @ 1.59
MFG. LIST $ 2.38
'8211437 INDEX,MARKER 87.96
4 @ 21.99
MFG. LIST $ 33.43
SUBTOTAL 863.34
6% SALES TAX 51.80
TOTAL 915.14

COUNT NUMBER 5476324010006276
PIRATION DATE 01/01
STERCARD 915.14
ROVAL CODE 009557

CHANGE .00

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OfficeMax #829
2200 Sir Barton Way
Lexington, KY 40509 (606)263-4400
ORDER BY PHONE 1-800-788-8080

PSC filings
0829 00001 00826 06/09/99
SALE 177761 03:50 PM

072782113728 LEGAL DIVIDE 26 98.82
18 @ $5.49
LIST: $9.00

Exp

18 ITEMS SUBTOTAL 98.82
98.82 ky TAX 6.000% 5.93
TOTAL $104.75
5476324010006276 MSTRCRD 104.75
CARDHOLDER: EMILY P BENNETT

I AGREE TO PAY ABOVE TOTAL AMOUNT
ACCORDING TO CARD ISSUER AGREEMENT.

Emily Bennett

Mad City MC

$ 1619.61

OfficeMax #829
2200 Sir Barton Way
Lexington KY 40509 (606)263-4400
ORDER BY PHONE 1-800-788-8080

PSC filer

0829 00001 43321 07/09/99
SALE 640790 12:58 PM

072782111298 READY INDEX 1-3 48.93
7 @ $6.99
LIST: $8.83

072782230791 8 TAB INDEX DIV 53.70
30 @ $1.79
LIST: $3.00

072782111410 READY INDEX 12 115.17
33 @ $3.49
LIST: $5.03

70 ITEMS SUBTOTAL 217.80
217.80 ky TAX 6.000% 13.07
TOTAL $230.87
5476324010025201 MSTRCRD 230.87
CARDHOLDER: CO DELTA NATURAL GAS INC

I AGREE TO PAY ABOVE TOTAL AMOUNT
ACCORDING TO CARD ISSUER AGREEMENT.

John Hall (Ep B)

RIBUTION

ius Balance	$889.52
ents/Credits	$889.52
ases/Debits	$268.35
Advances	$0.00
ce Charges	$0.00
Charges	$0.00
Balance	$268.35

	Approval	
tion	Budget Agent	Initials
176	JH	JH
	JC	JC

	Amount
Y	230.87
R KY	37.48
E KY	889.52CR

INANCE HARGE	AVERAGE DAILY BALANCE
$0.00	$0.00
$0.00	$0.00

STF

Separate Check
Manual Check

Form No. 2060
Revised 10/97

PAID
AUG 9 1999
Per

3-2349

nt information on your account and its renewal.

5170 DAD 1 15 7 **Page 1 of 1** 1421 3200 K166 0001 990722 499

Nat'l City MC

Mary Steele
rate case

OFFICE DEPOT
1555 NEW CIRCLE ROAD N.E.
LEXINGTON, KY 40509
(606) 268-4647

Associate 39 08/17/99 11:55
Store #0042 Reg #002 Tran #6357
SALE POS Version 4.01b

7278211437	INDEX,MARKER		153.93
7 @	21.99		
MFG. LIST $ 33.43			
470245	READY INDEX 1-3		83.88
12 @	6.99		
MFG. LIST $ 8.83			
470245	READY INDEX 1-3		83.88
12 @	6.99		
MFG. LIST $ 8.83			
349029	INDEX,8,WRITE-O		57.24
36 @	1.59		
MFG. LIST $ 2.38			
349029	INDEX,8,WRITE-O		76.32
48 @	1.59		
MFG. LIST $ 2.38			
470245	READY INDEX 1-3		48.93
7 @	6.99		
MFG. LIST $ 8.83			
7278211437	INDEX,MARKER		153.93
7 @	21.99		
MFG. LIST $ 33.43			
5050527101	COVER,REPORT		143.82
18 @	7.99		
MFG. LIST $ 12.70			
	SUBTOTAL		801.93
KY 6% SALES TAX			48.12
	TOTAL		850.05
ACCOUNT NUMBER	XXXXXXXXXXXX1981		
EXPIRATION DATE			09/99
VISA			850.05
APPROVAL CODE	017462		
CHANGE			.00

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DELTA NATURAL GAS COMPANY

REQUEST FOR CHECK

20 8814

Date Requested 8/17/99

Requested By Mary Steele

Approved By

Payee Mary Steele

Address

City State Zip Code

Description of Payment Supplies for rate case

Amount $850.05

Total $850.05

Form No. 18
Rev. 11/86

rate case
binders, tabs,
etc -
ZpB

OFFICE DEPOT
1555 NEW CIRCLE ROAD N.E.
LEXINGTON, KY 40509
(606) 268-4647

Associate 52 07/26/99 15:09
Store #0042 Reg #004 Tran #5251
SALE POS Version 4.00

4310015910	PPR,FILLER,W	.36
4 @	.09	
MFG. LIST $ 6.89		
470245	READY INDEX 1-3	83.88
12 @	6.99	
MFG. LIST $ 8.83		
7278203200	CARDS,BLANK,	14.99
MFG. LIST $ 17.79		
7891080912	BIND,RR,LBL,	1.99
MFG. LIST $ 4.98		
4154056224	PEN,LIQUID P	3.69
MFG. LIST $ 5.85		
30070530123280	PCL,EARTHWRI	2.99
MFG. LIST $ 9.16		
470245	READY INDEX 1-3	90.87
13 @	6.99	
MFG. LIST $ 8.83		
7278223076	WRT DIV 5TAB	1.39
MFG. LIST $ 2.18		
7278223076	WRT DIV 5TAB	11.12
8 @	1.39	
MFG. LIST $ 2.18		
7278223080	TAB,INDEX,DI	3.69
MFG. LIST $ 5.70		
4310034026	PRTFL,PCKT/P	.90
6 @	.15	
MFG. LIST $ .55		
4310015927	PPR,FILLER,C	.09
MFG. LIST $ 6.89		
4310005434	NTBK,THEME,W	1.20
MFG. LIST $ 6.70		
4310005434	NTBK,THEME,W	1.20
MFG. LIST $ 6.70		
391259	CARDS,NOTE,IVY,	8.99
MFG. LIST $ 10.99		
	SUBTOTAL	227.35
KY 6% SALES TAX		13.64
	TOTAL	240.99

ACCOUNT NUMBER 5476324010025201
EXPIRATION DATE 01/01
MASTERCARD 240.99
APPROVAL CODE 026853

CHANGE .00

Shop us online at

Nat'l City
MasterCard

OfficeMax #829
2200 Sir Barton Way
Lexington, KY 40509 (606)263-4400
ORDER BY PHONE 1-800-788-8080

0829 00004 84105 08/17/99
SALE 884233 11:20 AM

050505251018 PRESSTEX REPORT 95.94
6 @ $15.99
LIST: $25.38

072782114374 INDEX MAKER STA 505.77
23 @ $21.99
LIST: $27.13

REBATE ITEM:
072782230784 8 TAB INDEX DIV 172.84
116 @ $1.49
LIST: $2.38

072782111298 READY INDEX 1-3 83.88
12 @ $6.99
LIST: $8.83

072782111281 READY INDEX 1-3 153.78
22 @ $6.99
LIST: $8.83

179 ITEMS SUBTOTAL 1012.21
1012.21 ky TAX 6.000% 60.73
TOTAL $1072.94
5476324010025185 MSTRCRD 1072.94
CARDHOLDER: DELTA NATURAL GAS CO

I AGREE TO PAY ABOVE TOTAL AMOUNT
ACCORDING TO CARD ISSUER AGREEMENT.

Mary Steele
Rate Case

Nat'l City MasterCard

24920628 076214618-001 003 1401 990817 5700 sE preprt PC 36024 93238

Retail Page: 1

*** INVOICE ***

OFFICE DEPOT, INC.
1-888-GO-DEPOT
FAX: 1-800-685-5010

Order Nbr : 076214618-001 Ver: 003 Reg **Order Date : 17 Aug 1999 Tue**
Loc 5700: CINCINNATI CSC Delivery Date: 18 Aug 1999 Wed
Rte/Stop : 559/003 Sec: 2490 Prefer Time : 8:30 am - 5:00 pm
CSR: R119

===== Bill To ===== Ship To =====

Bill To	Ship To
00001 DELTA NATURAL GAS	DELTA NATURAL GAS 00001
3617 LEXINGTON RD	3617 LEXINGTON RD
WINCHESTER, KY 40391	WINCHESTER, KY 40391

===== Customer Information =====

Cust Nbr: 24920628
Contact : EMILY BENNETT 606-744-6171

Sku / Cust Nbr	Item Description	T	Ord Qty	Ship Qty	B/O Qty	UM	Unit Price	Total Cost
470187 AVE11437	MAKER, INDEX, 8 TAB, LA		40	40	0	PK	21.990	879.60
	Item Totals:		40	40	0			879.60

Customer Copies : 1

Delivery Chg	.00
Sub-Total	879.60
Sales Tax (6.000%)	52.78
Total Order Amount	932.38
Balance Due ------>	**.00**

date
case

Thank-you for placing your order with OFFICE DEPOT.

Payment : American Express Card **Signature** Emily Bennett
Signature is Required

Acct Nbr: 3782*******3015
Auth Nbr: 18 Exp: 04/02 Please Print

===== End of Order: 076214618-001 Ver: 003 =====

OfficeMax #829
2200 Sir Barton Way
Lexington, KY 40509 (606)263-4400
ORDER BY PHONE 1-800-788-8080

For MAPS
AG Rate case Response

0829 00001 57057 09/08/99
SALE 640790 10:24 AM

072782057961 SEE THROUGH DOT 15.96
4 @ $3.99
LIST: $5.91

4 ITEMS SUBTOTAL 15.96
15.96 ky TAX 6.000% 0.96
TOTAL $16.92
5476324010025110 MSTRCRD 16.92
CARDHOLDER: DELTA NATURAL GAS CO

I AGREE TO PAY ABOVE TOTAL AMOUNT
ACCORDING TO CARD ISSUER AGREEMENT.

Stan Billings

National City
Master Card

**** U.S. POSTAL SERVICE ****

WI??CHESTER KY 40391-9998

208428 40.00

C HORN # 06

09-02-99 14:48:58

CUSTOMER RECEIPT

109 POST VAL IMP	2.98
109 POST VAL IMP	3.86
TOTAL	6.84
CASH T	20.00
CHANGE	13.16

*** THANK YOU ***

Rate Case

DNG
Petty Cash

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of Steve Seelye
Staff Hearing Data Request

1. A monthly comparison of bad debt expense, comparing 1998 to 1999.

Answer:

See Attached.

