COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.	)))	CASE NO. 8256

O R D E R

PROCEDURAL BACKGROUND

On June 11, 1981, Delta Natural Gas Company, Inc., ("Delta") filed its Notice with the Commission seeking approval of an increase in rates charged for natural gas service rendered on and after July 1, 1981. The proposed rates would produce an increase in gross annual revenues of approximately $3,541,102 or 17.5 percent above adjusted test period revenues.

The Commission suspended the proposed rates and charges for a period of 5 months on and after July 1, 1981.

Public hearings were held in this matter on July 16, 1981, and October 13, 1981, in the Commission's offices in Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's Office and the City of Berea, Kentucky, were permitted to intervene. Further, the Commission allowed Mr. Robert W. Gilmore, Mayor of the City of Owingsville, Kentucky, and Mr. Jack Farmer, Councilman for the City of Berea, Kentucky, to make statements for their respective communities. At the conclusion of the hearings, the Commission requested that simultaneous briefs be filed by Delta and the intervenors on or before November 9, 1981.

All additional information which was requested at the hearing has been filed, and the entire matter is now submitted for final determination by the Commission.

ANALYSIS AND DETERMINATION

Test Period

Delta proposed and the Commission has accepted the 12-month period ending March 31, 1981, as the test period in this case. Adjustments, where found significant and reasonable, have been included to reflect more current operating conditions.

Consolidation

Delta proposed to consolidate its financial statements with those of its wholly-owned subsidiary, Laurel Valley Transmission Company ("Laurel Valley"). In Delta's last general rate case the Commission excluded Laurel Valley in its determination of revenue requirements, stating that Laurel Valley was non-utility property. Subsequent to the general rate case, the Commission, in its Order in the purchased gas adjustment cases, Case Nos. 7202-A, B, C and E, entered January 16, 1980, permitted Delta to incorporate an increase of $120,000 per year in its gas cost to compensate Delta and Laurel Valley for the use of Laurel Valley's storage and pipeline facilities.

The Commission in this case finds that Laurel Valley meets the Commission's requirements for utility status and has permitted the consolidated filing. This consolidation eliminates all intercompany transactions, provides for Delta to recover Laurel Valley's expenses, and permits Delta the opportunity to earn the allowed return on its investment in Laurel Valley's assets.

Valuation Methods

Net Investment

Delta proposed a consolidated rate base of $16,345,433.[1/] In its calculation of net investment, Delta included adjustments for the estimated costs to purchase Wiser Oil Company's ("Wiser") transmission facilities, building construction facilities and other construction expenditures connected with upgrading the system.

Wiser's Transmission Facilities

In its Order entered December 19, 1980, in Case No. 8025, the Commission granted Delta the authority to acquire certain transmission facilities from Wiser and, moreover, prospectively granted Delta a certificate of convenience and necessity to operate said facilities. The transaction has not been consummated and is not expected to occur until January 1982.

As the record in Case No. 8025 reflects, Delta requested that the Commission not grant authority to purchase the facilities

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1/ Revised Jennings Exhibit A.

if the Commission would not include the acquisition cost in Delta's rate base in its next general rate case. The Commission is cognizant that the failure to include the investment of approximately $1.5 million in Delta's rate base would seriously erode Delta's potential earnings. However, as the transaction has not been completed and the capital costs, especially in today's fluctuating financial markets, cannot be stated with certainty, the Commission will defer the inclusion of the transmission facilities and related adjustments for rate-making purposes until the transaction is complete. At that time, as a part of this proceeding, Delta shall submit proof that the purchase is complete, an accurate statement of the cost of the acquisition and the method and cost of financing the purchase. The Commission will then permit Delta to file, on 20-days' notice, new tariff changes reflecting the dollar amount change resulting from the acquisition.

Committed Building Construction Expenditures

Delta proposed to adjust its rate base for its expected construction costs for a new shop building (authorized by the Commission in Case No. 8134) and for remodeling costs on its Winchester office building, for a total expected cost of $280,000. The Commission is of the opinion that these construction projects are nonrecurring, are at this time substantially complete for service, and if not included in Delta's rate base, would have the effect of eroding Delta's potential earnings. The Commission will accept this adjustment to the net investment rate base and the corollary adjustments to capital and income.

Expenditures Required to Upgrade Delta's System

At March 31, 1981, Delta had construction work in progress of $520,076 included in its rate base calculation. Delta proposed to include an additional $732,500 to upgrade its existing facilities. When cross-examined concerning the amount of construction work in progress of $520,076, Delta's witness, Mr. Glenn Jennings, testified that this amount was reasonably representative of the level that Delta could expect in the future.[2/] Mr. Jennings' statement conflicts with Delta's request, which would, if accepted, produce adjusted construction work in progress of $1,252,576.

