

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

**RECEIVED**

AUG 09 2004

PUBLIC SERVICE  
COMMISSION

In the Matter of:

AN ADJUSTMENT  
OF RATES OF DELTA NATURAL  
GAS COMPANY, INC.

)  
)  
)

CASE NO. 2004-00067

REBUTTAL TESTIMONY OF

GLENN R. JENNINGS

August 9, 2004

AFFIDAVIT

The affiant, Glenn R. Jennings, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared rebuttal testimony of this affiant in Case No. 2004-00067, in the Matter of: An Adjustment of Rates of Delta Natural Gas Company, Inc. and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared rebuttal testimony.

Affiant further states that he will be present and available for cross-examination and for such additional examination as may be appropriate at the hearing in Case No. 2004-00067 scheduled by the Commission, at which time affiant will further reaffirm the attached prepared testimony as his rebuttal testimony in such case.

Glenn R. Jennings  
Glenn R. Jennings

STATE OF KENTUCKY    )  
  )  
COUNTY OF CLARK    )

Subscribed and sworn to before me by Glenn R. Jennings, this the 5<sup>th</sup> day of August, 2004.

My Commission Expires: 6/20/2008

Emily P. Bennett  
Notary Public, State at Large, Kentucky

1 Q. Please state your name and business address.

2 A. Glenn R. Jennings, Delta Natural Gas Company, Inc., 3617 Lexington Road,  
3 Winchester, Kentucky 40391.

4 Q. Have you previously filed direct testimony in this proceeding?

5 A. Yes.

6 Q. What is the purpose of this testimony?

7 A. I will discuss and rebut certain portions of the testimony the Attorney General's  
8 witnesses, David Brown Kinloch and Robert J. Henkes, in this proceeding.

9 Q. Do you agree with Mr. Kinloch that a portion of the rate increase should be  
10 apportioned to Delta's special contract transportation customers?

11 A. No. In addition to the reasons stated by W. Steven Seelye in his rebuttal  
12 testimony, it would be inappropriate and unfair to those industrial customers with  
13 negotiated transportation contracts. As permitted in Delta's tariffs, Delta  
14 negotiated in good faith with certain large use industrial customers for long-term  
15 fixed-price transportation agreements. Those agreements are necessary in some  
16 circumstances to meet competitive alternatives and to aid in attracting and/or  
17 retaining industry. These customers provide revenue with which Delta meets its  
18 cost of service.

19  
20 Those special contracts set forth the terms, including pricing, to which Delta and  
21 the customer have agreed. The Commission has accepted these contracts. It  
22 would be unfair to those customers to now increase the pricing of our services  
23 during the contract terms. In addition, it would be detrimental to future economic  
24 development efforts. It could also result in potential loss of the customers.

1  
2 Delta encourages the Commission to leave the special contracts as they are and  
3 not apply any of the increase to them. Delta's revenues from those special  
4 contract customers are included in this rate case and the benefits from that  
5 revenue inures to the benefit of all other customers. Also, Delta's service area  
6 benefits from the jobs provided by these industrial customers. It could be very  
7 detrimental to all involved to assign a price increase of \$63,636 to those special  
8 contract transportation customers of Delta as Mr. Kinloch proposes.

9 Q. Can you comment on the proposals by Mr. Henkes to exclude \$52,126 of Director  
10 fees and expenses?

11 A. Yes. I disagree with the conclusion reached by Mr. Henkes. I believe that Delta's  
12 level of test year Directors' fees and expenses are reasonable and that they  
13 represent fairly the appropriate level to be reflected in rates on a prospective basis.  
14 The amount of Directors' fees and expenses in the test year was \$225,369.

15  
16 As reflected in Delta's response to PSC 3-13, Delta's current annualized director  
17 retainers are \$205,200. We have been providing some additional common stock  
18 compensation each year and the dollar value of the stock compensation in the test  
19 year was \$22,820.

20  
21 Delta has continued to review and consider appropriate compensation for its  
22 Board of Directors, especially in light of changing corporate governance  
23 requirements and particularly the impacts of the Sarbanes-Oxley Act of 2002. It  
24 has been necessary to increase this compensation in order to attract as well as  
25 retain directors. Delta's independent Nominating and Compensation Committee

1 of the Board considers these changes and requirements, as well as board  
2 compensation paid by other public companies, as it fulfils its obligation to make  
3 recommendations to Delta's full Board as to the appropriate levels of Board  
4 compensation.

5  
6 Appropriate Board compensation, as well as expenses for Directors' meetings and  
7 related expenses are necessary business expenses and are directly related to Board  
8 meetings and service on Delta's Board. Delta is blessed with an informed and  
9 engaged Board of Directors. It is certainly to the benefit of Delta's customers to  
10 have such good corporate governance.

11  
12 Delta has had to increase Board compensation both during the test year as well as  
13 after the end of the test year. We expect this trend to continue into the future. This  
14 trend will continue to require increased compensation to Delta's Board members  
15 in order to be reasonably competitive and to thus be able to attract as well as  
16 retain Board members.

17  
18 The amount of expense in the test year for Board compensation and Board related  
19 expenses is certainly reasonable and reflective of the minimum amount necessary  
20 for this area on a prospective basis.

21 Q. Mr. Henkes recommends exclusion from allowed expenses of certain  
22 miscellaneous expenses totaling \$87,343. Do you agree with this exclusion?

23 A. No. Although we recognize that some similar items have at times been excluded  
24 from allowable expenses in rate proceedings, we believe that these items included  
25 in our test year results should be included in allowable expenses as we requested

1 in our rate filing. These expenses detailed by Mr. Henkes are all valid business  
2 expenses and all are made in support of Delta's business. Thus, they all are  
3 certainly beneficial to Delta's customers as well.

4  
5 AGA dues are a valid business expense. It is critical that Delta stay actively  
6 involved in industry trade groups so that we can be kept current on industry issues  
7 and have a voice in the formulation of industry input.

8  
9 Incentives to builders and economic development expenses are all valid business  
10 expenses of Delta. These efforts assist in adding new customers and in adding  
11 sales loads in our service area. These sales from such customers are included in  
12 Delta's revenues in this test year and thus are taken into account in setting rates  
13 for all customers. This helps to keep rates lower to all customers by spreading our  
14 overhead over a larger sales and customer base. These expenses also assist in the  
15 economic development of our service area by strengthening the economy and  
16 helping provide jobs. This certainly helps all of our customers and our service  
17 area.

18  
19 Expenses associated with gifts, awards, memberships, events and community  
20 involvement are valid business expenses and necessary in an ongoing business.  
21 These items were all for Company related items. Many of them help with  
22 employee morale and assist in employee retention. By maintaining an  
23 experienced, qualified, trained staff we are better able to provide our customers  
24 with good, safe, reliable service and we can thus meet our customers' needs in a  
25 safe, efficient manner. Community involvement is vitally important to Delta and

1 Delta's customers to support our service area and the organizations involved in  
2 each community we serve.

3  
4 These amounts represents recurring amounts that will be spent by Delta with its  
5 employees, customers and communities we serve as a part of our continuing effort  
6 to provide safe, effective, efficient service and they should be included as  
7 allowable expenses in this rate case.

8 Q. Does this conclude your rebuttal testimony at this time?

9 A. Yes.