Monthly Bad Debt Analysis
12 Months Ended 10/99 and 10/98

Month (YYYYMM)	Reserve A/C 1.144 Beginning	Charge Offs	Recoveries	Net Recoveries	Provision A/C 1.904	Reserve A/C 1.144 Ending
199711	(55,417.58)	11,586.88	(8,081.42)	(8,081.42)	(12,000.00)	(63,912.12)
199712	(63,912.12)	21,909.47	(4,838.89)	355.21	(42,000.00)	(83,647.44)
199801	(83,647.44)	30,982.02	(3,198.80)	(2,087.61)	(32,000.00)	(86,753.03)
199802	(86,753.03)	-	(2,827.14)	(1,847.24)	(12,000.00)	(100,600.27)
199803	(100,600.27)	15,477.32	(2,825.25)	(2,825.25)	(23,000.00)	(110,948.20)
199804	(110,948.20)	33,021.59	(1,783.79)	(1,541.89)	(23,000.00)	(102,468.50)
199805	(102,468.50)	34,292.15	(1,893.83)	(1,893.83)	(23,000.00)	(93,070.18)
199806	(93,070.18)	71,006.32	(3,067.73)	(3,068.08)	(94,870.00)	(120,001.94)
199807	(120,001.94)	41,790.10	(2,189.37)	(2,249.96)	(23,000.00)	(103,461.80)
199808	(103,461.80)	35,636.66	(3,117.36)	(3,560.72)	(23,000.00)	(94,385.86)
199809	(94,385.86)	21,975.61	(2,983.62)	(2,983.62)	(23,000.00)	(98,393.87)
199810	(98,393.87)	9,618.06	(13,875.01)	(13,707.77)	(23,000.00)	(125,483.58)
12 Month Total	(55,417.58)	327,296.18	(50,682.21)	(43,492.18)	(353,870.00)	(125,483.58)
199811	(125,483.58)	22,865.19	(9,664.04)	(6,298.46)	(23,000.00)	(131,916.85)
199812	(131,916.85)	4,712.27	(9,207.99)	(5,568.38)	(23,000.00)	(155,772.96)
199901	(155,772.96)	15,046.45	(4,484.64)	(2,230.16)	(23,000.00)	(165,956.67)
199902	(165,956.67)	6,499.35	(3,066.92)	(3,066.92)	(23,826.52)	(186,350.76)
199903	(186,350.76)	4,940.70	(4,303.45)	(4,303.45)	(23,000.00)	(208,713.51)
199904	(208,713.51)	20,970.11	(3,683.24)	(4,113.86)	(23,000.00)	(214,857.26)
199905	(214,857.26)	16,782.43	(1,662.28)	(671.82)	(23,000.00)	(221,746.65)
199906	(221,746.65)	43,519.38	(906.66)	(729.33)	40,441.93	(138,514.67)
199907	(138,514.67)	31,051.08	(1,525.16)	(1,525.16)	(23,000.00)	(131,988.75)
199908	(131,988.75)	23,483.12	(2,128.95)	(2,239.20)	(23,000.00)	(133,744.83)
199909	(133,744.83)	12,269.37	(3,771.55)	(3,771.55)	(23,000.00)	(148,247.01)
199910	(148,247.01)	3,529.60	(9,432.10)	(9,432.10)	(23,000.00)	(177,149.51)
12 Month Total	(125,483.58)	205,669.05	(53,836.98)	(43,950.39)	(213,384.59)	(177,149.51)

Hearing request bad debt

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of Steve Seelye
Staff Hearing Data Request

2. A copy of the Alt Reg Plan at Mississippi Power.

Answer:

See Attached.

PERFORMANCE EVALUATION PLAN
RATE SCHEDULE "PEP-1A"

APPLICABILITY

This Rate Schedule is the formula by which the retail revenue requirements of Mississippi Power Company (the Company) shall be calculated and allocated to the Company's various rate schedules subject to the jurisdiction of the Mississippi Public Service Commission (the Commission). To the extent that any provision in this Schedule may conflict with applicable statutes, said statutes shall be controlling.

ADJUSTMENTS FOR QUARTERLY PERFORMANCE EVALUATIONS

Immediately following the end of each calendar quarter during the operation of this Schedule, a determination shall be made pursuant to this section of the Schedule as to whether or not the Company's revenues should be increased, decreased, or remain the same. If it is determined that revenues should be increased or decreased, retail electric rate schedules will be adjusted in the manner and for the time period set forth in this Schedule. These adjustments will be added to or subtracted from the rate schedules previously in effect and the revised rate schedules will become effective for the first billing cycle of the fourth month following the end of each respective calendar quarter for which the determination was made (the evaluation period). The revised retail rate schedules will remain in effect until changed as provided by this Schedule or as otherwise provided by law.

The determination of whether to change revenues and, if so, the calculation of the adjustments will be made each calendar quarter as follows:

1. The twelve month ending Earned Return on Equity (EROE) for the retail jurisdiction will be determined from the Company's records in the manner set forth in Appendix "A."

2. The Benchmark Return on Equity (BROE) for the retail jurisdiction and the application thereof is set forth in Appendix "B."

3. The Company's Performance Rating will be determined based upon the performance indicators and the procedure set forth in Appendix "C."

4. The BROE and Performance Rating will be used as inputs to the "PEP-1A" Matrix, Appendix "D", to determine the allowed range for the returns on equity for the retail jurisdiction.

5. The Company's EROE will then be compared to the allowed range provided by the "PEP-1A" Matrix to determine whether revenues should be increased, decreased or remain the same. If the EROE is either higher or lower than the "PEP-1A" Matrix allowed range, then the revenue increase or decrease necessary to achieve the proper return will be calculated in accord with Appendix "E." No quarterly revenue increase or decrease, however, shall exceed two percent (2%) of the annual aggregate retail revenues of the Company during the evaluation period except as provided for under the section "Initial Evaluation." If the EROE is within the allowed range, then no adjustment to total retail revenue shall be made for that quarter.

Continued on Page 71

PERFORMANCE EVALUATION PLAN
RATE SCHEDULE "PEP-1A"

ADJUSTMENTS FOR QUARTERLY PERFORMANCE EVALUATIONS (Cont'd)

6. When it is determined that a revenue increase or decrease is necessary, changes in rate schedules will be made which reflect said increase or decrease in revenues in a manner provided in 7. below and in the section titled "Rate Design." Revised rate schedules will be filed by the Company with the Commission each time they are adjusted by this Schedule "PEP-1A" and shall then become the filed rate schedules of the Company.

7. All rate classes should be in parity, that is, all rate classes should pay rates that cover their cost of service including an appropriate return on equity. Parity shall be deemed to exist when the return on equity for each class of service (as indicated in the most recently filed cost of service study) is within a range of plus or minus ten (10) percent of the return on equity for the retail jurisdiction in total.

   The Company shall allocate revenue changes under Schedule "PEP-1A" in a manner that shall move the rate class returns on equity to parity in a manner not inconsistent with the orders of the Commission.

ADJUSTMENT CLAUSES

The Company's effective adjustment clauses will not be affected by this Schedule "PEP-1A" in any manner. The revenues received by the Company as a result of these clauses are included, however, in the Company's revenues as used in Appendix "A" to determine the Company's retail return on common equity.

RATE DESIGN

To meet the requirements of the changing business environment and the increasing competition being experienced by the Company and throughout the electric utility industry, experimental, developmental, and alternative rate schedules are appropriate tools for the Company to use to meet such requirements. Therefore, nothing in this Schedule "PEP-1A" shall be interpreted as preventing the Company from revising, adopting, and implementing rate schedules as may be appropriate and as provided by law. Any such schedules will be filed with the Commission in accordance with the procedures then in effect during the term of this Schedule.

Continued on Page 72

PERFORMANCE EVALUATION PLAN
RATE SCHEDULE "PEP-1A"

TERM

This Schedule "PEP-1A" shall be effective upon approval by the Commission beginning with the September 30, 1990, evaluation, and shall continue unless modified or terminated as provided by law. Nothing herein shall prevent the Commission, on its own motion, or the Company from proposing, in the manner provided by law, changes in this schedule at any time.

FILING PROCEDURES

On or before the fifth work day of the second month following the end of the evaluation period, the Company will submit a sworn filing including the calculation of EROE, the Company's performance rating, and Appendix "E" as the basis for the Commission's evaluation thereof. Any revised rate schedules will be filed on or before the tenth work day of the second month following the end of the evaluation period. The Commission shall, in the case of disputes over the calculation of the adjustment, or may, for other good cause shown, allow additional time for filing quarterly evaluations or rate schedules. If the Commission questions or disputes whether the calculation of the adjustment has been made strictly in accord with the Schedule "PEP-1A", it shall notify the Company in writing on or before the first work day of the third month following the quarterly evaluation date. The Commission and the Company shall work in good faith to answer any questions and resolve any disputes. If the Company and the Commission do not agree on the calculation of the adjustment by the effective date of the said adjustment, the undisputed portion of the adjustment as calculated by the Company will be put into effect. The disagreement will be resolved by the Commission by the end of the second quarter following the quarterly evaluation period. If the dispute is resolved against the Company, the Commission's position will become final. If it is resolved in whole or in part for the Company, that approved portion shall be put into effect at the beginning of the next quarter following the resolution.

HEARINGS

During the term of this Schedule "PEP-1A", each periodic revenue adjustment will be separately considered for the purpose of determining whether a hearing is required pursuant to Miss. Code Ann. Section 77-3-39(1) (Supp. 1990), and no such hearing shall be required if the amount of any separate periodic adjustment to the level of retail revenues of the utility is not a "major change" as defined in Miss. Code Ann. Section 77-3-37(8) (Supp. 1990). A hearing shall be required as provided in Miss. Code Ann. Section 77-3-2(3)(c)(ii) (Supp. 1990), if the cumulative change in any calendar year exceeds the greater of two hundred thousand dollars ($200,000.00) or four percent (4%) of the annual revenues of the utility.

Continued on Page 73

PERFORMANCE EVALUATION PLAN
RATE SCHEDULE "PEP-1A"

INITIAL EVALUATION

The initial evaluation under this Schedule "PEP-1A" shall be for the 12 month period ending September 30, 1990. The data for this 12 month period will be made up of actual historical data for the 12 months ended September 30, 1990. If a revenue adjustment is determined to be necessary by the initial evaluation, the Company's retail revenue shall be increased or decreased to the extent necessary for its retail Earned Return on Equity (EROE) to be at the midpoint of the appropriate performance category determined by the initial evaluation provided, however, the Company shall file with the initial evaluation all data necessary to fulfill the filing requirements for a major filing of at least Fifteen Million Dollars ($15,000,000), per Miss. Code Ann. Section 77-3-37 (Supp. 1990), except such requirements as may be waived by the Commission, and shall be subject to a public hearing in compliance with Miss. Code Ann. Sections 77-3-2(3)(c)(ii), - 39 (Supp. 1990).