The Commission has reviewed the evidence on the inclusion of these out-of-period expenditures in investment and capital. Delta did not quantify any reduction in operating expenses resulting from improved efficiency or reductions in gas line loss. Therefore, the Commission concludes that the adjustment to investment for ongoing additions to plant may have the effect of distorting the test period level of earnings and has rejected it and the corollary adjustments to capital and income.

The Commission has also made several other adjustments to Delta's proposed rate base. Working capital has been reduced by $49,397[3/] to reflect the Commission's accepted adjustments to Delta's operation and maintenance expenses. In accordance with

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2/ Transcript of Evidence, October 13, 1981, page 27.

3/ $4,746,091 x 12.5% = $593,261 - $642,658 = ($49,397).

past policy, the Commission has adjusted the year-end balance in accumulated depreciation by $41,000[4/] to reflect the accepted pro forma adjustments to depreciation expense. Moreover, Delta's test period operating statement reflected an error in propane expense of $12,267,[5/] which should have been reflected in propane inventory. Therefore, the Commission has increased Delta's rate base by this amount.

Delta proposed to include the net book value of non-utility property of $32,832[6/] in the calculation of its investment rate base. The Commission is of the opinion that the ratepayers should never be responsible for a return on property not devoted to the provision of utility service and has, therefore, excluded this item from Delta's rate base.

Finally, the Commission has reduced Delta's proposed rate base by $149,360,[7/] the net book value of its acquisition adjustment. It is the Commission's opinion that it is unfair to require the ratepayers to provide a higher return on utility plant simply because it has been sold at a cost above book value. The Commission considers that the original cost of plant devoted to public service is the appropriate valuation for a determination of revenue requirements.

4/ $138,600 - $97,600 = $41,000.

5/ Delta's Response to Information Requested at the Hearing, filed October 21, 1981, Item 8.

6/ $45,847 - $13,015 = $32,832.

7/ $411,160 - $261,800 = $149,360.

Therefore, the Commission has determined Delta's consolidated net investment rate base at March 31, 1981, to be as follows:

Consolidated Property	$ 19,537,669
Less: Reserve for Depreciation	6,712,902
Net Plant	$ 12,824,767
Add:	
Working Capital	$ 593,261
Prepayments	39,802
Unamortized Early Retirement, Propane Plant	6,600
Materials & Supplies	476,665
Gas in Storage	186,511
Committed Building Construction	280,000
Subtotal	$ 1,582,839
Less:	
Accumulated Provision for Deferred Income Taxes	$ 532,878
Accumulated Provision for Investment Tax Credit - Pre 1971	25,750
Advances for Construction	36,466
Subtotal	$ 595,094
Net Investment Rate Base	$ 13,812,512

Capital

At March 31, 1981, Delta had capital, including accumulated job development investment tax credits of $444,350,[8/] of $13,779,737. The Commission finds that three adjustments to this capital base are necessary to reflect the normal level of capital supporting that portion of Delta's total investment in its operation which requires a return through gas rates from its ratepayers.

8/ Delta's Response to Information Requested, filed August 14, 1981, Item 4L.

First, the Commission has increased Delta's capital by \$280,000 to reflect the additional costs for the construction of Delta's new shop building and the remodeling of the Winchester office building. Second, the Commission has reduced Delta's capital by \$149,360 and \$32,832 to exclude capital supporting Delta's net acquisition adjustment and net non-utility property, respectively. Both of these adjustments were discussed above, and the Commission finds that a similar adjustment to capital is necessary.

Therefore, the Commission finds that Delta's adjusted capital base at March 31, 1981, is \$13,877,545.

On April 1, 1981, Delta sold common stock of \$4,230,000[9/] to refinance short-term debt. The resulting capital structure following this sale, as set out below, is, in the Commission's opinion, a safe and prudent capital structure in that it should enable Delta to secure future capital requirements at reasonable cost rates. Therefore, the Commission finds Delta's capital structure to be as follows:

	Amount	%
Common Equity	\$ 6,326,943	45.6
Preferred Stock	1,163,781	8.4
Long-Term Debt	5,549,158	40.0
Short-Term Debt	837,663	6.0
	\$13,877,545	100.0%

9/ Revised Jennings Exhibit B.

The above treatment in further calculation results in assigning the overall cost of capital to Delta's accumulated job development investment tax credits as required by Section 46(f) of the Internal Revenue Code.

