

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

Delta Natural Gas Company, Inc. ("Delta") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and seven copies of the following information, with a copy to all parties of record. The information requested herein is due on or before June 28, 2007. Each copy of the data requested should be placed in a bound volume with each item tabbed. Responses to requests for information shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6, and shall include the name of the witness responsible for responding to the questions related to the information provided.

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

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

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

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

1. Refer to the Application, the Financial Exhibit, pages 2 and 3 of 8. Has Delta redeemed any of the 7.0 percent debentures that mature in February 2023? If yes, provide full details of the redemption, including the amount redeemed, the date of redemption, and all costs associated with the redemption.

2. Refer to the Application, Tab 7.

a. The tariff pages which describe the Conservation and Efficiency Program ("CEP") state that the costs could include the cost of consultants. Identify the type of consultants Delta may have occasion to hire for this program.

b. Explain how Delta will be able to determine whether a change in usage is the result of the CEP or another factor.

c. Explain why the balance adjustment includes interest.

d. Provide an example of the detailed calculation that Delta would submit for the CEP.

3. Refer to the Application, Tab 8, Sheet No. 24. Delta has altered its tariff language for the Budget Billing Plan to incorporate any amounts to be settled into the subsequent budget year.

a. Describe how Delta currently handles any settlement amounts in the Budget Billing Plan.

b. Explain the rationale for changing this portion of the tariff.

c. Explain the extent to which any delays in receiving under-collections during the winter may affect Delta's cash flow.

4. Refer to the Application, Tab 8, Original Sheet No. 44. In its Customer Rate Stabilization ("CRS") tariff, Delta proposes to recover the Commission's and the Attorney General's ("AG") incremental cost for one employee each. Explain why Delta is limiting the additional cost to one employee per agency.

5. Refer to the Application, Tab 24. Provide the calculations used to produce the exhibit.

6. Refer to the Application, Tab 27.

a. Refer to Schedule 3, lines 12 and 13.

(1) The pro forma lobbying payroll expense shown on Schedule 3, line 12, does not agree with the information provided in the response to the Commission Staff's First Data Request dated March 19, 2007 ("Staff's First Request"), Item 30. Indicate which amount is correct.

(2) Provide the workpapers showing the determination of the benefits and taxes loading rate, as stated on Schedule 3, line 13.

b. Refer to Schedule 3.1.

(1) Provide the workpapers showing the determination of the annualized salaries and wages and the pro forma capitalized wages and subsidiary allocation, as stated on lines 1 and 2 of Schedule 3.1. The workpapers should indicate

whether employees are salaried or hourly and clearly identify employees who were terminated or hired during the test year.

(2) In the November 10, 2004 Order in Case No. 2004-00067,¹ the Commission found that the payroll adjustment proposed in that case utilized an approach that was not consistent with the Commission's generally used approach for determining payroll expenses for rate-making purposes. Explain how Delta prepared the payroll adjustment proposed in this case and explain why such approach is reasonable.

(3) If Delta's proposed payroll adjustment did not utilize the approach the Commission described in the November 10, 2004 Order in Case No. 2004-00067, provide a revised payroll expense adjustment based on the Commission's generally used approach. Include all workpapers, calculations, assumptions, and other documentation used to determine the revised adjustment.

c. Refer to Schedule 4, page 2 of 3. Delta has included in its proposed adjustment depreciation expense on construction work in progress ("CWIP") balances. In the November 10, 2004 Order in Case No. 2004-00067, the Commission rejected the inclusion of depreciation expense on CWIP for rate-making purposes. Explain in detail why the Commission should in this case include depreciation expense on CWIP for rate-making purposes.

d. Refer to Schedule 5.

¹ Case No. 2004-00067, Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates, final Order dated November 10, 2004, at 13-15.

(1) Does Delta's proposed payroll tax adjustment reflect the increase in the Federal Insurance Contribution Act ("FICA") base wage limit that took effect on January 1, 2007? Explain the response.

(2) Provide a revised Schedule 5 that reflects the effect of the increased FICA base wage limit effective January 1, 2007. Include all workpapers, calculations, and assumptions used to prepare the revision.

(3) If Delta prepares a revised payroll adjustment, as previously referenced, provide a corresponding revision to the proposed payroll taxes. Include all workpapers, calculations, and assumptions used to prepare the revised payroll taxes.

e. Refer to Schedule 7.