MAJOR PLANT ADDITIONS OR MODIFICATIONS

It is recognized that a utility must from time to time construct or acquire major plant; make major modifications to existing plant; or comply with environmental laws and regulations. The addition or modification of such plant may increase significantly the Company's revenue requirements and require significant rate relief. This Schedule "PEP-1A" is not designed to handle adequately the rate increase occasioned by the major addition or modification of plant. Should the Company construct, have constructed, or purchase in place major plant or make major modifications to existing plant, the Company may file for rate or other relief outside this Schedule, but in accordance with the law of the State of Mississippi governing such filing, and the request will be handled by the Commission in its regular manner.

FORCE MAJEURE PROVISION

If any cause beyond the reasonable control of the Company, such as natural disaster, damage or loss of generating capacity, orders or acts of civil or military authority, the happening of any event or events which cause increased costs to the Company, or other causes, whether similar or not, results in a deficiency in revenues which is not readily capable of being redressed in a timely manner under this Schedule "PEP-1A", the Company may file for rate or other relief outside this Schedule, but in strict accord with the law of the State of Mississippi governing such filing and the said request will be handled by the Commission in its regular manner.

Continued on Page 74

MISSISSIPPI POWER COMPANY (EC-120-0097-00)
Availability: This Rate Schedule is Available on Uniform Basis Throughout Service Territory of Company.
Date Filed: November 3, 1992
Effective Date: July 31, 1992

MISSISSIPPI PUBLIC SERVICE COMMISSION
P.S.C. Schedule No. 28
Revised Page No. 74 Date: July 31, 1992
Superseding Page No. 74 Date: December 28, 1990
Schedule Consists of 37 Pages
Appendix A

CALCULATION OF EARNED RETAIL RETURN ON EQUITY
FOR TWELVE MONTHS ENDING ____________

INVESTMENT	(A) 12 MONTHS ENDING 00/00/00 TOTAL ELECTRIC SYSTEM	(B) ALLOCATION PER CURRENT COST OF SERVICE STUDY	(C) 12 MONTHS ENDING 00/00/00 TOTAL RETAIL SERVICE	(C1) 12 MONTHS ENDING 00/00/00 RETAIL ECO SERVICE	(C2) 12 MONTHS ENDING 00/00/00 RETAIL PEP-1A SERVICE
1. Gross Electric Plant					
2. Less: Leased					
3. Adjusted Gross Electric Plant					
4. Accumulated Depreciation & Amortization					
5. Less: Leased Accumulated Depreciation					
6. Adjusted Accumulated Depreciation					
7. Net Electric Plant In Service					
8. Plant Held For Future Use (D)					
9. Unamortized Leasehold Improvements and Other Deferred Debits					
10. Unamortized Cost of Reacquired Debt					
11. Fuel Stock (E)					

(A) The amounts used in these columns are the Company operating results for twelve months ending as of the date noted unless otherwise specified by a footnote.
(B) The Company is required to file periodically cost of service studies with the Commission. The allocators used will be from the most recent cost of service study on file with the Commission as of the date of the calculation.
(C) Column (C) is a product of Column (A) times Column (B) except where specifically assigned or otherwise specified by a footnote.
(C1) The amounts in this column represent the historical retail portion of rate base, revenue and expense items approved for inclusion in the Environmental Compliance Overview (ECO) Plan.
(C2) Column (C2) is calculated by subtracting column (C1) from column (C).
(D) The properties included as Plant Held for Future Use shall be those properties for which the Company has plans for use in providing electric service and which will be so employed within a reasonable time period.
(E) Coal inventory will be the lesser of the average, actual stockpile for the twelve (12) month ending period or a stockpile level equal to that required for an 85 day average actual burn for that same twelve (12) month ending period; provided, however, a higher stockpile may be allowed if approved by the Commission as prudent.

Issued by: H. E. Blakeslee
Vice President
Gulfport, Mississippi

Continued on Page 75

MISSISSIPPI POWER COMPANY (EC-120-0097-00)
Availability: This Rate Schedule is
ilable on Uniform Basis Throughout
vice Territory of Company.
Date Filed: November 3, 1992
Effective Date: July 31, 1992

MISSISSIPPI PUBLIC SERVICE COMMISSION
P.S.C. Schedule No. 28
Revised Page No. 75 Date: July 31, 1992
Superseding Page No. 75 Date: December 28, 1990
Schedule Consists of 37 Pages
Appendix A

CALCULATION OF EARNED RETAIL RETURN ON EQUITY
FOR TWELVE MONTHS ENDING____________

INVESTMENT	12 MONTHS ENDING 00/00/00 TOTAL ELECTRIC SYSTEM	ALLOCATION PER CURRENT COST OF SERVICE STUDY	12 MONTHS ENDING 00/00/00 TOTAL RETAIL SERVICE	12 MONTHS ENDING 00/00/00 RETAIL ECO SERVICE	12 MONTHS ENDING 00/00/00 RETAIL PEP-1A SERVICE
12. Materials & Supplies					
13. Construction Work In Progress (F)					
14. Cash Working Capital (G)					
15. Compensating Bank Balances and Working Funds					
16. Prepayments					
17. Mississippi Public Service Commission Assessment and Other Deferred Regulatory Expenses					
Deduct:					
Accumulated Deferred Income Taxes					
19. Pre-1971 Investment Tax Credit					
20. Customer Advances					
21. Customer Deposits					
22. Property Insurance Reserve					
23. Injuries & Damages Reserve					
24. Other Operating Reserves					
25. Total Net Investment					

(F) Construction Work in Progress on projects as of the end of the evaluation period with an estimated construction period of less than one year shall be included in "PEP-1A" retail rate base.
(G) The value for cash working capital shall be negative $5,500,000 until such time as the Commission approves a change in this amount.

Issued by: H. E. Blakeslee
Vice President
Gulfport, Mississippi

VII-55

Continued on Page 76

MISSISSIPPI POWER COMPANY (EC-120-0097-00)
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rvice Territory of Company.
ate Filed: November 3, 1992
ffective Date: July 31, 1992

MISSISSIPPI PUBLIC SERVICE COMMISSION
P.S.C. Schedule No. 28
Revised Page No. 76 Date: July 31, 1992
Superseding Page No. 76 Date: December 28, 1990
Schedule Consists of 37 Pages
Appendix A

CALCULATION OF EARNED RETAIL RETURN ON EQUITY
FOR TWELVE MONTHS ENDING ____________

INVESTMENT	12 MONTHS ENDING 00/00/00 TOTAL ELECTRIC SYSTEM	ALLOCATION PER CURRENT COST OF SERVICE STUDY	12 MONTHS ENDING 00/00/00 TOTAL RETAIL SERVICE	12 MONTHS ENDING 00/00/00 RETAIL ECO SERVICE	12 MONTHS ENDING 00/00/00 RETAIL PEP-1A SERVICE
26. Revenues From Retail Sales (H)					
27. Revenues From Non Retail Sales					
28. Total Revenues From Sales					
29. Other Operating Revenues					
30. Total Operating Revenues					
EXPENSES					
31. Operation & Maintenance Expenses					
Fuel Expense Adjustment - Fuelco Contributions (I)					

(H) In addition to base revenue, this amount includes all revenue from the Company's effective adjustment clauses.
(I) This amount shall include all charitable and civic contributions that conform to Internal Revenue Code Section 170 and have been approved by the Commission for inclusion in retail cost of service.

Issued by: H. E. Blakeslee
Vice President
Gulfport, Mississippi

Continued on Page 77

MISSISSIPPI POWER COMPANY (EC-120-0097-00)
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MISSISSIPPI PUBLIC SERVICE COMMISSION
P.S.C. Schedule No. 28
Revised Page No. 77 Date: July 31, 1992
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Schedule Consists of 37 Pages
Appendix A

CALCULATION OF EARNED RETAIL RETURN ON EQUITY
FOR TWELVE MONTHS ENDING__________

INVESTMENT	12 MONTHS ENDING 00/00/00 TOTAL ELECTRIC SYSTEM	ALLOCATION PER CURRENT COST OF SERVICE STUDY	12 MONTHS ENDING 00/00/00 TOTAL RETAIL SERVICE	12 MONTHS ENDING 00/00/00 RETAIL ECO SERVICE	12 MONTHS ENDING 00/00/00 RETAIL PEP-1A SERVICE
34. Non-Territorial Sales:					
35. Demand (J)					
36. Energy					
37. Total Non-Territorial Sales					
38. Revenue Credits (J)					
39. Depreciation And Amortization					
40. Amortization of "PEP-1" Expenses (K)					
41. Amortization of Investment Tax Credits					
42. Amortization of Reacquired Debt					
43. Taxes Other Than Income Taxes					
Municipal Franchise Taxes					
Interest on Customer Deposits					
46. Total Adjusted Expenses					
47. Operating Income Before Income Taxes					

(J) This amount includes 75% of the capacity revenue from all new non-firm capacity sales.
(K) This amount is the amortization of "PEP-1" rate case expenses.

Issued by: H. E. Blakeslee
Vice President
Gulfport, Mississippi

Continued on Page 78

VII-57

CALCULATION OF EARNED RETAIL RETURN ON EQUITY
FOR TWELVE MONTHS ENDING ________

	INVESTMENT	12 MONTHS ENDING 00/00/00 TOTAL ELECTRIC SYSTEM	ALLOCATION PER CURRENT COST OF SERVICE STUDY	12 MONTHS ENDING 00/00/00 TOTAL RETAIL SERVICE	12 MONTHS ENDING 00/00/00 RETAIL ECO SERVICE	12 MONTHS ENDING 00/00/00 RETAIL PEP-1A SERVICE
48.	Income Taxes		(L)			
49.	Income Taxes for Fuel Expense Adjustment - Fuelco					
50.	Total Income Taxes					
51.	Net Operating Income					
52.	AFUDC (M)					
53.	Total Operating Income before "PEP-1A" Income Adjustment					
54.	"PEP-1A" Income Adjustment (N)					
55.	Total Operating Income					

) Income taxes are allocated between jurisdictions using the following formula:

$t = RC - KI$

Where:

t = State and Federal Income Taxes for the Jurisdiction
R = Operating Income before Income Taxes for the Jurisdiction
C = Effective Combined Tax Rate for the Jurisdiction
I = "Total Net" Investment for the Jurisdiction
K = Income tax deduction factor, which is: (total electric operating income before income taxes multiplied by effective combined tax rate minus total electric income taxes) divided by total electric "net" investment.