Revenues and Expenses

Delta proposed several pro forma adjustments to actual operating revenues and expenses for the 12 months ended March 31, 1981.[10/] The Commission finds these adjustments allowable and has accepted them for rate-making purposes with the following exceptions:

Gas Sales and Purchased Gas Expense

Delta proposed a normalization to test year gas sales revenue and purchased gas expense which included adjustments to eliminate the effects of colder than normal weather conditions. The Commission agrees with Delta's normalization method with the following exceptions:

In the billing analysis, adjusted for temperature and rates effective as of the May 1981 Purchased Gas Adjustment ("PGA"), Delta made an extension error in the section, "Peoples Gas Company ("Peoples") except Oneida 7-50 Mcf." The extension of 690,617 Mcf at $2.7215 per Mcf is incorrect at the stated $1,877,636 with the correct extension being $1,879,514. Delta's proposed normalized revenue of $20,061,786 has been understated by $1,878, and, therefore, the normalized revenue has been increased to $20,063,664.

10/ Revised Jennings Exhibit C.

To Delta's normalization of test year purchases adjusted for temperature and wholesale supplier rates at May 1, 1981, the Commission has made the following adjustments:

a. The test period Mcf purchases for each supplier were recomputed at the effective rates calculated by Delta in the sales normalization. The correct effective rates are 1.035825 for Delta and 1.0347 for Peoples. This is consistent with the methodology proposed by Delta. The net effect of this adjustment to each supplier is to alter the normalized total purchases for Delta to 3,931,956 Mcf and for Peoples to 1,806,841 Mcf.

b. Delta's witnesses testified at the hearing that Delta is currently purchasing gas from Weaver Gas Company ("Weaver") and probably will continue purchasing for some time in 1982. In this case the Commission has computed the Mcfs purchased from Weaver at Weaver's cost, and subtracted this volume from the Columbia Gas Transmission ("Columbia") computation. The Commission is of the opinion that the change in source supply and price adjustment would be handled more appropriately through the PGA at the time depletion of source supply actually occurs or at the time the amount of loss of source supply from Weaver is significant.

c. The inventory injected into the system for the test period was computed at the average actual cost of all Delta suppliers instead of Delta's proposed use of the commodity charge of Columbia. The average actual cost as of May 1, 1981, was $2.5573 per Mcf.

The net effect of the above adjustments to the test period purchases was to decrease normalized purchases by $180,328 from $14,156,194 to $13,975,866.

Wiser Transmission Facilities

Delta included adjustments for depreciation of $65,600, the salary and benefits of one additional employee of $19,200, transportation costs of $2,500, right-of-way clearing of $22,000 and property taxes of $9,000, related to the acquisition of the Wiser transmission facilities referred to above. As the Commission has determined that adjustments regarding these facilities should be deferred at this time, the Commission has also deferred the operating expense adjustments associated with the purchase of $118,300.

Depreciation Expense

Delta included a pro forma adjustment for depreciation expense of $39,000 per year related to committed capital expenditures of $1,012,500, of which system improvements of $732,500 have been disallowed by the Commission. The remaining $280,000 committed capital expenditure represents the costs of construction of the Delta shop building and remodeling of the existing

Winchester office, allowed for rate-making purposes. The Commission has allowed an annual depreciation expense on these building costs of $7,000 based on a depreciable life of 40 years found reasonable for rate-making purposes. Also, the Commission has previously disallowed the inclusion of the plant acquisition adjustment and non-utility property from Delta's rate base and has consistently excluded the related amortization charges of $16,801 and depreciation expense of $2,370 from test period operating expenses.

Propane Expense

The Commission has reduced operating expenses by $12,267 because of Delta's error in the allocation of propane expense. This cost should properly have been accounted for in inventory.

Outside Services Employed

The Commission, after giving due consideration to each item of expense included in Delta's analysis of the account Outside Services Employed,[11/] finds that the following cost, attributable to the acquisition of Peoples, is nonrecurring and should be amortized over a 5-year period with an annual inclusion of $21,859 in operating expenses as follows:

Stoll, Keenon and Park	$ 64,710
Arthur Anderson and Company	21,700
Eugene Mooney	22,885
	$ 109,295
	÷ 5
	$ 21,859

11/ Delta's Response to Information Requested at the Hearing, filed October 21, 1981, Exhibit B.

Administrative and General Salaries

In its Brief the City of Berea compared Delta's administrative and general salaries with similar expenses of several gas utilities subject to this Commission's jurisdiction. Based on these comparisons, the City argued that Delta's administrative and general salaries are unreasonable.

The Commission has carefully reviewed the data the City used to support its contention. Moreover, the Commission has made its own analysis of Delta's administrative and general salaries. Using the 1980 annual reports, the Commission compared the administrative and general salaries of Delta, Louisville Gas and Electric ("LG&E"), Western Kentucky Gas Company ("Western"), Columbia Gas Company ("Columbia") and Union Light, Heat and Power Company ("ULH&P"). This comparison is included as Appendix C to this Order.

