

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA)
NATURAL GAS COMPANY, INC.) CASE NO. 9059

O R D E R

IT IS ORDERED that Delta Natural Gas Company, Inc., ("Delta") shall file an original and 12 copies of the following information with a copy to all parties of record with this Commission by August 30, 1984, or within 2 weeks after the filing of the application whichever is later. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. If neither the requested

information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

ISSUE: THE APPROPRIATE RETURN ON COMMON EQUITY

1. Provide all workpapers used to develop Schedule 3, page 1 of Robert Jackson's testimony.

2. Provide the return on average common equity, the market to book ratio, the capitalization ratios, and the payout ratio for each of the nine comparison gas utilities for 1983, as shown on Schedule 2 of Mr. Jackson's testimony.

3. Provide the data in Item No. 4, page 4 of the Commission's June 7, 1984, information request for the quarter ended June 30, 1984.

ISSUE: THE APPROPRIATE COST OF LONG-TERM DEBT

4. How were the numbers in column (K), Item No. 2, page 2 of the Commission's June 7, 1984, information request calculated?

ISSUE: RATE DESIGN

5. Provide a list of the industrial customers lost during the test year to alternative fuels, indicating the date service was terminated, revenue and Mcf sales in the test year, and revenue and Mcf sales for the last 12 months in service and if interruptible, indicate as such.

6. Provide a listing and projected annual volumes of any new commercial or industrial customers that are projected to come on line during 1984 or that were added during the test year. For those added during the test year provide the date added and Mcf per month.

7. Provide any analysis or studies performed by Delta regarding losses of revenues resulting from conversion to alternate fuels by its industrial customers. Include estimates for the test year and the 2 preceding calendar years of how much revenue Delta lost due to industrial conversion to alternate fuels.

8. Provide a listing of the customers served under the last three proposed blocks in both the GS and interruptible rate classes that have the capability of switching to alternate fuels and state what those fuels are.

9. On page 8 of Carol Kinzler's testimony it is stated that a tail block margin of between 50 cents and \$1 represents a reasonably competitive range. Provide an explanation of the criteria that was used to determine these amounts and any workpapers related to their calculation.

10. Provide backup workpapers for Kinzler Exhibit 1 showing origin of amounts in column 1 (example: account number from which they were derived) and an explanation of any underlying reasoning supporting the selection of the percentage shown in column 2.

11. Provide documentation for the fixed charge amount of 17 percent used in footnote 5 of Kinzler Exhibit 1.

12. In reference to the new Standby Service rate proposed on page 12 of Ms. Kinzler's testimony, provide the estimated volume usage to be served under this rate, the estimated revenue to be produced and the basis for these estimates.

13. Provide examples of the Standby Service rate being used by other companies stating the name of the company, length of time

the rate has been in use and the volume of customers served by each company under this rate.

14. On page 13 of Ms. Kinzler's testimony it is stated that a standby customer may impose certain cost of service burdens which are not adequately recouped through GS or interruptible rates. What are these costs and how they are incurred?

15. On page 14 of Ms. Kinzler's testimony it is stated that there is no change in revenue contribution by class; however, it is noted that the only increase in the percent of revenue contribution is in the zero usage block of the GS rate. Please state the reasoning for increasing the percent of revenue contribution in this block only.

16. Provide cost of service data to support the proposed rate design in reference to the interblock discounting and the need for a fourth rate block.

17. Will the customers billed under the Standby Service rate also have the possibility of being billed monthly under the GS rate and pay the minimum bill for zero usage for months in which they do not have any activity? If so, provide a billing analysis showing these conditions.

18. Will the contracts between customers served under the Standby Service rate and Delta be submitted for the Commission's approval?

19. How much unused capacity does Delta currently have in its system that could be used for transportation?

20. Does Delta anticipate additional cost with the proposed on system transportation rate?

21. Will Delta require minimum volume level contracts to qualify for either of the two transportation rates?

22. What is the estimated loss in Mcf sales and the revenue impact of the proposed transportation tariffs?

23. Refer to page 2 of 10 in Exhibit B-2 of the application. It is noted that the symbols T and N indicating some change in the tariffs are shown, yet there seems to be no change in language or rates. Please explain the use of these symbols.

ISSUE: DEBT COST

24. With regard to the adjustment to interest expense as calculated per page 7 of 14 of Item No. 16 of the Commission's June 7, 1984, information request, for each classification of debt, provide the principal balance on which the amount of interest expense was calculated.