(M) This will be calculated by the Company in accordance with the FERC prescribed methodology. This amount shall include the AFUDC calculated during the evaluation period on the projects defined in footnote (F).

(N) The "PEP-1A" Income Adjustment adjusts retail operating income for any prior rate adjustments not fully reflected in the twelve (12) months ended revenue for the evaluation period. The amount of the "PEP-1A" Income Adjustment will be determined as if the level of rates in effect as of the end of the evaluation period had been in effect for the entire twelve (12) month period. The "PEP-1A" Income Adjustment will be net of applicable income and municipal franchise taxes.

Continued on Page 78.1

MISSISSIPPI POWER COMPANY (EC-120-0097-00)
Availability: This Rate Schedule is
Available on Uniform Basis Throughout
Service Territory of Company.
Date Filed: November 3, 1992
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MISSISSIPPI PUBLIC SERVICE COMMISSION
P.S.C. Schedule No. 28
Revised Page No. 78.1 Date: July 31, 1992
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Schedule Consists of 37 Pages
Appendix A

CALCULATION OF EARNED RETAIL RETURN ON EQUITY
FOR TWELVE MONTHS ENDING ____________

INVESTMENT	12 MONTHS ENDING 00/00/00 TOTAL ELECTRIC SYSTEM	ALLOCATION PER CURRENT COST OF SERVICE STUDY	12 MONTHS ENDING 00/00/00 TOTAL RETAIL SERVICE	12 MONTHS ENDING 00/00/00 RETAIL ECO SERVICE	12 MONTHS ENDING 00/00/00 RETAIL PEP-1A SERVICE
56. Percentage Rate of Return on Net Investment (O)					
57. Weighted Embedded Cost of Long-Term Debt (P)					
58. Weighted Embedded Cost of Preferred Stock					
59. Weighted Return on Common Equity (Q)					
60. Equity Ratio					
61. Retail Return on Equity (R)					

(O) This figure is calculated by dividing Line 55 (Total Operating Income) by Line 25 (Total Net Investment).
(P) This cost shall be adjusted for any outstanding bonds that have been recalled, but which are still outstanding as of the of the evaluation period.
(Q) This figure is calculated by taking Line 56 (Percentage Rate of Return on Net Investment) less Line 57 (Weighted Embedded Cost of Long-Term Debt) and Line 58 (Weighted Embedded Cost of Preferred Stock).
(R) This figure is calculated by dividing Line 59 (Weighted Return on Common Equity) by Line 60 (Equity Ratio).

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Appendix A

SOURCES OF RESULTS OF OPERATIONS
# Denotes Excluding

	LINE NUMBERS INVESTMENT	SOURCE
1.	Gross Electric Plant	Accts. 101; 104; 106
2.	Less: Leased	Accts. 104; Leased 106; Accounting Department
3.	Adjusted Gross Electric Plant	Sum Lines 1. and 2.
4.	Accumulated Depreciation & Amortization	Accts. 108; 111
5.	Less: Leased Accumulated Depreciation	Accts. 108-890, 891, 892, 893, 894, 895, 896; Accounting Department
6.	Adjusted Accumulated Depreciation	Sum Lines 4. and 5.
7.	Net Electric Plant In Service	Line 3. less Line 6.
8.	Plant Held For Future Use	Acct. 105
9.	Unamortized Leasehold Improvements and Other Deferred Debits	Accts. 186-300, 984
10.	Unamortized Cost of Reacquired Debt	Acct. 189
11.	Fuel Stock	Accounting Department
12.	Materials & Supplies	Accts. 154; 163; Accounting Department
13.	Construction Work In Progress	Acct. 107; Accounting Department
14.	Cash Working Capital	Accounting Department
15.	Compensating Bank Balances and Working Funds	Treasury
16.	Prepayments	Acct. 165 # 104, 354, 404, 907; Accounting Department
17.	Mississippi Public Service Commission Assessment and Other Deferred Regulatory Expenses	Acct. 186-946

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OURCES OF RESULTS OF OPERATIONS
Denotes Excluding

LINE NUMBERS INVESTMENT		SOURCE
	Deduct:	
18.	Accumulated Deferred Income Taxes	Accts. 190 # 047, 048, 229, 995; 281; 282 # 043, 044, 071; 283 # 909,913, 914, 964, 965, 995, 996; Accounting Department
19.	Pre-1971 Investment Tax Credit	Accounting Department
20.	Customer Advances	Acct. 252
21.	Customer Deposits	Acct. 235
22.	Property Insurance Reserve	Acct. 228-101
23.	Injuries & Damages Reserve	Accts. 228-210, 230, 280
24.	Other Operating Reserves	Accts. 253-520, 521, 522, 720, 721, 918, 960; Accounting Department
25.	Total Net Investment	Lines 7.+ 8.+ 9.+ 10.+ 11.+ 12.+ 13.+ 14.+ 15.+ 16.+ 17.- 18.- 19.- 20.- 21.- 22.- 23.- 24.
	REVENUES	
26.	Revenues From Retail Sales	Accts. 400-440, 442, 443, 444, 445, 448
27.	Revenues From Non Retail Sales	Acct. 400-447
28.	Total Revenues From Sales	Line 26. plus Line 27.
29.	Other Operating Revenues	Accts. 400-450, 451; 454-200; 456-200, 400, 203; Retail Accounts 400-450; 400-451; 454-200; 456-200; 456-203; 253-918, 960
30.	Total Operating Revenues	Line 28. plus Line 29.

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SOURCES OF RESULTS OF OPERATIONS
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	EXPENSES	SOURCE
31.	Operations & Maintenance Expenses	Acct. 401; 402
32.	Fuel Expense Adjustment - Fuelco	Accounting Department
33.	Contributions	Acct. 426-100
34.	Non-territorial Sales:	
35.	Demand	Accts. 447-511, 521, 531, 541, 551, 561, 611, 621, 631,
36.	Energy	Accts. 447-512, 522, 532, 542, 552, 562, 571, 612, 618, 622, 628, 632, 638
37.	Total Non-territorial Sales	Line 35. plus Line 36.
38.	Revenue Credits	Accts. 454-100, 310 thru 312, 400, 900 thru 999; 456-300, 500, 501, 502, 552, 700, 900 thru 999
39.	Depreciation And Amortization	Accts. 403; 404
40.	Amortization of "PEP-1" Expenses	Accounting Department
41.	Amortization of Investment Tax Credits	Accts. 411-402; 404
	Amortization of Reacquired Debt	Acct. 428-100; Accounting Department
	Taxes Other Than Income Taxes	Accts. 408-100, 105, 110, 160, 165, 175 (excluding Municipal Franchise Taxes)
44.	Municipal Franchise Taxes	Accounting Department
45.	Interest on Customer Deposits	Acct. 431-100
46.	Total Adjusted Expenses	Line 31. + 32. + 33. + 37. + 38. + 39. + 40. + 41. + 42. + 43. + 44. + 45.
47.	Operating Income Before Income Taxes	Line 30. - 46.
48.	Income Taxes	Accts. 409-101 thru 112; 410-001 thru 022, 025 thru 199; 411-001 thru 022, 025 thru 199, 300 thru 399, 403
49.	Income Taxes for Fuel Expense Adjustment - Fuelco	Accounting Department
50.	Total Income Taxes	Line 48. + 49.
51.	Net Operating Income	Line 47. - 50.
52.	AFUDC	Accounting Department
53.	Total Operating Income before "PEP-1" Income Adjustment	Line 51. + 52.
54.	"PEP-1" Income Adjustment	Accounting Department
55.	Total Operating Income	Line 53. + 54.

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Appendix A

OURCES OF RESULTS OF OPERATIONS
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	RETURN	SOURCE
56.	Percentage Rate of Return on Net Investment	Line 55. divided by Line 25.
57.	Weighted Embedded Cost of Long-Term Debt	Accounting Department
58.	Weighted Embedded Cost of Preferred Stock	Accounting Department
59.	Weighted Return on Common Equity	Line 56. - 57. - 58.
60.	Equity Ratio	Accounting Department
61.	Retail Return on Equity	Line 59. divided by Line 60.

he above account numbers, line numbers and sources of information are subject to change with Commission pproval as operating and accounting circumstances require.

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BENCHMARK RETURN ON EQUITY FOR THE RETAIL JURISDICTION

The Company's Benchmark Return on Equity (BROE) for the retail jurisdiction under Schedule "PEP-1A" shall be 12.79%. This BROE will be effective for the evaluation periods ending September 30, 1990; December 31, 1990; March 31, 1991; and June 30, 1991. BROE should be recalculated by the Public Utilities Staff (Staff) annually as of September 30 of each year "PEP-1A" is in effect, and that recalculated value should be used for four quarterly evaluations beginning with each September 30 evaluation. The result of this calculation shall be sent to all parties to Docket No. 90-UN-0287 who will then be allowed fifteen (15) days to comment thereon.

To calculate BROE each year, the results from the following three methodologies shall be averaged:

I. Discounted Cash Flow (DCF)
II. Risk Premium
III. Capital Asset Pricing Model (CAPM)

I. DCF

1. The following annual version of the DCF model shall be used.

$$k = \frac{D_1}{P_o} + g$$

Where:
k = Cost of common equity for each utility.
D_1 = The dividend for the next period as calculated: Current dividend as stated in Value Line x (1 + g)
P_o = Stock price for the utility. The stock prices utilized in the formula shall be the average of the weekly closing stock prices as presented in Barron's for the three month evaluation period.
g = Growth rate for the utility. The growth rate data for each utility shall be obtained from Value Line and I/B/E/S.

2. The sample should be all utilities having the same Moody's/Standard and Poors' bond rating as MPC at the end of the evaluation period as tabulated in the most recent Salomon Brothers' Electric Utility Monthly, excluding those utilities that have suspended dividends or have negative growth rates. To be included in this calculation, the utilities must also be listed in Value Line, the Institutional Brokers' Estimate System (I/B/E/S), and Barron's publications as they are the source of data inputs. Those utilities which are in these publications but do not have the needed data listed shall be excluded.

3. The DCF model described above will be replicated twice, once with each of the different growth rate estimates for "g" listed below. The truncated mean of each replication should be used, derived by discarding the highest and lowest results of the DCF calculation. A 25 basis point adjustment for flotation shall then be added to each replication.

   a. the Value Line five-year historical dividend growth forecast, and
   b. the I/B/E/S Median 5-year earnings growth forecast.