(1) Provide the calculations used to determine the tax expansion factor.

(2) If the tax expansion factor does not include a component for the PSC Assessment, explain why this component was excluded.

(3) Included on Schedule 7 is the computation of the pro forma effective income tax rate for Delta. Explain the reason for including this calculation and explain how Delta utilized the effective income tax rate in the determination of its revenue requirements.

f. Refer to Schedule 8.

(1) Reconcile the Common Equity per Delta's balance sheet with the test-year-end trial balance provided in the response to the Staff's First Request, Item 10, page 2.

(2) Provide the interest rate for Delta's short-term debt as of June 1, 2007.

7. Provide the amount of Delta's minimum pension liability as of test-year-end.

8. Refer to the Application, the Direct Testimony of Glenn R. Jennings ("Jennings Testimony"), page 6.

a. Provide copies of *An Economic Analysis of Customer Response to Natural Gas Prices*, by Frederick Joutz and Robert P. Trost.

b. Has Delta performed any analysis of financial information and operations other than the 3-year margin comparison to determine why it has not been able to earn an adequate rate of return?

(1) If yes, provide and describe the results of the analysis.

(2) If no, explain why such an analysis has not been performed.

9. Refer to the Jennings Testimony, page 7. Provide the number of large volume customers that have left Delta's system since the last rate case.

10. Refer to the Jennings Testimony, page 8.

a. Delta states it is concerned that the increase in transportation volumes experienced since its last rate case will not continue. Provide the reason(s) for the 20 percent increase in transportation volumes since the last rate case.

b. Delta states it must be able to raise common equity in order to continue to obtain long-term and short-term debt. Explain why the ability to raise common equity is needed in order to obtain long-term and short-term debt.

11. Refer to the Jennings Testimony, page 11. Mr. Jennings states that Delta's number of employees has dropped from 183 in 1999 to 156 in 2006. However, the response to the Staff's First Request, Item 36, page 2 of 2, indicates there were 183 employees in 2006. Reconcile the two different employee counts for 2006.

12. Refer to the Jennings Testimony, pages 12 through 15, regarding his discussion of the CRS mechanism.

a. Explain in detail how the annual reviews of Delta's cost of operations under the CRS will ensure that customers experience more stable and equitable rates and provide customer rate protection.

b. Delta's proposed CRS envisions that the Commission and the AG would be the only participants in the annual filing review. Explain how the process would work if another party sought and was granted intervention in the CRS review.

c. Explain in detail how Delta has determined that the proposed annual reviews will be more cost-effective than the traditional rate case process.

d. Explain in detail what controls are contained in the proposed CRS mechanism that will encourage Delta to contain costs.

13. Refer to the Jennings Testimony, page 13, lines 14 through 16. Delta states that the CRS will "provide only the revenue needed to achieve the rate of return authorized." Does Mr. Jennings contend that the current rate-making process provides a means in which Delta may achieve a greater rate of return authorized in its last rate case? Explain the response.

14. Refer to the Jennings Testimony, page 15. Delta states that there should be less staff and outside resources needed by the Commission and the AG to review

the annual CRS mechanism proposed in its application. Explain further why the Commission, the AG, or both would need less staff to review Delta's CRS filings.

15. Refer to the Jennings Testimony, page 15, and Exhibit GRJ-1.

a. Describe the adjustments made to the directors' compensation and the number of directors, as referenced on page 15. Explain the reason(s) for each adjustment.

b. Refer to Exhibit GRJ-1, page 6. Revise the chart shown on this page to include the directors' compensation package in effect as of test-year-end.

c. Refer to Exhibit GRJ-1, page 13. For each company shown on this schedule, provide the number of retail customers for each company.

d. Refer to Exhibit GRJ-1, page 13. For each of the industry peer group companies listed below, explain in detail why the company qualifies as a peer of Delta, given the industry, number of employees, sales, or September 2006 market value.

- (1) Semco Energy, Inc.
- (2) Cascade Natural Gas Corp.
- (3) Chesapeake Utilities Corp.
- (4) Northwest Natural Gas Co.
- (5) EnergySouth, Inc.

e. Refer to Exhibit GRJ-1, page 14. Based on the analysis shown on page 14, would Delta agree that the only component of total annual compensation that was significantly lower than the peer group was the retainer fee? Explain the response.

f. Using the information provided in Exhibit GRJ-1, page 14, describe how Delta compares with the following companies:

- (1) RGC Resources, Inc.
- (2) Energy West, Inc.
- (3) Corning Natural Gas Corp.