As this analysis shows, Delta is not exactly the same size as any of the other utilities. However, size alone does not account for the magnitude of difference in Delta's administrative and general salaries. For example, LG&E, the largest company, with 231,940 customers and 620 full-time employees, incurred $963,215 in administrative and general expenses during calendar year 1980. For this same period, Delta, the smallest company, with 29,133 customers and 117 full-time employees, incurred $784,831 in administrative and general salaries. ULH&P, the company nearest Delta in relative size, had 60,411 customers, 175 full-time employees and administrative and general salaries of

$509,775. While relative size could result in some difference in per unit cost in terms of absolute dollars of expense, the Commission would expect Delta's administrative and general expenses to be substantially less than those of the other utilities.

The Commission's analysis of administrative and general salaries on a per Mcf basis disclosed that LG&E's administrative and general salaries were 1.7 cents per Mcf, Western's were 2.2 cents per Mcf, Columbia's were 2.1 cents per Mcf, ULH&P's were 3.7 cents per Mcf, and Delta's were 14.1 cents per Mcf. The Commission is of the opinion that it is unreasonable to attribute this differential in administrative and general salaries solely to Delta's size relative to that of the other utilities. Of equal concern to the Commission is the fact that on a year-end basis Delta's administrative and general salaries are $951,348, which exceeds the actual amount for 1980 of all the comparison companies except LG&E. In the foregoing analysis the Commission has not considered an increase of $121,772[12/] in administrative and general salaries and related fringe benefits for 1982 included as a pro forma adjustment by Delta.

From its analysis of Delta's administrative and general salaries the Commission is convinced that the pro forma level requested is unreasonable. The Commission will not allow the additional $121,772 requested by Delta for 1982.

12/ March 1981 balance in account 920.1, $79,279 x 12 = $951,348. ($951,348 x 10%)128% = $121,772.

Employee Stock Ownership Plan

Delta proposed an adjustment of $130,000 for the costs of instituting an employee stock option plan. Both intervenors in this case recommended that the Commission reject this expense for rate-making purposes. In support of its recommendation, the City of Berea again made comparisons of Delta's employee benefits with other gas utilities under the Commission's jurisdiction. The Commission made its own analysis which is set out in Appendix C to this Order. This analysis shows that the cost of benefits per employee borne by Delta's ratepayers is disproportionately higher than the other comparable utilities.

The Commission is, therefore, of the opinion that it is unreasonable to burden Delta's ratepayers with additional expense related to employee benefits and has rejected the employee stock option plan in its entirety. The Commission wishes to make clear to Delta that an employee stock ownership plan is not an undesirable feature of an employee benefits package. The Commission has not rejected the plan itself but rather the level of employee benefits incurred by Delta. As shown in Appendix C, Delta's benefits per employee already substantially exceed the benefits per employee of any of the other utilities. An acceptable alternative would be for Delta to eliminate existing benefits of comparable cost and implement an employee stock option plan.

The Commission was created by the General Assembly to regulate utilities granted monopoly status by the Commonwealth. In fulfilling this role, the Commission stands in the place of competition. The Commission is of the opinion that in a competitive environment Delta could not hope to recover from its customers the increases in administrative and general expenses and related employee benefits proposed in this case and still achieve a reasonable return for its shareholders. In fact, the Commission is deeply concerned with the level of administrative and general salaries and employee benefits currently being incurred by Delta. Therefore, the Commission serves notice that in future rate proceedings it expects Delta to quantify the cost savings accruing to its customers as a result of the current high level of administrative and general salaries and employee benefits.

Interest Expense

During the test period, Delta incurred interest expense, including the amortization of debt expense of $17,400, of $987,220.[13/] Based on its proposed capital and capital structure, Delta sought to increase interest expense by $317,440, for total proposed normalized interest of $1,304,660.[14/]

Based on the Commission's accepted level of debt in this Order and the approved interest rates below, the Commission has determined that the amount of interest expense provided for herein is $692,628 or a reduction in Delta's test period interest expense of $294,592.

Income Taxes

As the Commission's determination of Delta's adjusted operating income less interest expense results in a net loss for

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13/ Revised Jennings Exhibit C.

14/ Ibid.

the adjusted test period, the Commission will calculate income taxes in a subsequent section of the Order, based on the level of net income required following the increase. Income taxes for the adjusted test period, prior to increase, will be stated at zero, as negative income tax expense is misleading.

Therefore, the Commission finds that Delta's adjusted test period operations are as follows:

	Per Books[15/]	Adjustments	Adjusted
Operating Revenues	$24,791,048	$(4,546,652)	$20,244,396
Operating Expenses	23,708,449	(4,003,968)	19,704,481
Operating Income	$ 1,082,599	$ (542,684)	$ 539,915
Interest Expense	987,220	(294,592)	692,628
Operating Income Less Interest Expense	$ 95,379	$ (248,092)	$ (152,713)

Cost of Capital

Delta proposed to use its end-of-test year embedded costs of 9.3 percent for long-term debt and 10 percent for preferred stock. Delta requested a cost rate of 19 percent for short-term notes.[16/] Over the past 12 months the bank prime interest rate averaged 18.8 percent.[17/] The Commission is of the opinion that the requested cost rates for debt and preferred stock are reasonable and will be adopted for the purpose of determining the cost of capital in this case.