4. The results of the two growth rate replications shall be averaged.

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Appendix B

II. Risk Premium

k = Bond Yield + Risk Premium

1. This method uses the following methodology:

   a. The sample shall consist of The Southern Company.
   b. The g to be utilized in the forward-looking DCF shall be the I/B/E/S Median 5-year growth forecast.
   c. A monthly forward-looking DCF shall be calculated using substantially the same model as in I. for the years 1985 to the present until ten years of monthly data has been developed. From that point on a rolling ten years of monthly data will be used.

2. Two Risk Premiums shall be calculated in the following manner:

   a. The first Risk Premium is to be computed as the difference between the yields on utility bonds with the same rating as MPC as stated in Moody's Bond Survey and the expected cost of equity data developed in 1. above. This resulting Risk Premium shall be added to the average of the yields for utility bonds with the same rating as MPC as stated in Moody's Bond Survey for all of the trading days in the final month of the evaluation period. A 25 basis point adjustment for flotation shall be added to this result.

   b. The second Risk Premium is to be computed as the difference between the yields on 30-year Treasury bonds as stated in the Federal Reserve Bulletin and the expected cost of equity data developed in 1. above. This resulting Risk Premium shall be added to the average of the yields for 30-year Treasury bonds as stated in the Federal Reserve Bulletin for all of the trading days in the final month of the evaluation period. A 25 basis point adjustment for flotation shall be added to this result.

3. The results of steps 2.a. and 2.b., above shall be averaged.

III. CAPM

K	=	R_F	+	β	$(R_M - R_F)$
		Risk-free Rate		Beta	Market Risk Premium

1. The Risk-free Rate, R_F, is the average of the last three monthly averages of the yield on 30-year Treasury Bonds as stated in Value Line's weekly "Investment Report, Summary and Index".

2. The Beta, β, is the average of the Betas as stated in Value Line for the same sample of utilities as used for the DCF model in I. above.

3. The Market Risk Premium is from Ibbotson Associates "Historical Return on Stocks, Bills, Bonds, and Inflation, 1926-1989." The Market Risk Premium represents the historical spread between stocks and long-term treasuries.

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Appendix B

BROE shall be be used to establish the midpoint of the allowed range on the Matrix as shown in Appendix "D" of this Schedule for each of the five (5) Performance Categories as shown below:

Performance Rating	Midpoint of Allowed Range
I (0.0-2.0)	BROE less 100 basis points (1.00%)
II (2.1-4.0)	BROE less 50 basis points (.50%)
III (4.1-6.0)	BROE
IV (6.1-8.0)	BROE plus 50 basis points (.50%)
V (8.1-10.0)	BROE plus 100 basis points (1.00%)

The allowed range for each Performance Category is the range from the category's midpoint plus one percentage point (1.00%) to the category's midpoint less one percentage point (1.00%).

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PERFORMANCE INDICATORS

The following performance indicators will be used to measure the operational performance of the Company. Unless otherwise indicated, each indicator will be measured based on the Company's performance over the twelve (12) month period ending with the last month of the quarter for which the evaluation is made. Based on the Company's performance, a score on each indicator will be determined for each evaluation period. All scores will then be weighted as provided on page 102 of Appendix "C" to develop an overall performance rating which shall be rounded to the nearest tenth (.05 and greater being rounded to .1), which will then be used with the Matrix, Appendix "D."

If for any reason beyond the reasonable control of the Company, an indicator's score cannot be calculated and no provision has otherwise been made in the indicator, the last quarterly score available will be used.

The Company shall file a report each quarter with the Commission on its performance. The report will be in the form shown on page 102 of this Appendix. The report shall be filed with the other filing requirements identified in this Schedule "PEP-1A."

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Appendix C

CUSTOMER PRICE

GENERAL DESCRIPTION:
The Customer Price Indicator compares the Company's average retail price per KWH with the weighted average retail price of the regulated electric utilities in the Southeastern Electric Exchange (SEE) as determined from each company's most recently filed FERC Form 1. This indicator measures how the Company's average retail price per KWH compares with other electric utilities in the same general geographic area.

FORMULA AND DATA SOURCE:
For each SEE company, the most recently filed FERC Form 1 report, "Electric Operating Revenues (Account 400)," will be the source of the data used to calculate the weighted average retail price per KWH in Step 1 of the formula below. The FERC Form 1 filing is prepared by each company once each year, to be filed by April 30. The indicator will be calculated as follows:

Step 1:
Using the "Electric Operating Revenues (Account 400)" as reported in each company's FERC Form 1, calculate the sum of the "total sales to ultimate consumers" and the sum of the "megawatt hours sold to ultimate consumers" for all the SEE utilities, excluding MPC.

Step 2:
Compute the SEE Weighted Average Retail Price per KWH by dividing the sum of the "total sales to ultimate consumers" by the sum of the "megawatt hours sold to ultimate consumers" divided by 1,000.

Step 3:
Using the "Electric Operating Revenues (Account 400)", as reported in MPC's FERC Form 1, calculate MPC Average Price Per KWH by dividing the "total sales to ultimate consumers" by the "megawatt hours sold to ultimate consumers" divided by 1,000.

STEP 4:

$$\frac{\text{MPC Average Price Per KWH}}{\text{SEE Weighted Average Retail Price Per KWH}} \quad X \quad 100 = \text{Customer Price Indicator}$$

SCALE:
The Company's score on this performance indicator will be measured as follows:

Customer Price Indicator (%)			Scale
122.6%	-	above	0
117.6%	-	122.5%	1
112.6%	-	117.5%	2
107.6%	-	112.5%	3
102.6%	-	107.5%	4
97.6%	-	102.5%	5
92.6%	-	97.5%	6
87.6%	-	92.5%	7
82.6%	-	87.5%	8
77.6%	-	82.5%	9
under	-	77.5%	10

SPECIAL PROVISIONS:
In the event that there are any changes in reporting requirements for the FERC Form 1 that affect the availability of the data, the results of the last quarterly evaluation of the Customer Price Indicator will continue until a new source of data is agreed upon by the Commission and the Company.

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CUSTOMER SATISFACTION

GENERAL DESCRIPTION:

The Customer Satisfaction Performance Indicator measures the public's perception of the quality of the Company's customer service.

FORMULA AND DATA SOURCE:

A nationally recognized professional survey firm will conduct a customer opinion survey twice each year. The following questions will be asked as part of the customer opinion surveys:

1. Overall, would you say your opinion of your electric company is very favorable, somewhat favorable, somewhat unfavorable, or very unfavorable?
   (The index for this question is the ratio of the total of the very favorable and somewhat favorable responses to the number of customers asked the question.)

The survey firm will ask, "Have you or anyone in your family had any occasion to contact the electric company about your service, your bill, or anything else within the last six months?" If the customer answers in the affirmative, they will be asked the following Question 2.

2. Were you satisfied with the way your contact was handled, or should they have done better in some way?
   (The index for this question is the ratio of the satisfied responses to number of customers asked the questions.)

The survey firm then continues with:

I'm going to read you several statements that might be made regarding your electric company. For each statement, please tell me whether you entirely agree with it, mostly agree, mostly disagree, or entirely disagree.

3. Electric company employees are nearly always courteous.

4. The company is willing to listen and respond to its customers' problems.

5. The company is fair and honest in its dealings with people.
   (The indexes for statements 3, 4, and 5, are the ratios of the entirely agree and mostly agree responses for each question to the number of customers asked the questions.)

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CUSTOMER SATISFACTION (Continued)

FORMULA AND DATA SOURCE (continued):

The responses to each question will be tallied and an index will be developed for each. The index for each question will be compared to the applicable range to determine the points earned for each in accordance with the five following schedules. The simple average of the total of these scale points earned on the five questions will determine the overall score attained for the Customer Satisfaction Indicator. All calculations will be to the nearest whole percent and the nearest whole scale point.

The simple average will be calculated by the following formula:

$$\frac{\text{Sum of Scale Points from 5 Questions}}{5} = \text{Average Scale Points}$$

SCALE:

Quarterly Evaluation for Customer Satisfaction

Question #1. Overall Favorability Rating

Range (%)	Scale
Below - 44	0
45 - 49	1
50 - 54	2
55 - 59	3
60 - 64	4
65 - 69	5
70 - 74	6
75 - 79	7
80 - 84	8
85 - 89	9
90 - Above	10

Question #2. Personal Contact/Satisfaction

Range (%)	Scale
Below - 41	0
42 - 45	1
46 - 49	2
50 - 53	3
54 - 57	4
58 - 61	5
62 - 65	6
66 - 69	7
70 - 73	8
74 - 77	9
78 - Above	10

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CUSTOMER SATISFACTION (Continued)

SCALE (continued):

Question #3. Employee Courtesy

Range (%)	Scale
Below - 71	0
72 - 73	1
74 - 75	2
76 - 77	3
78 - 79	4
80 - 81	5
82 - 83	6
84 - 85	7
86 - 87	8
88 - 89	9
90 - Above	10

Question #4. Willingness to Listen

Range (%)	Scale
Below - 48	0
49 - 52	1
53 - 56	2
57 - 60	3
61 - 64	4
65 - 68	5
69 - 72	6
73 - 76	7
77 - 80	8
81 - 84	9
85 - Above	10

Question #5. Fairness and Honesty

Range (%)	Scale
Below - 48	0
49 - 52	1
53 - 56	2
57 - 60	3
61 - 64	4
65 - 68	5
69 - 72	6
73 - 76	7
77 - 80	8
81 - 84	9
85 - Above	10

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Appendix C

CUSTOMER SATISFACTION (Continued)

SPECIAL PROVISIONS:

1. The survey firm shall be selected by the Company and shall be a competent, professional, and nationally recognized survey firm.

2. The scales used in this indicator were developed from data obtained by a nationally recognized, professional survey firm's asking the five questions listed above. If the survey firm is changed or different questions are asked, new scales will be developed which are compatible with the new data and will yield the same results as though the five questions used above had been asked. Should such a change occur, the last survey, asking the five questions above, will be used until a new surveyor, questions, and/or compatible scales can be developed.

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CUSTOMER SERVICE RELIABILITY

GENERAL DESCRIPTION:

This performance indicator measures the reliability of the Company's service to electric customers.

FORMULA AND DATA SOURCE:

The index is calculated from Company records as follows:

$$RI = \left[1.00 - \frac{\sum_{x=1}^{n} C_x T_x}{C_t T_t} \right] \times 100\%$$

Where:

RI = Reliability index expressed as a percent rounded to the nearest one hundred thousandth of one percent (.00001%).

x = An incident of customer interruption during the evaluation period.

n = The number of individual interruptions during the evaluation period.

C_x = The number of customers affected by a specific interruption incident x, excluding those interruptions listed below.

T_x = The total time that customers C_x were without power during incident x.

$\sum_{x=1}^{n} C_x T_x$ = The total amount of customer time for all interruptions during the evaluation period, based on the summation of individual interruptions of varying length and affecting different numbers of customers.