16. Refer to the Application, the Direct Testimony of John B. Brown ("Brown Testimony"), page 6. Mr. Brown states, "While the results of a test year will never perfectly predict expenses in subsequent years, we believe that our 2006 test year, as adjusted and taken as a whole, is a conservative representation of our expenses in subsequent years."

a. Would Delta agree that in rate-making, the proposed adjustments to a test year should attempt to establish a reasonable, on-going level of revenues and expenses for the utility? Explain the response.

b. Explain in detail how "a conservative representation" of expenses is consistent with the establishment of a reasonable, on-going level of expenses.

17. Refer to the Brown Testimony, page 7.

a. Has Delta examined its medical coverage expense, its uncollectible accounts expense, and its legal expenses to try and determine why the test-year amounts were lower in 2006 than in previous years?

(1) If yes, provide the reason(s) identified for the expense reductions.

(2) If no, explain in detail why Delta has not undertaken such an analysis.

b. Provide the last medical coverage premium paid during the test year and calculate a normalized level of expense based on that last premium.

c. Refer to the response to the Staff's First Request, Item 32. Given the historic data concerning the current provision for uncollectible accounts and the percentage of the current provision to total revenues, would Delta agree that an adjustment could have been proposed reflecting an average of its recent historic experience? Explain the response, and if Delta agrees describe how it would determine a proposed adjustment.

18. Refer to the Brown Testimony, pages 7 and 8. On page 7, starting at line 18, Mr. Brown states, "By keeping our pro forma adjustments to a minimum, we encourage the Commission to utilize the historical test year." Explain in detail how limiting its proposed adjustments results in "encouraging" the utilization of a historic test year.

19. In the November 10, 2004 Order in Case No. 2004-00067, the Commission addressed adjustments related to Delta's 401(k) plan expenses, pension expense, and Sarbanes-Oxley compliance expenses. In the current case, no adjustments have been proposed for these items.

a. Concerning Delta's 401(k) plan expenses:

(1) Provide the test-year level of expense.

(2) Describe any changes to the 401(k) plan that were initiated during the test year or in the months subsequent to the test year. Include a discussion of the affect the changes would have on the expense level.

(3) Using the most current plan invoices, determine a normalized 401(k) plan expense for Delta. Include all workpapers, calculations, and assumptions.

b. Concerning Delta's pension expense:

(1) Provide the test-year level of expense.

(2) Provide copies of the most current actuary analysis of Delta's net periodic pension expense.

(3) Using the most current actuary analysis of the net periodic pension expense, determine a normalized pension expense. Include all workpapers, calculations, and assumptions.

c. Concerning Delta's Sarbanes-Oxley compliance expenses:

(1) Provide the test-year level of expense, showing in detail the various components of the compliance expense.

(2) Describe any changes to Delta's Sarbanes-Oxley compliance expenses that occurred during the test year or in the months subsequent to the test year. Include a discussion of the affect the changes would have on the expense level.

20. Refer to the Brown Testimony, Exhibit JB-1.

a. The listing of expenses on this exhibit includes references to six footnotes. However, no footnotes for the numbered references were provided. Provide the missing information.

b. Delta estimates that the supplies/postage cost associated with the reconnection/disconnection, collection and bad check charge is \$3.00 per hour. Provide

a detailed explanation of what is included in that list and how Delta determined that cost.

c. Provide a detailed explanation of what is included in the transportation cost under miscellaneous expense for the reconnect/disconnect, collection and bad check charges.

21. Refer to the Application, the Direct Testimony of Matthew D. Wesolosky ("Wesolosky Testimony"), page 4. Provide copies of *The Minority Report of The Advocates for Energy Efficiency and the Environment on the Energy Efficiency Task Force Convened by the Kentucky Department of Public Protection* released on February 26, 2007.

22. Refer to the Wesolosky Testimony, pages 6 through 11, and Exhibit MDW-1, concerning the proposed CEP. Has Delta performed the "California Tests" (Ratepayer Participant Test, Utility Cost Test, Ratepayer Impact Measure Test, and Total Resource Cost Test) to determine the cost effectiveness of this program?

a. If yes, provide the results of each test. Include all workpapers, calculations, assumptions, and other supporting documentation.

b. If no, explain why Delta has not performed these tests. In addition, perform the tests and provide the results, including all workpapers, calculations, assumptions, and other supporting documentation.