Delta proposed a cost rate on common equity of 16 percent.[18/] No formal analyses such as a discounted cash flow or

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15/ Revised Jennings Exhibit C.

16/ Revised Jennings Exhibit B.

17/ Average interest rates for 12 months ended September 1981, Federal Reserve Statistical Release.

18/ Revised Jennings Exhibit B.

comparable earnings were used to determine this requested cost rate. The Commission is of the opinion that a range of returns on equity of 14.5 percent to 16 percent is fair and reasonable. The Commission has determined that a return on equity in this range would not only allow Delta to attract capital at reasonable costs to insure continued service and provide for necessary expansion to meet future requirements, but also would provide for the lowest possible cost to the ratepayer. Within this range of returns the Commission finds that a return on common equity of 15.5 percent should allow Delta to attain the above objectives.

Rate of Return Summary

Applying the cost rates for each class of capital found fair above to the respective capital structure components produces a weighted cost of capital of approximately 12.77 percent. The Commission finds that the resulting rate of return on net investment of approximately 12.8 percent is the fair, just and reasonable return for Delta to earn as it will allow Delta to pay its operating expenses, service its debt and provide a reasonable surplus for equity growth.

Revenue Requirements

The required net operating income, based on the rate of return on net investment of 12.8 percent found fair, just and reasonable, is approximately $1,772,282.[19/] To achieve this

19/ $1,772,282 ÷ $13,812,512 = 12.8%.

level of operating income, Delta is entitled to increase its rates and charges to produce additional revenues on an annual basis of $2,208,582, determined as follows:

Calculation of Increase

Adjusted Operating Expenses	$ 19,704,481
Adjusted Income Tax Expenses	976,215
Required Net Operating Income	1,772,282
Required Operating Revenue	$ 22,452,978
Less:	
Adjusted Operating Revenues	20,244,396
Increase	$ 2,208,582

Delta proposed to compute its federal and state income tax expense on adjusted taxable income at a 50 percent combined rate. The Commission has rejected this proposal and instead has applied the actual combined federal and state tax rates effective currently.

Delta, moreover, included other non-utility income of $76,399[20/] in its calculation of operating income taxes. The Commission has excluded this income in its calculation of Delta's tax expense, as income taxes on this item are properly reflected "below the line" and are not appropriately charged to Delta's ratepayers.

Further, the Commission has reduced Delta's income tax expense by its calendar year 1980 level of amortization of investment tax credit of $15,900.[21/] Although this period differs slightly from the test period in this case, this amortization is representative of the test period level of amortization which

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20/ Revised Jennings Exhibit C.

21/ 1980 Annual Report, page 264.

Delta failed to provide in response to the Commission's Order requesting test period information on Delta's federal and state income tax expense.

The calculation of the Commission's determination of Delta's adjusted income tax expense of $976,215 is found in Appendix B to this Order.

Rate Design

As the record in this case shows, Delta proposed to obtain the major portion of the requested increase from the customers formerly served by Peoples. The acquisition of Peoples by Delta was approved by the Commission in its Order in Case No. 8025. As disclosed by the record in that case, Wiser, the former owner of Peoples, kept the rates artificially low in order to avoid any possibility of being assessed a windfall profits tax under the Internal Revenue Act of 1975. The Commission's approval of Delta's rate design in this case will result in the customers previously served by Peoples paying the same rates as Delta's other customers. Therefore, the Commission concludes that Delta's proposal to equalize the rates of its customers should be approved.

Moreover, Delta proposed a rate design with two rate classes, general service and interruptible, with each class containing a monthly customer charge and a three-step declining block rate for all gas sold. At the hearing of October 13, 1981, Delta's witness, Mr. Harrison Peet, testified that the interruptible rate class was designed for industrial customers and provided a lower rate to them. However, Mr. Peet further testified that general service customers would benefit from promoting use by industrial customers, as industrial customers seeking lower fuel costs could switch to alternate fuel sources, resulting in the general service customers being required to absorb all costs allocated to the industrial customers.[22/] In addition the interruptible service is subject to curtailment during peak seasons and is therefore a less valuable service.

The Commission agrees with Delta in principle on the rationale for lower charges in the Mcf cost to interruptible customers. However, the Commisison is concerned about Delta's allocation of the gas sales usage to the interruptible rate class. Delta offered no evidence to support this allocation. Therefore, the Commission will accept the allocation for rate-making purposes at this time but will require Delta to furnish additional information to verify its allocation method prior to February 1, 1982. This verification should include annual requirements for customers changing to the interruptible class and a copy of the contract between Delta and interruptible customers.