C_t = The total number of Company customers at the end of the evaluation period, as indicated by the number of meters in active use.

T_t = The total hours available to serve customers during the evaluation period.

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CUSTOMER SERVICE RELIABILITY (Continued)

FORMULA AND DATA SOURCE (continued):

Customer interruptions excluded are:

1. Major disasters such as hurricanes, tornadoes, ice storms, manufacturers' equipment defects, sabotage and the like and not due to any omission of the Company.

2. Scheduled outages.

3. Outages to replace individual customers' meters or service drops.

4. Breaker and reclosure operations which do not lock out.

5. Outdoor lighting and street lighting.

Outages due to these reasons shall not be used to reduce the service reliability.

SCALE:

Reliability Index (%)	Scale
Below - 99.96956%	0
99.96957% - 99.97051%	1
99.97052% - 99.97146%	2
99.97147% - 99.97241%	3
99.97242% - 99.97336%	4
99.97337% - 99.97432%	5
99.97433% - 99.97527%	6
99.97528% - 99.97622%	7
99.97623% - 99.97717%	8
99.97718% - 99.97812%	9
99.97813% - Above	10

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EQUIVALENT AVAILABILITY

GENERAL DESCRIPTION:

This performance indicator measures the average percentage of time that the fossil steam electric generating units operated by the Company were ready and available to produce electricity during the twelve month period ending with the "PEP-1A" evaluation date.

FORMULA AND DATA SOURCE:

The Company's twelve month rolling average equivalent availability will be calculated from Company records as follows:

Step 1: Calculate the system equivalent availability for each month of the twelve month period. The formula for equivalent availability for any month, X, is:

$$S_x = \sum_{j=1}^{N} \left[1 - \frac{POH + UPOH + DH}{PH} \right]_j \div N$$

Where:

- S_x = System equivalent availability for month, X.
- N = The number of units on the Company's system during month X.
- PH = Number of hours in month X.
- POH = Number of hours the unit was off line because of scheduled outages.
- UPOH = Number of hours the unit was off line because of unscheduled outages.
- DH = Total derated hours. This is calculated by dividing the product of number of megawatts the unit is derated times the number of hours the unit was so derated by the rated capacity of the unit in megawatts. This is calculated for each period of deration during the month and then summed for that month.
- j = To the jth unit (e.g., Watson Unit 4).

Step 2: Calculate system equivalent availability for the twelve month period by the following formula:

$$A = \left[\sum_{x=1}^{12} S_x H_x \div \sum_{x=1}^{12} H_x \right] X\ 100\%$$

Where:

- A = System equivalent availability for the twelve month period.
- S_x = Average equivalent availability for month X as calculated above.
- H_x = Number of hours in month, X.

Equivalent availability shall be rounded to the nearest one hundredth percent (0.01%).

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EQUIVALENT AVAILABILITY (Continued)

SCALE:

The Company's score on this performance indicator will be determined as follows:

Equivalent Availability (%)			Scale
Below	-	69.69%	0
69.70%	-	72.73%	1
72.74%	-	75.76%	2
75.77%	-	77.64%	3
77.65%	-	80.02%	4
80.03%	-	82.32%	5
82.33%	-	84.71%	6
84.72%	-	86.63%	7
86.64%	-	88.78%	8
88.79%	-	90.74%	9
90.75%	-	Above	10

SPECIAL PROVISIONS:

Unit outages or deratings due to hurricanes, tornadoes, ice storms, other natural disasters, manufacturer's equipment defects, sabotage, and the like and not due to any omission of the Company shall not be used to reduce the availability of a unit.

Continued on Page 95

CONSTRUCTION PERFORMANCE

GENERAL DESCRIPTION:

This performance indicator measures the degree to which the Company can prudently complete all certificated projects and projects of $1 million or more which will be included in retail rate base and which will require no longer than three years to complete.

FORMULA AND DATA SOURCE:

This indicator will be measured in the following manner:

$$CV = \left(1 - \frac{A}{C}\right) \times 100\%$$

Where:

A = the summation of all actual expenditures for included projects which were finally closed to plant-in-service during the twelve month period ending the "PEP-1A" evaluation date as per Company records.

C = the summation of the projected expenditures for the same projects used in A.

CV = the construction variance rounded to the nearest tenth of a percent.

SCALE:

The Company's score on this performance indicator will be measured as follows:

Construction Variance (CV) (%)			Scale
±7.0%	-	Over	0
±6.5%	-	±6.9%	1
±6.0%	-	±6.4%	2
±5.5%	-	±5.9%	3
±5.0%	-	±5.4%	4
±4.5%	-	±4.9%	5
±4.0%	-	±4.4%	6
±3.5%	-	±3.9%	7
±3.0%	-	±3.4%	8
±2.5%	-	±2.9%	9
Under	-	±2.4%	10

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CONSTRUCTION PERFORMANCE (Continued)

SPECIAL PROVISIONS:

1. Should a project increase or decrease substantially in scope, the Company may petition the Commission for approval to change the estimate.

2. Should any twelve month period pass without the Company's completing any construction projects meeting the requirements above, the last quarterly calculation of CV will be used.

Continued on Page 97

CONTRIBUTION TO LOAD FACTOR

GENERAL DESCRIPTION:

This is a measure of the effectiveness and contributions of the Company's efforts to utilize its facilities. The Contribution to Load Factor Indicator uses the actual 1985 load factor as a base year for establishing a load factor level, and then uses three types of sales of load and energy added as a result of the Company's efforts to determine the contribution to load factor made by the new load additions.

FORMULA AND DATA SOURCE:

The indicator will be calculated as follows:

Base Line Load Factor

A. 1985 Annual Load Factor $= \dfrac{\text{(1985 KWH Energy Supply)}}{\text{(1985 Peak KW Demand) X (\# of Hours in Year 1985)}}$

B. Adjusted Load Factor =

$$\frac{\text{(1985 KWH Energy Supply + Added KWH Supply)}}{\text{(1985 Peak KW Demand + Added KW Supply) X (\# of Hrs. in Year 1985)}}$$

C. Where:

Type of Sale	Added KWH Sales	Added KW Sales
Off Peak Sales	KWH	0
Peak Load Reduction	0	(KW)
High Load Factor Load	KWH+	KW+
Total Effect	+KWH	±KW

To convert Sales to Supply:
Added KW Supply = Added KW Sales X 1.10 Loss Factor
Added KWH Supply = Added KWH Sales X 1.06 Loss Factor

Contribution to Load Factor:
Adjusted L.F. - 1985 Annual L.F. = Contribution to L.F.

Off Peak Sales

Off peak sales are defined as sales that do not add to the coincident peak of the annual summer peak.

Continued on Page 98

CONTRIBUTION TO LOAD FACTOR (Continued)

FORMULA AND DATA SOURCE (continued)

Off peak KWH sales to be included in the calculation of contribution to load factor shall be from the following:

1. KWH sales for comfort heating for Residential, Commercial, and Industrial customers.
2. Specialty uses of electricity for any class of customer that meet the off peak period criteria (such as pool heating).
3. Spot or specialty pricing uses of electricity.
4. New technology applications or uses of electricity that meet the off peak period criteria.

<u>Peak Load Reduction Sales</u>

Peak Load Reduction Sales to be included in the calculation shall be KWH and coincident peak KW sales under the following conditions:

1. Cool storage load (such as water or ice chillers that store cooling capacity for use in meeting peak period requirements.)
2. Spot or specialty pricing uses of electricity.
3. New technology or application uses of electricity.

<u>High Load Factor (Annual) Sales</u>

High Load Factor Annual Sales to be included in the calculation shall be:

1. Residential, Commercial, Industrial water heating.
2. Process heating.
3. New technology or application uses that have an annual load factor of at least 60% based on coincident peak KW.
4. Special high load factor customers.

The source of the data used for this indicator shall be the load and energy sales added to the Company's system by both existing and new customers during the twelve month evaluation period. Load and energy resulting from customer equipment additions will be annualized. Any loads that can exist as multiple type sales shall be counted in only one type sale.

Contribution to Load Factor will be rounded to the nearest one thousandth of one percent (.001%).

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MISSISSIPPI POWER COMPANY (EC-120-0097-00)
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MISSISSIPPI PUBLIC SERVICE COMMISSION
P.S.C. Schedule No. 28
Revised Page No. 99 Date: July 31, 1992
Superseding Page No. 90 Date: December 28, 1990
Schedule Consists of 37 Pages
Appendix C

CONTRIBUTION TO LOAD FACTOR (Continued)

SCALE:

The Company score on this performance indicator will be measured as follows:

Load Factor Increase (%)	Scale
.079% - below	0
.080% - .089%	1
.090% - .099%	2
.100% - .109%	3
.110% - .119%	4
.120% - .129%	5
.130% - .139%	6
.140% - .149%	7
.150% - .159%	8
.160% - .169%	9
.170% - above	10

Issued by: H. E. Blakeslee
Vice President
Gulfport, Mississippi

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SAFETY

GENERAL DESCRIPTION:

The Safety Performance Indicator measures the Company's total Safety performance for the twelve month period ending the "PEP-1A" evaluation date. It consists of a combined measure of the number of employee accidents, the number of lost time cases, the days of lost time (to measure the severity of accidents), and fleet accidents.

FORMULA AND DATA SOURCE:

The formulae used to calculate the combined measure of performance for this indicator incorporates standards adopted by the American National Standards Institute (ANSI) and the Southeastern Electric Exchange (SEE).

Step 1: Calculate the Overall Employee Accident Performance Rate

$$\text{Overall Employee Accident Performance Rate} = \frac{P + Q + R}{3}$$

$$P = \frac{A \times 200{,}000 \text{ hrs.}}{H}$$

$$Q = \frac{LC \times 200{,}000 \text{ hrs.}}{H}$$

$$R = \frac{LD \times 200{,}000 \text{ hrs.}}{H}$$

Step 2: Calculate the Vehicle Accident Performance Rate

$$\text{Vehicle Accident Performance Rate} = \frac{VA \times 1{,}000{,}000 \text{ miles}}{M}$$

Step 3: Calculate the Combined Measure of Safety Performance

Combined Measure of Safety Performance = [(Employee Accident Performance Rate X 2) + Vehicle Accident Performance Rate]

Where:

A = Number of accidents, which is defined as any time an employee receives medical attention from a physician or his designee.

H = Total hours worked as determined using the currently ANSI, SEE, and Edison Electric Institute (EEI) accepted hours per month times full time employees on the payroll.

LC = Number of lost time cases, which is whenever an employee is absent from work due to an accident other than the day of the accident.