23. Refer to the Wesolosky Testimony, pages 7 and 8. Delta states that the rebate on high efficiency appliances assists customers in paying the incremental costs of high energy appliances.

a. Explain how Delta determined the amount of the rebates shown on pages 6 and 8 of Exhibit MDW-1.

b. Identify and describe the incremental costs associated with the purchase of a high efficiency appliance.

c. How do the rebates proposed by Delta compare with these incremental costs?

d. Will all customers be responsible for paying for Delta's lost revenues under the CEP or just the customers who participate in the program?

e. Delta's proposed CEP includes an incentive to administer the program. If the mechanism allows Delta to recover its lost revenues, explain why it also needs an incentive within the program.

f. Explain how Delta determined that its incentive for administering the CEP should be 15 percent.

g. Delta states that it expects participation in the CEP to increase. Explain in detail the basis for this expectation. Include copies of any studies or analyses performed by or for Delta.

h. Delta states that its proposed CEP mechanism has been modeled after other demand-side management ("DSM") rate mechanisms previously approved by the Commission and currently in effect. Identify the utilities.

24. Refer to the Wesolosky Testimony, pages 8 and 9, Exhibit MDW-1, and the Application, Tab 7, Sheet Nos. 38 through 41. Concerning the proposed CEP incentive, provide Delta's calculation of the present value of the expected commodity savings generated in excess of the CEP costs, as referenced.

25. Refer to the Wesolosky Testimony, page 11. Provide the calculation of Delta's conservation estimate for the energy audits.

26. Refer to the Wesolosky Testimony, Exhibit MDW-1.

a. On page 3 is a statement that Delta had previously developed and offered a home energy audit program at no cost to the customer.

(1) Provide a description of this home energy audit program.

(2) Indicate the years the program was in effect.

(3) Indicate the number of audits performed each year the program was in effect.

(4) Provide the annual cost of the audits.

(5) If the audit program has been discontinued, explain why the program was discontinued.

b. On page 11 is a statement that the energy audit is a service provided at no cost to any Delta customer classified as residential or small commercial. However, the proposed CEP tariff on Sheet No. 38 states the tariff is for residential customers only.

(1) Indicate whether the energy audit will be available to small commercial customers.

(2) If the energy audit will be available to small commercial customers, explain why the proposed CEP tariff is not applicable to that customer class.

c. Page 12 presents the projected participation in the proposed CEP from 2008 through 2017. Explain in detail how Delta determined the number of heating

units, water heaters, and energy audits. Include all workpapers, calculations, assumptions, and other supporting documentation.

d. Page 13 presents the program budgeted expenditures for the proposed CEP. Explain how Delta determined the amounts for each line item of the expenditures. Include all workpapers, calculations, assumptions, and other supporting documentation.

e. Page 15 describes the lost sales recovery portion of the cost recovery mechanism. Will lost sales be determined on the customer awareness portion of the proposed CEP? If yes, explain how this will be determined.

f. Is Delta's proposed CEP consistent with its most recent long-range integrated resource plan? Explain the response.

g. Were customer representatives and the AG involved in the development of the proposed CEP?

(1) If yes, identify the customer representatives involved and describe the level of involvement of those representatives and the AG in developing the proposal.

(2) If no, explain why customer representatives and the AG were not involved.

27. Refer to the Wesolosky Testimony, pages 11 through 15.

a. Does the CRS mechanism provide for any consideration of the appropriate rate of return on equity as part of each annual review? Explain why or why not.

b. Does the CRS provide for consideration of the reasonableness of the costs and expenses incurred during the Evaluation Period? Explain why or why not.

c. Does the CRS provide for updating the cost of debt as part of each annual review? Explain why or why not.

d. How did Delta determine that a 45-day period from initial filing of the annual CRS review to the issuance of a Commission Order by October 31 was a reasonable time for staff and the AG to complete their review and for the Commission to render its decision?

e. Will Delta file any testimony or narrative discussion relative to its operations and earnings as part of the annual review of the CRS? Explain why or why not.

f. What does Delta anticipate its costs will be to file and process an annual CRS case? Provide all assumptions and supporting workpapers.