Delta, moreover, proposed to increase its customer charge from $2.50 to $5.00 per month, a 100 percent increase. The Commission has reviewed the record and finds that Delta has not

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22/ Transcript of Evidence, October 13, 1981, page 15.

met its burden of proof regarding an increase of this magnitude when the total increase in all adjusted revenues requested is only 17.5 percent. Therefore, the Commission has reduced the customer charge accordingly to $2.75.

Purchased Gas Adjustment Clause

Delta has proposed a PGA clause which changes the methodology of computing the increase or decrease in its wholesale gas costs adjustments. The Commission is of the opinion that the proposed methodology change will allow Delta better to refine its wholesale gas costs, and has approved the proposed clause.

FINDINGS AND ORDER

The Commission, after consideration of the evidence of record and being advised, finds that:

1. The rates and charges proposed by Delta would produce revenues in excess of the revenues found reasonable herein, and should be denied upon application of KRS 278.030.

2. The rates and charges in Appendix A, attached hereto and made a part hereof, are the fair, just and reasonable rates for Delta to charge its customers in rendering gas service.

3. Delta, upon completion of its contracted purchase of Wiser's transmission facilities, should submit proof that the transaction has been completed, an accurate statement of the cost of acquisition, and the method and cost of financing the purchase.

4. Delta should, giving the Commission 20 days' notice, file tariffs to produce the revenues required to offset the costs associated with the acquisition of Wiser's transmission facilities.

5. Delta should furnish information regarding the customers being rendered gas service under the interruptible rate class, the customers' annual gas requirements and a copy of the customers' signed contracts on or before February 1, 1982.

6. Delta's proposed PGA clause will refine the wholesale gas costs better and should be accepted.

IT IS THEREFORE ORDERED that the proposed rates and charges in Delta Natural Gas Company's notice of June 11, 1981, be and they hereby are denied.

IT IS FURTHER ORDERED that Delta Natural Gas Company is hereby authorized to place into effect the rates and charges in Appendix A, attached hereto and made a part hereof, for service rendered on and after December 1, 1981.

IT IS FURTHER ORDERED that Delta Natural Gas Company, upon completion of its contracted purchase of Wiser Oil Company's transmission facilities, shall submit proof that the transaction has been completed, an accurate statement of the cost of acquisition, and the method and cost of financing the purchase.

IT IS FURTHER ORDERED that Delta Natural Gas Company shall, giving the Commission 20 days' notice, file tariffs to produce the revenues required to offset the costs associated with the acquisition of Wiser Oil Company's transmission facilities.

IT IS FURTHER ORDERED that Delta Natural Gas Company shall furnish information regarding the customers rendered gas service under the interruptible rate class, the customers' annual gas requirements, and a copy of the customers' signed contracts on or before February 1, 1982.

IT IS FURTHER ORDERED that the PGA clause in Appendix A, attached hereto and made a part hereof, shall become effective on and after the date of this Order.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Delta Natural Gas Company shall file its tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 1st day of December 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

[illegible]
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION OF KENTUCKY IN CASE NO. 8256 DATED DECEMBER 1, 1981.

The following rates and charges have incorporated all adjustments through PGA Case Number 7202-U and are prescribed for the customers of Delta Natural Gas Company, Inc. All other rates, charges, rules and regulations not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

RATE SCHEDULES

APPLICABILITY:

Applicable within all service areas served by Delta namely: Owingsville, Sharpsburg, Salt Lick, Midland, Bath County, Camargo, Jeffersonville, Montgomery County, Frenchburg, Menifee County, Kingston-Terrill, Berea, Madison County, Stanton, Clay City, Powell County, Garrard County, Nicholasville, Wilmore, Jessamine County, Clearfield, Farmers, Rowan County, Middlesboro, Pineville, Bell County, Barbourville, Knox County, Corbin, Williamsburg, Whitley County, London, Laurel County, Oneida, Manchester, Clay County, Leslie County, and environs of each.

AVAILABILITY:

Available for general use by residential, commercial and industrial customers.

CHARACTER OF SERVICE:

Firm - within the reasonable limits of the company's capability to provide such service.

RATES:

General Service -

Monthly Customer Charge	$2.75	per delivery point per month
1 - 5000 Mcf	4.3261	per Mcf
5001 - 10000 Mcf	4.0761	per Mcf
Over 10000 Mcf	3.8261	per Mcf

Interruptible *

1 - 5000 Mcf	$4.0761	per Mcf
5001 - 10000 Mcf	3.8261	per Mcf
Over 10000 Mcf	3.5761	per Mcf

The above rates are the base rates in this case and the refund factor of $0.10 per Mcf Monthly established in PGA Case 7202-U, is to be deducted from all customers until refund is completed.

