

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS )  
COMPANY, INC. FOR AN ADJUSTMENT ) CASE NO.  
OF RATES ) 2004-00067

SUPPLEMENTAL REQUESTS FOR INFORMATION  
OF THE ATTORNEY GENERAL TO  
DELTA NATURAL GAS COMPANY, INC.

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office for Rate Intervention, and submits these Requests for Information to Delta Natural Gas Company, Inc. to be answered in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Please identify the company witness who will be prepared to answer questions concerning each request.
- (3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.
- (4) If any request appears confusing, please request clarification directly from the Office of Attorney General.
- (5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

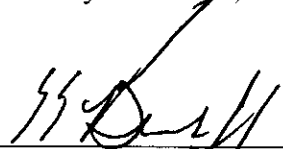
(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

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

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,



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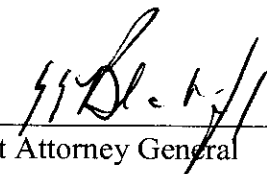
**CERTIFICATE OF SERVICE AND NOTICE OF FILING**

I give notice that this the 9<sup>th</sup> day of June, 2004, I have filed the original and seven true copies of the foregoing with the Executive Director of the Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601. I hereby certify that a true copy of the foregoing has been served on the following by mailing same, postage prepaid, to:

Leslye M. Bowman  
Lexington-Fayette Urban County  
Government  
Department of Law  
200 East Main Street  
Lexington, KY 40507

John F. Hall  
Delta Natural Gas Company, Inc.  
3617 Lexington Road  
Winchester, KY 40391

Honorable Robert M. Watt, III  
Stoll, Keenon & Park, LLP  
300 West Vine Street  
Suite 2100  
Lexington, KY 40507-1801

  
\_\_\_\_\_  
Assistant Attorney General

**DELTA NATURAL GAS COMPANY INC.**  
**CASE NO. 2004-00067**  
**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS**

1. In the same format and detail as per page 112 of the Company's 2003 FERC Form 2, provide Delta Natural Gas Company's actual equity, long-term debt (including current portion) and short term debt balances for each month-end in 2004 through May 31, 2004. In addition, provide similar actual balances as of June 30, 2004 as soon as this has become available.
2. With regard to the response to AG-1-4b, please specify how and where in the calculations of the pro forma annualized depreciation expense of \$4,045,073 on Hall WP-5.1, pages 1-3, the amortizations of the Tranex and Mt Olivet acquisition adjustments are reflected.
3. With regard to the response to AG-1-13, explain why Delta was not eligible to file a consolidated Kentucky income tax return for the years 1999 through 2003 and why it is eligible starting in June 2004.
4. With regard to the response to AG-1-36b, please clarify as to whether any portion of the GTIR&D costs are included in the pro forma annualized gas costs of \$33,364,884.
5. Please explain why Delta has only removed \$39,600 for Subsidiary allocations rather than the total amount of Subsidiary allocations and Merchandising of \$48,592.
6. It appears that the pro forma salary and wage amount of \$6,469,712 shown on page 4 of 4 of the response to PSC-2-6a is based on 156 full-time employees. In this regard, please provide the following information:
  - a. Confirm the above. If not correct, please provide the correct information.
  - b. What is the basis for these 156 full-time employees and what are the comparable total full-time employee levels for each of the months in 2004 through May and as budgeted for the remainder of 2004?
7. What represents the pro forma annual total amount of \$29,655 shown on page 4 of 4 of the response to PSC-2-6a for employee numbers 550, 1170, 1500 and 2080; what is the basis for this payroll estimate; and, what was the actual test year payroll expense for the comparable employees?
8. It appears that the pro forma salary and wage amount of \$94,168 shown on page 4 of 4 of the response to PSC-2-6a is based on 22 part-time employees. In this regard, please provide the following information:
  - a. Confirm the above. If not correct, please provide the correct information.
  - b. What is the basis for these assumed 22 part-time employees and their associated pro forma payroll costs?
  - c. What were the actual number of comparable part-time employees and the associated actual total part-time payroll cost for each of the years 2001, 2002 and 2003?