28. Provide an analysis of the annual change in revenues (increase or decrease) that Delta would have implemented each year since its last rate proceeding if it had been operating under the proposed CRS mechanism. Include all workpapers, calculations, and assumptions.

29. Refer to the Wesolosky Testimony, pages 13 and 14.

a. Define incremental employee costs.

b. Explain how Delta expects the Commission and the AG to account for incremental employee costs.

c. Delta states it envisions the filing requirements for the CRS would be determined through a collaborative process between the Commission, the AG, and Delta.

(1) Assuming the Commission approved the CRS as proposed, when would Delta expect this collaborative process to begin?

(2) In the event the participants cannot agree on the filing requirements, what would be the affect on the CRS?

30. Refer to the Wesolosky Testimony, page 14.

a. Has Delta developed any estimates of the additional cost to the Commission or to the AG for the additional staff they will need in order to process the application within the 45-day time frame? Explain the response.

b. If Delta has experienced decreased customer counts and volumes sold during the past 5 years, is there any expectation that the CRS mechanism will ever decrease rates or is the expectation that the rates will routinely increase?

c. If rates are increased both in this current case and through the CRS, will the decline in the number of customers and volumes sold continue as customers try to lower their bills through conservation?

31. Refer to the Wesolosky Testimony, page 15. Delta states that the off-system transportation rates would be considered in general rate cases every 5 years.

a. Does Delta's proposed CRS mechanism allow for general rate cases every 5 years?

b. If no, is Delta willing to commit to filing a general rate case every 5 years?

c. If no, explain how the Commission can be assured that the off-system transportation rates will be adjusted every 5 years.

32. Refer to the Application, the Direct Testimony of Martin J. Blake ("Blake Testimony"), pages 10 through 15.

a. Provide a table illustrating Delta's year-end capital structure for the last 12 years.

b. Provide an explanation of how the company determines its capital structure and any documentation, including Board minutes demonstrating that the company has purposefully attempted to increase the equity portion of its capital structure over the last 12 years in order to earn a higher return.

c. Exhibit MJB-2 lists 15 natural gas distribution companies and their percentage of equity to total capitalization. For each listed company, provide a breakdown of the revenues into regulated and nonregulated revenues, including a distinction between natural gas distribution revenues and all other regulated revenues. Also include any revenues from international investments and whether or not any were involved in merger activity at the time of the analysis.

d. Provide an explanation of Delta's target percent equity.

e. If Delta is awarded its recommended return on equity ("ROE"), provide an explanation of what actions it plans to take to increase the equity portion of its capital structure, and how those actions will increase its equity percentage.

f. If customer conservation and/or customer loss is a reason for Delta's inability to earn its allowed rate of return on equity, explain why the proposed rate increase will not exacerbate the problem.

g. Is it possible that a failure to adequately control expenses could also be a factor in Delta's inability to earn its allowed return on equity? Explain the response.

33. Refer to the Blake Testimony, page 15. Dr. Blake states, "Furthermore, these rural customers tend to have a lower annual usage and a larger proportion of temperature sensitive load than urban customers." Provide copies of studies demonstrating the validity of this statement.

34. Refer to the Blake Testimony, pages 17 and 18.

a. Explain why Delta has a gas cost recovery mechanism and the benefits Delta derives from this mechanism.

b. Is Dr. Blake advocating that Delta be allowed to earn a return on the under-recover and deferred gas costs? If so, should Delta also be required to pay interest on over-recoveries?

c. Provide a chart illustrating the amount of revenue that would have been generated by Delta if it had been allowed to earn a return on the under-recovered and deferred gas costs and the effect on year-end returns. The chart should illustrate revenues by month since the rates from the last rate case went into effect and should include a list of all assumptions.

d. To the extent that internal financing and short-term borrowing were used to finance under-recoveries and deferred gas costs, explain how Delta will not capture these expenses along with other expenses during the test year?

35. Refer to the Blake Testimony, pages 32 through 36, regarding the discussion of the proposed CRS Mechanism. Although Alabama does not appear to

require a reduction in ROE due to reduced risk, is Dr. Blake aware of any jurisdictions that have made such an adjustment due to reduced risk associated with a CRS mechanism? Explain the response.