*Special Conditions:

All customers having a connected load in excess of 2,500,000 BTU input per hour may be required to enter into an Interruptible Sales Agreement. Determination of those customers required to sign said contract shall be based on peak day use as well as annual volume and shall be at the sole discretion of the company.

Any customer required to enter into an Interruptible Sales Agreement shall be permitted to purchase gas under the Interruptible Rate Schedule above. Gas requirements, minimum charges and other specific information shall be set forth in the Agreement.

Industrial: Service to customers engaged primarily in a process which creates or changes raw or unfinished materials into another form or product including the generation of electric power.

Contract Rate: Rate available to and/or required of any customer having a connected load in excess of 2,500,000 BTU input per hour.

SPECIAL CHARGES:

In accordance with 807 KAR 5:006E Section 12 the following charges shall be applied under the following conditions:

(1) Delinquent Bill Charge:

(2) Collection Charge: A charge of $15.00 will be levied when a trip is made to collect a delinquent bill. A collection trip may be made only after written notice has been sent to the customer stating that if the bill is not paid by a certain date, the service will be disconnected.

(3) Reconnection Charge: A reconnection charge of $20.00 to be made by the Company and paid by the customer before or at the time the service is reconnected, shall be assessed as approved by the Public Service Commission when:

(a) the customer's service has been disconnected for non-payment of bills or for violation of the Commission's or Company's Rules or Regulations, and the customer has qualified for and requested service to be reconnected, or

(b) the customer's service has been disconnected at the customer's request and at any time subsequently within twelve (12) months is reconnected at the same premise.

ACCESS TO PREMISES - Reference 807 KAR 5:006E Section 14

CUSTOMER'S DISCONTINUANCE OF SERVICE - Reference 807 KAR 5:006E Section 10

COMPANY'S DISCONTINUANCE OF SERVICE FOR CAUSE - Reference 807 KAR 5:006E Section 11

Request Test Charge: Pursuant to 807 KAR 5:006E Section 19 the Company shall make a test of any meter upon written request of any customer provided such request is not made more frequently than once each 12 months. The customer shall be given the opportunity of being present at such request tests. If such tests show that the meter was not more than two percent fast, the Company may make a reasonable charge for the test. The test charge is based upon meter size and is as follows:

1,000 cubic feet per hour and under	$ 4.00
Over 1,000 to 10,000	8.00
Over 10,000	12.00

RULES AND REGULATIONS

PURCHASED GAS ADJUSTMENT CLAUSE

The rates authorized herein are based upon the average wholesale cost of gas per thousand cubic feet (Mcf) to the Applicant as computed upon rates of its wholesale suppliers currently in effect under Federal Energy Regulatory Commission tariffs for interstate business or under wholesale tariffs of this Commission. The average wholesale cost of gas is calculated by multiplying these suppliers' rates times the respective volumes purchased from the various suppliers whose wholesale rates are referenced herein divided by the total Mcf purchases during the test period. For the purpose of this Purchased Gas Adjustment Clause, these rates shall be considered in calculating the New Supplier Rate for future purchased gas adjustments. In the event there is a change in the average wholesale cost of gas or a supplier refund, the Applicant shall file with this Commission the following information as applicable:

1. A copy of the Federal Energy Regulatory Commission tariff or wholesale tariff of this Commission effecting the change in the wholesale cost of gas and a statement relative to the effective date of such proposed change.

2. A statement setting out the details of gas purchased under the provision of the Base Supplier Rate for the previous twelve months showing billing under the Base Supplier Rate and under the proposed revised rate applicable to this service.

3. A statement setting out the details of gas sold for the previous twelve months.

4. A balance sheet as of the end of the latest twelve-month period and a statement of operating expenses and revenues.

5. Such other information as this Commission may request for a proper determination of the purchased gas adjustment.

Upon receipt of this information, this Commission will review the effect of the revised rate on the operation of the Applicant and will issue its Order setting out the purchased gas adjustment that the Utility shall apply to its rates.

On and after the effective date of this rate schedule, if any increase or decrease is made in the Company's average wholesale cost per Mcf due to changes in the volumes purchased from various suppliers or changes in the rates at which the Company's gas suppliers sell gas to the Company, the unit charges of the aforesaid rate schedule shall be increased or decreased by a Purchased Gas Adjustment determined as follows:

1. Gas purchases (volume) will be determined by the Company for a period of twelve calendar months ending within three months preceding the month of the effective date of the change in the average wholesale cost per Mcf. The average cost of such purchases shall be calculated at the New Supplier Rate.

2. The Base Supplier Rate shall be equivalent to the average cost of gas per Mcf as set forth in the Order in the last preceding General Rate Case. The New Supplier Rate shall be the quotient determined by dividing the said 12 months' volumes into the said 12 months' volumes per supplier times the current supplier rates respectively.