- d. What are the actual number or comparable part-time employees for each month of 2004 through May and as budgeted for the remainder of 2004?
9. With regard to the pro forma salary and wage amount of \$6,469,712 shown on page 4 of 4 of the response to PSC-2-6a, please provide the following information:
    - a. What is the average percentage salary/wage increase as of 7/1/2003 that has been reflected in the determination of the annualized pro forma salary and wage amount of \$6,469,712 for all employees other than employee numbers 405, 520, 1240, 1360 and 1560?
    - b. Identify the titles of employee numbers 405, 520, 1240, 1360, and 1560.
  10. The response to PSC-1-46c indicates that of the total test year employee benefit cost of \$1,919,017, an amount of \$433,015 was capitalized, suggesting an O&M expense ratios of 77.4%. In this regard, please provide the following information:
    - a. Does the \$433,015 include any employee benefits allocated to the subsidiaries? What would this amount be including allocations to subsidiaries?
    - b. What is the basis for the \$433,015? Provide any documentation in support of this actual test year number.
    - c. The response to AG-1-16 indicates that the actual test year payroll O&M expense ratio is 72.67%. Also, for ratemaking purposes, the Company has assumed a payroll O&M ratio of 72.9% (see AG-1-16) in this case. Please reconcile this payroll O&M ratio in the range of 72.7% - 72.9% to the suggested employee benefit ratio of 77.4% referred to in the response to PSC-1-46c.
  11. In the response to AG-1-27, Delta has provided its most recent actuary report in which the actuary has determined, based on market conditions existing in mid-2003, that Delta's Net Periodic Pension Expense for the annual period July 1, 2003 – June 30, 2004 is \$725,434. As shown on the cover letter attached to the response, at the time the actuary determined the pension costs for Delta to be \$725,434, the actuary also determined that a Minimum Pension Liability (accumulated OCI) had to be recognized at that time at a total amount of \$3,386,436. Both the Minimum Pension Liability and the large increase in the Company's SFAS 87 pension costs are largely due to the decline in the equity markets.

As confirmed by Delta in its response to AG-1-1, for ratemaking purposes in this case the Company has assumed that the accumulated OCI balance will be gone by June 30, 2004. In this regard, Delta states in its response to AG-1-1 that "Once the [pension] Plan's assets rebound (which has already occurred), the [accumulated OCI] entry is simply reversed, as if it never had been recorded. We expect the actuary analysis performed for our June 30, 2004 year end to support reversing the entry at that point.

Given the above facts, why is it reasonable to assume that the OCI balance will have been eliminated as a result of an upswing in the equity markets and a rebound in the pension plan's assets, while not at the same time reflecting the impact of this assumption on the Company's expected actuary determination of the Company's Net Periodic Pension Expense as of June 30, 2004?

12. Please update the response to PSC-1-51 by providing the actual rate case expenses booked for this rate case through 5/31/04.
13. With reference to Page 1 (Account 1.921.07) of the response to AG-1-45a, explain the nature and purpose of the \$2,000 (\$1,000, \$750 and \$250) membership items for Mr. Jennings – Vendor No. 1260.
14. With regard to the response to AG-1-38, please provide the following information:
  - a. What do the \$20,538 Stock expense, the \$51,440 Cash Supplement, and the \$2,282 Cash In Lieu of Stock represent, and how are these 3 items distinguishable from one another?
  - b. Reconcile each of the fee and expense items for 2003 adding to \$225,369 to the corresponding fee and expense items for 2003 adding to \$225,369 in the response to PSC-2-25 cc.
15. Follow-up to Item 146. This response shows that only about half of the customers that were disconnected for non-payment were eventually reconnected to the Delta system. To the extent that the company maintains information on customers who do not reconnect:
  - a. Please provide an explanation as to why these other customers were never reconnected.
  - b. Please provide information on how these customers received service for heating after they left the Delta system.
16. Follow-up to Item 148 and 2-PSC-7.
  - a. Why is this tariff not being applied to off-system transportation and interruptible customers?
  - b. 2-PSC-7(e) shows that this charge has diminished significantly over the last 5 years.
    - i) Why has this fee gone down so significantly in recent years?
    - ii) Does Delta expect this fee to continue to decrease in future years? If so, by how much?
  - c. 2-PSC-7(a) on page 10 of 28 shows that only \$128 million of the \$5,509 million in benefits went to residential customers:
    - i) Please provide what portion of this charge will be collected from each of the classes identified in the Cost of Service Study.
    - ii) Does this exhibit show that Industrial customers will receive \$884 million in benefits from this research, about 7 times as much as the residential customers.
    - iii) Does this exhibit show that Delta's large industrial customers will not pay into this research fund, as proposed in the Delta tariff?
17. Follow-up to Item 149. This response stated that Tab 8 was incorrect and was being corrected. Is it correct that there is no problem with Tab 8, but it is Tab 26 that is in error and is being corrected?
18. Follow-up to Item 159. This question asked for the analysis to determine the customer/demand split for the distribution system in Delta's last two cases but the

response only provided this analysis for Delta's most recent case. Please provide the analysis for the other case requested.