25. According to page 3 of 9 of Exhibit A of the Notice and Statement, Delta has three options that it may consider in determining the interest rate on the \$4,000,000 amount of Series E Bonds. The calculation of the adjustment to interest expense per page 7 of 14 of the response to Item No. 16 of the June 7, 1984, information request indicates that the interest rate that was applied to the outstanding principal balance of these bonds was 13.25 percent. With regard to this interest rate, provide the following information:

a. identification of the option chosen in determining the 13.25 percent interest rate;

b. the reason(s) that this option was selected above the two other available methods;

c. the amount of the interest rate as calculated per the two other options; and

d. the date at which the interest rate was calculated.

26. According to page 5 of 9 of Exhibit A of the Notice and Statement, the interest rate on the demand grid note with Liberty National Bank changes daily with the prime rate. Provide the date at which the 13 percent rate on this debt was determined as reflected per the interest expense adjustment calculation on page 7 of 14 of the response to Item No. 10 of the Commission's June 7, 1984, information request.

27. With regard to Mr. Glenn Jennings's testimony, page 17, provide an analysis of the total short-term debt outstanding at the end of the test period used to finance "maintenance of our facilities and other day-to-day obligations".

ISSUE: POST TEST PERIOD CONSTRUCTION

28. According to page 22 of the testimony of Mr. Jennings, the planned construction through the summer and fall of 1984 will be financed with short-term debt of approximately \$1,500,000. Provide the following information concerning the amount of short-term financing acquired for this construction as of July 31, 1984:

- a. principal amount;
- b. interest rate;
- c. date of maturity; and
- d. terms and conditions of repayment.

29. With regard to the estimated construction expenditures in the amount of \$1,500,000 to be utilized to upgrade or replace

existing facilities, provide complete details regarding the specific facilities to be constructed with these funds. This discussion should include a classification of these facilities, including estimated cost amounts, according to the utility plant accounts.

30. Provide the conclusions of any studies conducted to estimate the possible effect that the increased efficiency associated with the upgrading and replacement of existing facilities will have upon reducing operating expenses.

ISSUE: WAGES AND SALARIES EXPENSE

31. Provide a copy of the results of the organizational and compensation studies conducted by Stone and Webster Management Consultants, Inc.

32. For each employee of Delta listed on page 33 of Mr. Jennings' testimony, provide the dollar amount in comparative form for the test year, 1984, 1983, and 1982 of the following:

- a. base salary;
- b. incentive awards;
- c. other bonuses;
- d. retirement;
- e. stock options;
- f. company furnished automobile;
- g. life insurance;
- h. medical insurance;
- i. dental insurance;
- j. workman's compensation;
- k. other insurance (identify separately);

- l. other benefits (identify separately);
- m. social security;
- n. total annual compensation; and
- o. percentage of benefits to base salary.

ISSUE: PROFESSIONAL SERVICES EXPENSE

33. Provide an analysis of the annual legal, accounting, janitorial and other professional services expense incurred for the test year and the preceding 5 calendar years.

34. For the test year and each of the preceding 5 calendar years provide a breakdown of the professional services expenses by account charged.

35. Identify any professional services expenses incurred during the test period which are of a non-routine nature and explain why these expenses should be included in pro forma operating costs.

36. Explain the general nature of the services provided during the test year by Southern Flow Company, Wesley Black, Owen Hensley, Weather Corporation of America, Comtel, Inc., Heath Consultants, Tennessee Gas SGS, and TGP Small Distributor Group.

37. Provide a detailed analysis of professional services charged to accounts other than Account No. 923--Outside Services Employed during the test period and the previous 5 years.

ISSUE: ADVERTISING EXPENDITURES

38. In response to No. 25(a) of the Order dated June 7, 1984, in this case, Delta states that it "did not incur any Account 913 Advertising Expenses". However, the question relates to all charges booked during the test period to any account.

Please respond to No. 25(a) for all advertising costs incurred during the test period.

ISSUE: MEMBERSHIP IN TRADE ORGANIZATIONS

39. Provide an analysis of the total amount paid during the test period for membership in various trade organizations. Also, provide a detailed narrative explanation of the benefits derived from membership in various trade organizations during the test period.

ISSUE: DEPRECIATION EXPENSE

40. Provide a detailed depreciation schedule for all plant in service at the end of the test period.

ISSUE: ACCOUNTING SYSTEM

41. Provide a copy of the chart of accounts used by Delta including a description of each account if readily available.

Done at Frankfort, Kentucky, this 17th day of August, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Hemann
For the Commission

ATTEST:

Secretary