Continued on Page 101

SAFETY (Continued)

FORMULA AND DATA SOURCE (continued):

LD = Number of lost days the employee was absent from work, per the ANSI standard for hours published in 1981, other than the day of the accident.

VA = Number of vehicle accidents, which is whenever there is any damage to a company vehicle, to another vehicle or whenever any injuries occur.

M = Miles actually driven per Company records.

The 200,000 hours and 1,000,000 miles used are empirical per ANSI and adopted by SEE.

The combined measure of Safety Performance will be calculated to the nearest tenth of one percent (.1). The American National Standards Institute schedule of charges for amputations, disabilities, and fatalities in effect as of January 1, 1986, will be used for the entire term of this "PEP-1A" Schedule.

SCALE:

The Company's score on this performance indicator will be determined as follows:

Overall Safety Performance Rate	Scale
76.1 - above	0
53.1 - 76.0	1
36.1 - 53.0	2
31.2 - 36.0	3
26.4 - 31.1	4
18.1 - 26.3	5
15.4 - 18.0	6
11.9 - 15.3	7
10.2 - 11.8	8
9.0 - 10.1	9
under - 8.9	10

SPECIAL PROVISIONS:

For the purpose of this indicator, the formulae listed herein will be used for the period this "PEP-1A" Schedule remains in effect. Any fatalities will only remain in the determination for the quarter in which the fatality occurred.

Continued on Page 102

MISSISSIPPI POWER COMPANY (EC-120-0097-00)
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Schedule Consists of 37 Pages
Appendix C

PERFORMANCE REPORT

FOR TWELVE MONTHS ENDING ________________

	PERFORMANCE		WEIGHT		WEIGHTED SCORE
Customer Price	___	X	.20	=	___
Customer Satisfaction	___	X	.15	=	___
Customer Service Reliability	___	X	.16	=	___
Equivalent Availability	___	X	.16	=	___
Construction Performance	___	X	.11	=	___
Contribution to Load Factor	___	X	.11	=	___
Safety	___	X	.11	=	___
SUM			1.00		=====

Total Performance Rating* =====

*Rounded to nearest tenth

Issued by: H. E. Blakeslee
Vice President
Gulfport, Mississippi

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Rate Schedule "PEP-1A"

Continued on Page 103

UTILIZING THE MATRIX

The revenue adjustment will be determined by utilizing the "PEP-1A" Matrix, page 104 of this Appendix, and the Revenue Adjustment Calculation Worksheet of Appendix "E."

Steps for Utilizing the Matrix

The "PEP-1A" Matrix inputs are:

1. The Company's earned retail return on common equity (EROE) as determined in Appendix "A."
2. The benchmark rate of return on equity (BROE) as presented in Appendix "B."
3. The Company's performance rating from the Performance Report (Appendix "C") for the twelve (12) month period ending with "PEP-1A" Evaluation date.

The Performance Rating and the BROE will be used to determine an allowed range for returns on equity for the retail jurisdiction.

The BROE establishes the Benchmark Return on Equity at the center of the vertical axis of the Matrix. The Company's Performance Rating determines in which of the five performance categories along the horizontal axis the Company is evaluated. The Company's EROE is plotted in that Matrix category. If the EROE is within the allowed range, no rate adjustment will be made for that quarter. If the EROE falls outside the allowed range, one of the following adjustments will be made, provided however, that no quarterly revenue increase or decrease shall exceed two percent (2%) of the annual aggregate retail revenues of the Company during the evaluation period.

I. EROE above the allowed range:

Adjustment I.a. In categories I, II, III, and IV, retail revenues will be adjusted to earn the rate of return at the midpoint of the allowed range.

Adjustment I.b. In category V, retail revenues will be adjusted to earn the rate of return halfway between the midpoint of the allowed range and the EROE.

II. EROE below the allowed range:

Adjustment II.a. In category I, retail revenues will be adjusted to earn the rate of return halfway between the midpoint of the allowed range and the EROE.

Adjustment II.b. In categories II, III, IV, and V, retail revenues will be adjusted to earn the rate of return at the midpoint of the allowed range.

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MISSISSIPPI POWER COMPANY (EC-120-0097-00)
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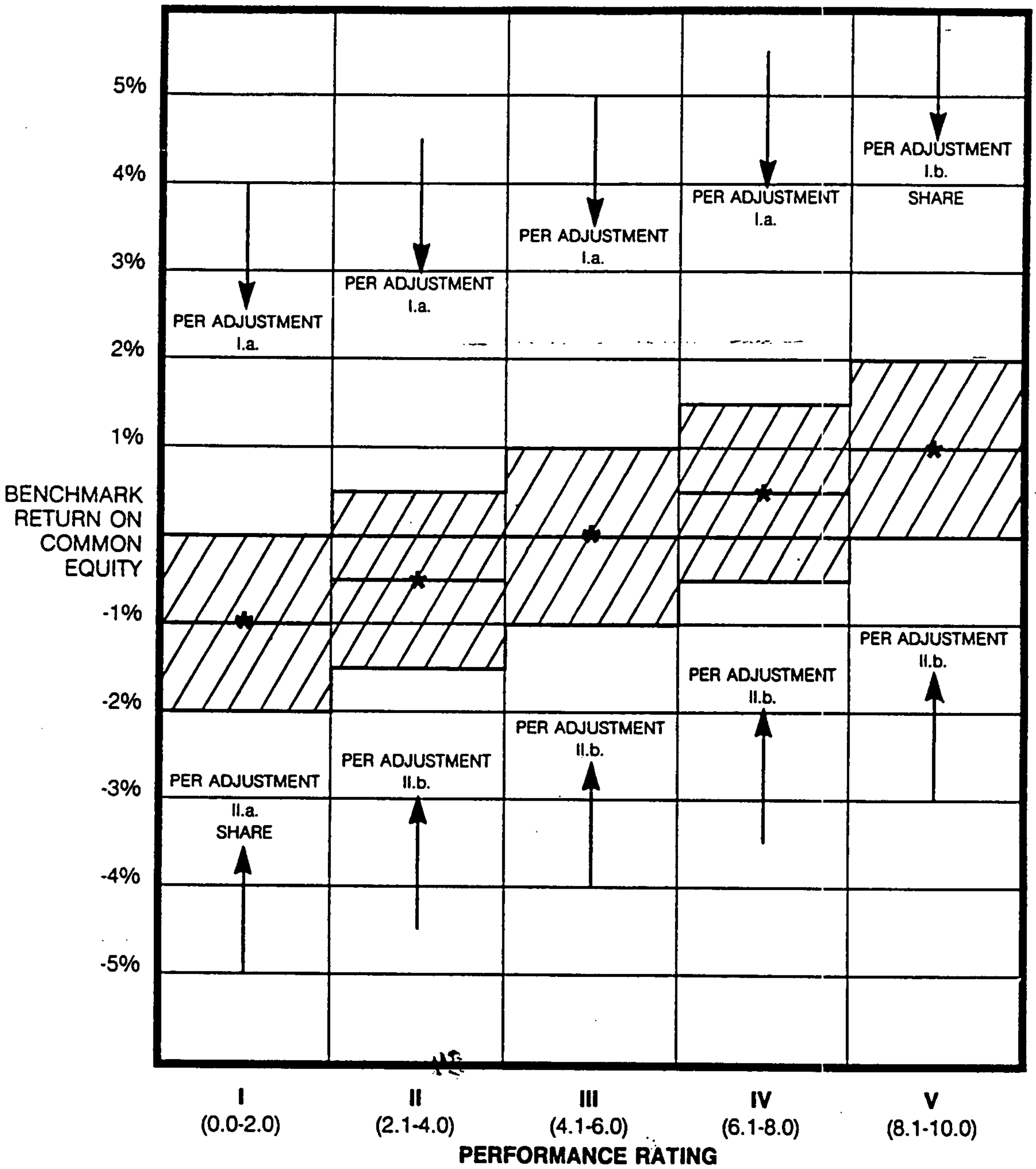
Appendix D



▨ — ALLOWED RANGE

* — MIDPOINT

ALL ADJUSTMENTS CALCULATED PER APPENDIX E.

Issued by: H. E. Blakeslee
Vice President
Gulfport, Mississippi

Rate Schedule "PEP-1A"

Continued on Page 105

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REVENUE ADJUSTMENT WORKSHEET

Twelve Months Ending ______________

I. Matrix Data Items

- A. EROE per Appendix "A", Line 61. ______________
- B. BROE per Appendix "B." ______________
- C. Company Performance Rating per Appendix "C." ______________
- D. Allowed Range (based on Company's Performance Rating). _______ to _____

II. Does matrix indicate adjustment is required?

- A. _____ No, stop here.
- B. _____ Yes,
  1. Adjustment I.a. _____
  2. Adjustment I.b. _____
  3. Adjustment II.a. _____
  4. Adjustment II.b. _____

III. Return on Rate Base

- A. Midpoint of Allowed Range (based on Company's Performance Rating). ______________
- B. Common Equity Ratio per Appendix "A", Line 60. ______________
- C. Weighted Return on Common Equity (A. X B.). ______________
- D. Weighted Embedded Cost of Long-Term Debt per Appendix "A", Line 57. ______________
- E. Weighted Embedded Cost of Preferred Stock per Appendix "A", Line 58. ______________
- F. Return on Rate Base (C. + D. + E.). ______________

Continued on Page 106

REVENUE ADJUSTMENT WORKSHEET (continued)
Twelve Months Ending ________________

IV. Adjustment Calculations

A. <u>Adjustment I.a. or II.b.</u>

1. Retail Total Net Investment per Appendix "A", Line 25.	
2. Return on Rate Base per III.F. above.	
3. Target Net Income (1. X 2.).	
4. Earned Total Operating Income per Appendix "A", Line 55.	
5. Calculated Net Income Adjustment (3. - 4.).	
6. Income Tax Adjustment Factor*	
7. Calculated Revenue Adjustment (5./6.).	
8. Revenues from Retail Sales per Appendix "A", Line 26.	
9. Maximum Adjustment Limit.	X .02
10. Maximum Adjustment (8. X 9.).	
11. The Actual Adjustment is the Lesser of Line 7. or 10.	

B. <u>Adjustment I.b. or II.a.</u>

1. Retail Total Net Investment per Appendix "A", Line 25.	
2. Return on Rate Base per III.F. above.	
3. Target Net Income (1. X 2.).	
4. Earned Total Operating Income per Appendix "A", Line 55.	
5. Calculated Net Income Adjustment (3. - 4.).	
6. Income Tax Adjustment Factor*	
7. Calculated Revenue Adjustment (5./6.).	
8. Allowed Revenue Adjustment Limit.	X .50
9. Allowed Revenue Adjustment (7. X 8.).	
10. Revenues from Retail Sales per Appendix "A", Line 26.	
11. Maximum Adjustment Limit.	X .02
12. Maximum Adjustment (10. X 11.).	
13. The Actual Adjustment is the Lesser of Line 9. or 12.	