3. The difference per Mcf determined by deducting the Base Supplier Rate from the New Supplier Rate shall be added to the retail rate per Mcf set forth in the Order in the last preceding General Rate Case to determine the revised rate per Mcf to be applied to sales on and after the requested effective date.

In the event the Company receives from the supplier a refund of amounts paid to that supplier in respect of a prior period, the Company shall first apply the refund amount as an offset to any amounts due the Company as represented by a debit balance in the account, Purchased Gas Refunds Payable to Customers. After eliminating the debit balance in the account, the Company shall apply to the Commission for authority to refund the remaining balance and upon receipt thereof make adjustment on the amounts charged to its customers under the provision as follows:

1. The "Refundable Amount" shall be the amount received by the Company as a refund less the amount applied to the account, Purchased Gas Refunds Payable to customers, to offset amounts due the Company. Such Refundable Amount shall be divided by the Mcf of gas that the Company estimates it will sell to its customers during the four-month period commencing with the first day of the month following receipt of the refund, thus determining a "Refund Factor".

2. Effective with meter readings taken on and after the first day of the second month following receipt of the refund, the Company will reduce by the Refund Factor so determined the tariff rates that would otherwise be applicable during such period. Provided, however, that the period of reduced Purchased Gas Adjustment will be adjusted, if necessary, in order to refund as nearly as possible the Refundable Amount.

3. In the event of any large or unusual refunds, the Company may apply to the Public Service Commission for the right to depart from the refund procedure herein set forth.

The average cost of purchased gas, "Base Supplier Rate", in Case

No. 8256 was $2.7084 per Mcf.

The average cost of purchased gas, "New Supplier Rate", in Purchased Gas Adjustment Case No. is per Mcf.

The Base Supplier Rate of $2.7084 for the future application of the Purchase Gas Adjustment Clause was determined on the following wholesale gas costs:

Supplier	Rate/Mcf or Dth
Columbia Gas Transmission Corp.	
Rate Schedule CDS	
Demand (Dth)	$ 2.40
Commodity (Dth)	3.3282
Rate Schedule SGS (Dth)	3.4729
Columbia LNG Corporation	5.3728*
*Includes Transportation Charge of $0.2678	
Tennessee Gas Pipeline Company	
Gas rate (Dth)	2.3526
Commodity	0.4520
Graham-Michaelis Corporation	1.75
Flat Lick	0.35
Evans	0.94
Wiehoff	1.39
Hall-Martin	0.40
Goff	0.40
Weaver	1.82
Robert Martin	1.75
Laurel Valley	3.00
Wiser Oil Company	2.17
John Owens	1.8288
Storage	2.7660

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 8256 DATED DECEMBER 1, 1981.

Required Operating Income	$1,772,282
Less: Interest Expense	692,628
Operating Income Less Interest Expense	$1,079,654
Less: Income Tax on the first $100,000 of Taxable Income	20,195
Amortization of Investment Tax Credit	15,900
Subtotal	$1,043,559
÷ (1-49.24%[1])	50.76%
Taxable Income	$2,055,869
x 49.24%	$1,012,310
Less: Income Tax on the first $100,000 Taxable Income	20,195
Subtotal	$ 992,115
Less: Amortization of Investment Tax Credit	15,900
Income Tax Expense	$ 976,215

1/ Combined Federal and State Income Tax Rate on Taxable Income in excess of $100,000.

Appendix C

Appendix to an Order of the
Kentucky Public Service
Commission in Case No. 8256
Dated December 1, 1981.

Statistics[1]

Company	Mcf Sales	Customers	Full Time Employees	Administrative and General Salaries $	Employee Pensions & Benefits $	Total Wages & Salaries Charges Expense $
Louisville Gas & Elec.	58,307,390	231,940	620	963,215	1,022,562	10,438,847
Western Ky. Gas	39,793,446	134,655	497	876,154	1,626,101	6,702,206
Columbia Gas	29,981,663	112,619	338	636,871	1,104,952	5,888,763
Union Light Heat & Power	13,872,595	60,411	175	509,775	497,757	4,070,403
Delta	3,766,991	20,450	95	762,035	626,862	1,765,988
+ Peoples	1,781,322	8,683	22	22,796	57,547	305,932[2]
	5,548,313	29,133	117	784,831	684,409	2,071,920

[1]Taken from the 1980 Annual Reports filed with the Commission.

[2]Information unavailable. Estimated at Delta's average test period wages and salaries charged expense of $13,906 times 22 employees.

Comparisons

Company	\$ Administrative & General Salaries Per Mcf	\$ Total Salaries & Wages Charged Expense Per Mcf	\$ Employee Pensions & Benefits Per Employee
Louisville Gas & Electric	.017	.18	1,649
Western Kentucky Gas	.022	.17	3,272
Columbia Gas	.021	.20	3,269
Union Light Heat & Power	.037	.29	2,844
Delta + Peoples	.141	.37	5,850