19. Follow-up to Item 163. The answer to this question was not responsive. Please provide:
  - a. The Special Contract fixed price contracts referred to by Mr. Seelye.
  - b. Please state whether these contracts forbid the Commission from raising these customers' rates.
  
20. Follow-up to 2-PSC-21.
  - a. Is this just an opinion of Mr. Seelye or is there some analysis that supports his position? If he has relied on some analysis, please provide that analysis
  - b. Please provide the number of Delta residential customers that use natural gas for space heating.
  - c. Please provide the number of Delta residential customers that do not use natural gas for space heating.
  - d. Please provide the number of Delta small commercial customers that use natural gas for space heating.
  - e. Please provide the number of Delta small commercial customers that do not use natural gas for space heating.
  - f. Please provide the number of Delta residential customers that have left the Delta system in the last 5 years that used natural gas for space heating.
  - g. Please provide the number of Delta residential customers that have left the Delta system in the last 5 years that did not use natural gas for space heating.
  - h. Please provide the number of Delta small commercial customers that have left the Delta system in the last 5 years that used natural gas for space heating.
  - i. Provide Please the number of Delta small commercial customers that have left the Delta system in the last 5 years that did not use natural gas for space heating
  
21. Please refer to the Value Line sheets provided in response to Staff Data Request, Set 2, No. 16 and to Attorney General's Data Request No. 128. Where, on the page for Delta Gas, is found the 6.5 percent 5 year forecast earnings growth used by Dr. Blake in his Exhibit MJB-7?
  
22. Please refer to the Company's response to Attorney General's Data Request No. 133, and specifically the report on Delta by Stifel, Nicolaus & Company. At pages 3 and 9 of their report, Stifel, Nicolaus report that Delta's debt percentage of total capitalization is 52 percent. There being no preferred stock, this implies an equity percentage of 48 percent. Please reconcile these observations with the 34 percent equity proportion shown for Delta on Dr. Blake's Exhibit MJB-2. Then, reconcile both percentages with the 37.15 percent equity shown on Schedule 9 in the Company's response to 807 KAR 5:001, Section 10(6)(h).
  
23. Please identify the column headings in the attachment to the response to Attorney General's Data Request No. 137.
  
24. Please refer to the attachment to the Company's response to the Attorney General's Data Request No. 139, and specifically the \$1,010,147 payable from Delta Resources to Delta Natural Gas and the \$2,429,865.

- a. Describe fully the cause and nature of these payables.
  - b. State whether these amounts should be construed as loans from Delta Natural Gas to the affiliated entities and if not, why not.
  - c. Identify the terms of the repayment of these payables.
25. The Company's response to the Attorney General's Data Request No. 138 states that the financial data in response to Staff Data Request No. 9 was for Delta Natural Gas, the regulated entity, as is the attachment to the response to Data Request No. 138. The Attorney General's data request sought corresponding schedules for the combined company, inclusive of the unregulated entities. Please provide the requested information.
  26. The Company's response to Attorney General's Data Request No. 138 shows short term debt as of December 31, 2002 and 2003. Please provide the average amount of short-term debt outstanding at the conclusion of each month between December 31, 2002 and December 31, 2003.
  27. What is Delta's investment in its subsidiary Companies? Is that investment treated as equity investment?
  28. Does the equity component of Delta's capital structure include customer deposits? If so, what is the amount of these deposits?
  29. Follow-up to Question 52. Pages 362 and 363 appear to provide the plant and reserve balances as of December 31, 2002. These balances match the balances shown on Appendix B of the depreciation study, where they are labeled "As of June 30, 2002." They also match the balances in Appendix C of the depreciation study. Please reconcile these two data sources and explain the inconsistency in labeling.
  30. Follow-up to Question 71. Please provide all information Delta is aware of concerning the existing depreciation rates. For instance, are the existing rates remaining life rates?
  31. Follow-up to Question 72. Please provide the parameters (including survivor curve and net salvage ratio) underlying the existing depreciation rates. For instance, the response to Question 117 states that the existing rate for account 1.333 does not include a provision for net salvage. This would indicate some knowledge of the existing parameters. Please provide this information to the maximum extent possible; i.e., if not every account is known, please provide the information where it is known.
  32. Follow-up to Question 87. Please provide the 2005 budget mentioned as being attached to the response.
  33. Follow-up to Question 96. Please refer to the page of the attachment entitled "Memo re CPR's". Please describe what was done regarding the two recommendations on this page.
  34. Follow-up to Question 111. Please provide the spreadsheet in electronic format (Excel), with all formulae intact, as originally requested. If any amounts are "hard coded" in the spreadsheet, please provide the source of those amounts.



35. Follow-up to Question 53. Please provide Appendix B of the depreciation study in electronic format (Excel) with all formulae intact.

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