* Represents a composite of Federal and State income taxes and municipal franchise taxes.

MISSISSIPPI POWER COMPANY [EC-120-0097-00]
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MISSISSIPPI PUBLIC SERVICE COMMISSION
P.S.C. Schedule No. 39
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Schedule Consists of 5 Pages

ENVIRONMENTAL COMPLIANCE OVERVIEW PLAN
RATE SCHEDULE "ECO"

APPLICABILITY

This Rate Schedule applies to electric service used by all retail customers. To the extent that any provision in this schedule may conflict with applicable statutes, said statutes shall be controlling.

ADJUSTMENTS FOR ENVIRONMENTAL EXPENDITURES

During the first quarter of each calendar year, Mississippi Power Company (the Company) shall file with and come before the Mississippi Public Service Commission (the MPSC or Commission) for hearings regarding the Company's projected environmental expenditures for the current year. The MPSC will address the prudence of the current year's projects and determine whether they are environmental in nature, whether they properly address the environmental concerns and whether the projects and expenditures are reasonable.

At the same time after the initial year of the Plan, MPC will file the actual environmental expenditures made in the prior year on the previously filed projects. The review of the prior expenditures shall be to compare the actual expenditures to the filed projections to assure consistency. If there are any changes in the scope or type of projects or the amount of the expenditures made, the Commission will review any changes for prudence.

At the same time the Company may also file for Certificates of Public Convenience and Necessity for the projected environmental construction projects not previously certificated.

After these hearings and the Commission's rulings on the prudence of these environmental projects and their proposed expenditures for the current year and any approved changes in the prior year's expenditures, the Company will place in effect rates to recover the costs of these projects. The change in rates will be determined as outlined below.

1. A projected thirteen (13) month average balance will be used in the calculation of this rate for production and transmission amounts. A beginning and end of period projected average balance will be used for distribut~~ion~~ ist and general amounts. Expense amounts will be projected as of the end of the evaluation year. From the following accounts, the environmental portions thereof which are approved by the Commission for inclusion will be included in the calculation of the Total Retail Environmental Revenue Requirement.

   Investment Accounts:
   Electric Plant In Service (Account 101),
   Completed Construction Not Classified (Account 106),
   Construction Work In Progress (Account 107),
   Accumulated Provision for Depreciation (Account 108),
   Accumulated Deferred Income Taxes - Accelerated Amortization Property (Account 281),
   Accumulated Deferred Income Taxes - Accelerated Depreciation Property (Account 282),

Continued on Page 136

ADJUSTMENTS FOR ENVIRONMENTAL EXPENDITURES - (Cont'd)

Expense Accounts:
Depreciation and Amortization Expense (Accounts 403, 404 and 405),
Interest Expense,
AFUDC - Debt,
Income Tax Expense,
Municipal Franchise Tax Expense and,
Other Accounts:
AFUDC - Equity,
Other such asset, liability, operations and maintenance accounts as approved by the Commission.

2. The retail portions of the accounts listed in item 1 will be determined using the most recent cost-of-service study filed by the Company with the Commission.

3. The weighted cost of capital to be used shall be determined using the end of period capital structure and embedded costs of debt and preferred stock as of the prior December 31. The cost of common equity shall be the midpoint of the PEP-1 Performance Category in which the Company was rated during the prior December 31 Quarterly Evaluation. If for any reason, the PEP-1 is no longer effective, the weighted cost of capital used shall be that most recent in effect for the Company. The capital structure ratios shall reflect any required ratemaking adjustments.

4. The "ECO" Target Net Income Before Interest Expense shall be computed by multiplying the total of item 2 above for the Investment times item 3.

5. This Target Net Income Before Interest Expense will be reduced by Interest Expense and Equity AFUDC in order to determine Adjusted Target Net Income.

6. The "ECO" Adjusted Target Net Income is then divided by the Income Tax Adjustment Factor which is a composite of the Federal and State income tax rates applicable to the test period to develop the Retail Environmental Investment Revenue Requirement.

7. The retail portions of the current year's projected environmental depreciation and amortization expense, environmental permit fees and expenses, environmental allowances, environmental studies expense, environmental operation and maintenance expenses allowed by the Commission, and Interest expense, net of AFUDC - Debt, are added to the Retail Environmental Investment Revenue Requirement to obtain the Retail Environmental Revenue Requirement before Municipal Franchise Taxes.

   The retail portions of any variances in any expenditures from the prior year's approved expenditures which are approved for inclusion will be used to appropriately adjust the current year's Total Retail Environmental Revenue Requirement before Municipal Franchise Taxes.

8. The Total Retail Environmental Revenue Requirement before Municipal Franchise Taxes will be divided by the Municipal Franchise Tax Adjustment factor to determine Total Retail Environmental Revenue Requirement Before Carryforward.

Continued on Page 137

ADJUSTMENTS FOR ENVIRONMENTAL EXPENDITURES - (Cont'd)

9. The annual change in the Total Retail Environmental Revenue Requirement between the immediate past and the current projected year will be limited to 2% of the annual aggregate retail revenues of the Company for the projected twelve (12) month period ending December 31.

10. The Total Retail Environmental Revenue Requirement over the 2% limit will accrue carrying charges at the rate developed in item 3 above and will be included in the calculation of the "ECO" Total Retail Environmental Revenue Requirement the following year as the Environmental Revenue Requirement Carryforward in order to determine the Total Retail Environmental Revenue Requirement.

11. The total retail KWH sales for the period over which the charges are to be applied shall be used to determine the said Factor.

12. Calculation of the Rate is as follows:

$$\frac{\text{Total Retail Environmental Revenue Requirement (From 10 above)}}{\text{Retail KWH (From 11 above)}} = \text{Retail Charge per KWH}$$

Retail Charge per KWH x
LPO loss multiplier = LPO Rate Group Charge
LGS/LGS-EH loss multiplier = LGS/LGS-EH Rate Group Charge
All Other loss multiplier = All Other Rate Group Charge

13. The actual amounts for all environmental related accounts that are included in the calculation of this Rate and the applicable revenues collected pursuant to it shall be excluded from the Company's PEP-1 Quarterly Evaluations as of the quarterly evaluation following the effective date of this Rate.

14. The formula for calculating the Total Retail Environmental Revenue Requirement is set forth in Exhibit "A".

ADJUSTMENT CLAUSES

The Company's effective adjustment clauses will not be affected by this Schedule "ECO" in any manner.

TERM

This Schedule "ECO" shall be effective upon approval by the Commission beginning with the first billing cycle of September, 1992, and shall continue unless modified or terminated as provided by law.

Issued By: H. E. Blakeslee
Vice President
Gulfport, Mississippi

Continued on Page 138

FILING PROCEDURES

After the initial year and on or before the tenth working day of February, the Company shall submit a sworn filing including the calculation of the "ECO" Total Retail Environmental Revenue Requirement for that year and the applicable revised "ECO" factors. On that same date the Company will provide notice of the filing to all prior intervenors. The Commission may, for good cause shown, allow additional time for filing the calculation of the "ECO" factors. If the Commission questions or disputes whether the calculation of the "ECO" factors has been made strictly in accord with the Rate Schedule "ECO", the law and the Commission's regulations, it shall notify the Company in writing on or before the fifteenth working day of February.

HEARINGS

The annual hearings will be set at the February docket and, following hearings, an order issued regarding the current year's environmental expenditures, any variance in the prior year's approved projects and expenditures, determining the revenue requirement and establishing the associated "ECO" factors by March 15 each calendar year. The hearings shall also consider and determine any environmental Certificates of Public Convenience and Necessity not previously certificated. These hearings will constitute the hearings required pursuant to Miss. Code of 1972, Section 77-3-39(1) (Supp. 1990) and under this rate. During the term of this Schedule "ECO", each revenue adjustment will be separately considered for the purpose of determining whether it is a "major change" as defined in Miss. Code of 1972, Section 77-3-37(8) (Supp. 1990).

FORCE MAJEURE PROVISION

If any cause beyond the reasonable control of the Company, such as natural disaster, damage or loss of generating capacity, orders or acts of civil or military authority, the happening of any event or events which cause increased costs to the Company, or other causes, whether similar or not, which will result in a deficiency in revenues which is not readily capable of being redressed in a timely manner under this Rate Schedule "ECO", the Company may file for rate or other relief outside this Schedule, but in strict accord with the law of the State of Mississippi governing such filings and the said request will be handled by the Commission in its regular manner.

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MISSISSIPPI PUBLIC SERVICE COMMISSION
P.S.C. Schedule No. 39
Original Pg. No. 139 Date: August 21, 1992
Exhibit "A"

MISSISSIPPI POWER COMPANY
CALCULATION OF TOTAL RETAIL ENVIRONMENTAL REVENUE REQUIREMENT
FOR THE TWELVE MONTHS ENDING ____________

	12 MONTHS ENDING 00/00/00 TOTAL ELECTRIC SYSTEM	ALLOCATION PER COST OF SERVICE STUDY	12 MONTHS ENDING 00/00/00 TOTAL RETAIL SERVICE	REFERENCE
1. Gross Environmental Plant in Service				
2. Environmental Accumulated Depreciation				
3. Net Environmental Plant in Service				
4. Environmental Construction Work in Progress (CWIP)				
5. Environmental Accumulated Deferred Income Taxes				
6. Total Environmental Investment				
7. Environmental Return on Rate Base				
8. Target Net Income Before Interest Expense on Environmental Investment				
9. Interest Expense on Environmental Investment				
10. Equity AFUDC Accrued on Environmental CWIP				
11. Adjusted Target Net Income on Environmental Investment				
12. Income Tax Adjustment Factor				
13. Environmental Investment Revenue Requirement				
14. Environmental Depreciation Expense				
15. Specifically Allowed Environmental Expenses				
16. Interest Expense on Environmental Investment				
17. Debt AFUDC Accrued on Environmental CWIP				
18. Adjustment for Prior Year's Expenditures				
19. Environmental Revenue Requirement Before Municipal Franchise Taxes				
20. Municipal Franchise Tax Adjustment Factor				
21. Total Environmental Revenue Requirement Before Carryforward				
22. Environmental Revenue Requirement Carryforward				
23. Total Environmental Revenue Requirement			================	

Issued By: H. E. Blakeslee
Vice President
Gulfport, Mississippi

VII-93

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 99-176
Response of Steve Seelye
Staff Hearing Data Request

3. The names of utilities, case numbers citations to orders approving and orders approving the abandonment of Alt Reg Plans and the reasons for abandonments.

Answer:

Information Not Available