36. Refer to the Blake Testimony, page 33. Provide a schedule showing gas usage per customer for the past 10 years.

37. Refer to the Blake Testimony, page 37. Dr. Blake states that under the proposed CEP, Delta would be recovering lost sales resulting from the rebate program, the home energy audits, and customer awareness.

a. Explain in detail how the lost sales associated with customer awareness would be determined.

b. Page 8 of the Wesolosky Testimony states that lost sales will be determined for the rebate and energy audit components of the proposed CEP only. Explain how Dr. Blake concluded that lost sales would be determined on customer awareness.

38. Refer to the Blake Testimony, page 38. Provide copies of the American Gas Association and Natural Resources Defense Council's joint statement titled "Energy Efficiency Problem: Regulated Natural Gas Utilities are Penalized for Aggressively Promoting Energy Efficiency," as referenced.

39. Refer to the Blake Testimony, Exhibits MJB-8 through MJB-10 and MJB-12 through MJB-16.

a. In rate cases, it would be common for analysts to use companies with characteristics similar to Delta's as proxies to obtain ROE estimates in rate cases. With the possible exception of a growth rate figure in Exhibit MJB-9, this does not

appear to be the case for Dr. Blake. Provide an explanation of why a proxy group was not also included in estimating an appropriate ROE for Delta.

b. Explain how the companies, other than Delta, included in these exhibits are used, if at all, in the calculation of Delta's ROE recommendation.

c. Explain how each of the companies included in each of the exhibits is appropriate for use as a comparison to Delta.

40. Refer to the Blake Testimony, Exhibit MJB-8. Provide the data and calculations used to calculate the sustainable growth rate of 2.37 percent.

41. Refer to the Blake Testimony, Exhibit MJB-9. Explain why the Discounted Cash Flow calculations are valid when the stock prices and dividend are Delta's and the growth rate appears to be based on other companies.

42. Refer to the Blake Testimony, Exhibits MJB-12, MJB-14, and MJB-16. Reconcile the differences between the Capital Asset Pricing Model calculations for Delta.

43. Refer to the Blake Testimony, Exhibits MJB-12 and MJB-13. Explain how the 7.1 percent equity risk premium is calculated. In addition, provide the relevant pages from the Ibbotson Associates' *Risk Premium Over Time Report: 2006* as part of the response.

44. Refer to the Application, the Direct Testimony of William Steven Seelye ("Seelye Testimony"), page 4. Provide copies of the orders in Case Nos. GR-2006-0387 and GR-2006-0422 from the Missouri Public Service Commission.

45. Refer to the Seelye Testimony, page 6. Delta states that its proposal to recover most of the customer-related costs through the customer charge will eliminate

rate subsidies within the residential class. Provide an example of how the current rate design for residential customers creates a subsidy.

46. Refer to the Seelye Testimony, page 15. Provide an electronic copy of the cost of service study, with all formulae intact.

47. Refer to the Seelye Testimony, page 29. Delta states that it prefers not to make a year-end customer adjustment due to the numerous customers who voluntarily disconnect during the non-winter months.

a. Provide the basis for the customer count used in Seelye Exhibit 4, page 1 of 16, and explain why this method is appropriate.

b. Provide the number of customers by month and by customer class for the period 2002 through 2006.

c. Explain how increasing rates will prevent customers from leaving in the next few years.

48. Refer to the Seelye Testimony, page 30. Provide the survivor curves and depreciation rates from neighboring gas utilities that were utilized in Delta's depreciation study, as references at lines 11 through 13.

49. Refer to the Seelye Testimony, Seelye Exhibit 4, page 16 of 16. Should the Collection Fees, Reconnect Revenue and Bad Check Revenue charges under "Proposed" be \$20, \$60, and \$15 respectively?

50. Refer to the Seelye Testimony, Seelye Exhibit 11.

a. Provide the survival curves for all accounts that best fit the data provided by Delta and recommended by the depreciation study.

b. Refer to pages 2 through 10. Several of the plant account narratives end with the statement, "The recommended accrual rate is reasonable compared with other gas distribution utilities in the region." For each plant account narrative containing this statement, identify the applicable gas distribution utilities.

c. Refer to page 4. Explain the reason(s) for the recommended depreciation rate for Account No. 305 – Structures and Improvements – Manufactured Gas Plant.

d. Refer to page 5. The narrative for Account No. 334 – Gathering Lines states that Delta is currently using a depreciation accrual rate of 4.00 percent, but the study is recommending Delta maintain its current accrual rate of 2.72 percent. Indicate the correct current depreciation rate and clarify the depreciation study recommendation for this account.

e. Previous depreciation studies submitted to the Commission for approval included an analysis of the book salvage data. This "Summary of Book Salvage" examined the regular retirements, the cost of removal (amount and percentage), the gross salvage (amount and percentage), and the net salvage (amount and percentage) for the entire historical experience for each plant account, as well as calculated 3-year and 5-year moving averages. Did Mr. Seelye prepare such an analysis by plant account number in conjunction with the depreciation study?

(1) If yes, provide copies of the analysis.

(2) If no, explain why this particular analysis was not prepared.

f. Provide all workpapers, calculations, and assumptions that support Appendices A through C of Seelye Exhibit 11.

51. Refer to the response to the Staff's First Request, Item 1. Explain the reason(s) for the reduction in the number of directors from 10 to 8.

52. Refer to the response to the Staff's First Request, Item 9.

a. Concerning the reference to the 2006 Federal Energy Regulatory Commission Form 2, do the financial statements contained in that report incorporate the operational results from Delta's three subsidiaries – Delta Resources, Inc., Delgasgo, Inc., and Enpro, Inc.?

b. Provide an income statement and balance sheet for the test-year that only reflects Delta's regulated operations, in other words, excludes the financial information associated with the three subsidiaries.

53. Refer to the response to the Staff's First Request, Item 10.

a. Identify each account in the trial balance that is exclusively utilized by the three subsidiaries.

b. For any account in the trial balance that is utilized by both Delta's regulated operations and the three subsidiaries, indicate the account and separate the test-year-end balance between the regulated operations and the three subsidiaries.

54. Refer to the response to the Staff's First Request, Item 16. Delta was requested to provide schedules, in comparative form, showing by months for the test year, and the year preceding the test year, the total company balance in each gas plant and reserve account or subaccount included in Delta's chart of accounts as shown in Format 16. The response did not provide the requested information for the subaccounts of Account No. 108 or the account information for Account Nos. 301 through 399. Provide the originally requested information for Account Nos. 108 and 301 through 399.

55. Refer to the response to the Staff's First Request, Item 18. For each account listed below, explain the reason(s) for the change in the total account balance between the test year and previous 12-month period.

- a. Account No. 480.01 – GS Rate Sales Residential.
- b. Account No. 480.02 – GS Rate Sales Other Commercial.
- c. Account No. 480.04 – GS Rate Sales Small Commercial.

56. Refer to the response to the Staff's First Request, Item 20(a). For each account listed below, explain the reason(s) for the change in the total account balance between the test year and the previous 12-month period.

- a. Account No. 410.00 – Deferred Income Taxes, sheet 2 of 13.
- b. Account No. 803.00 – Purchased Gas – Outside, sheet 4 of 13.
- c. Account No. 926.04 – Medical Coverage, sheet 11 of 13.

57. Refer to the response to the Staff's First Request, Item 20(c). Delta was requested to provide a schedule of the total company and Kentucky jurisdictional operations salaries and wages for the test year and each of the 3 calendar years preceding the test year as shown in Format 20c. Delta was also requested to show for each time period the amount of overtime pay. The response to Item 20(c) contains none of the detail requested and does not conform to Format 20c. Provide the originally requested information in the format requested. However, instead of presenting the information on a total company and Kentucky jurisdictional operational basis, provide the information on a total company and regulated operations basis.

58. Refer to the response to the Staff's First Request, Item 27(b).

a. Concerning Account No. 930.01, the director fees and expenses shown on sheets 1 and 2 of 7, provide a schedule by individual listing the compensation for service, cash retainer, chair retainer, committee service retainer, cash performance bonus, and any other thing of value paid to each person serving as a member of Delta's Board of Directors during the test year. Include for each individual the total sum paid by Delta. If any form of compensation to a director was recorded in an account other than Account No. 930.01, provide the same information as requested for Account No. 930.01.

b. Concerning Account No. 930.02, industry association dues shown on sheet 2 of 7, describe the nature and purpose of the following organizations and explain why the expense should be included for rate-making purposes.

- (1) Kentucky Association for Economic Development.
- (2) Tennessee Oil and Gas Association.
- (3) National Investor Relations Institute.
- (4) Associated Industries of Kentucky.
- (5) Madison County HBA.
- (6) Tennessee Gas Association.
- (7) Southeastern Kentucky HBA.
- (8) Society of Corporate Secretaries.
- (9) Kentucky Motor Transport Association, Inc.
- (10) Bluegrass Tomorrow, Inc.
- (11) BB&T Bankcard Corporation.
- (12) Commerce Lexington.

c. For each of the accounts listed below, additional information is needed concerning the nature or purpose of the expenditures contained in the account. For each account listed, repeat the transaction detail as shown in the response, but organize the transactions by vendor name and describe the nature or purpose of the expenditure instead of referencing "Miscellaneous."

- (1) Account No. 930.03, sheet 2 of 7.
- (2) Account No. 930.05, sheets 2 and 3 of 7.
- (3) Account No. 930.09, sheets 3 and 4 of 7.

d. Concerning Account No. 930.11, the miscellaneous expenditures shown on sheets 5 and 6 of 7:

(1) Reprint the transaction detail as shown in the response, but organize the transactions by vendor name and describe the nature or purpose of the expenditure instead of referencing "Miscellaneous."

(2) In the November 10, 2004 Order in Case No. 2004-00067, the Commission found that the expenses recorded in Account No. 930.11, Conservation Program, represented promotional advertising and excluded those expenses for rate-making purposes pursuant to the provisions of 807 KAR 5:016, Section 4. Are the expenditures recorded in Account No. 930.11 for this test year essentially the same as the expenditures disallowed in Case No. 2004-00067? If yes, explain why Delta believes these expenditures should be included for rate-making purposes.

59. Refer to the response to the Staff's First Request, Item 27(c). Explain in detail why Delta records its donations in Account No. 930.10 instead of Account No. 426.

60. Refer to the response to the Staff's First Request, Item 28. Reprint the transaction detail shown on sheets 1 through 8 of 8 with the data organized by vendor name.

61. Refer to the response to the Staff's First Request, Item 28.

a. Describe the nature and purpose of the consulting services provided by H. D. Peet, Eunice Yarber, and Juanita Hensley.

b. Concerning the compensation study by Mercer Human Resource Consultants, does Delta agree this is a non-recurring expenditure and that it should not be included for rate-making purposes? Explain the response.

c. Describe the nature and purpose of the employee relations and benefits provided by Stoll Keenon and Ogden.

d. Describe the nature and purpose of the "TGP General Matters" provided by Miller Balis & O'Neil, P.C.

e. Describe the nature and purpose of cable services provided by Adelphia.

f. Describe the nature and purpose of the information technology services provided by TCG America LLC.

62. Refer to the response to the Staff's First Request, Item 31(f). Provide a schedule detailing the overhead, salaries, and bonuses allocated or assigned to Delta's three subsidiaries during the test year. Explain in detail how any allocations or assignments were determined.

63. Refer to the response to the Staff's First Request, Item 39(a). In determining Delta's revenue requirements and proposed increase in revenues, were the

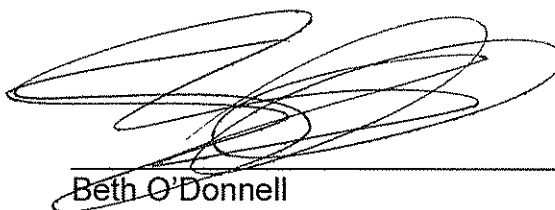
expenses shown in this response included or excluded from the test-year income statement?

a. If included, explain why these expenses were included in the determination of the revenue requirements and proposed revenue increase for Delta's regulated operations.

b. If excluded, indicate where in the record Delta has shown these expenses were excluded from test-year expenses.

64. Refer to the response to the Staff's First Request, Item 43. Delta has a tariff titled "Rider for Gas Technology Institute Research and Development." Explain in detail why Delta responded to Item 43 that there was no research and development activity during the test year. In addition, describe Delta's involvement with the Gas Technology Institute.

65. Refer to the response to the Staff's First Request, Item 46. Provide a detailed description of the employee education benefit and the employee recreation and social benefit. Include in the discussion the reason(s) why the expense for the benefit should be included for rate-making purposes.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
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DATED June 7th, 2007,

cc: All Parties