

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL GAS)
COMPANY, INC. FOR AN ORDER AUTHORIZING) CASE NO.
THE PURCHASE AND FINANCING OF THE CANADA) 95-098
MOUNTAIN GAS STORAGE FIELD)

O R D E R

IT IS ORDERED that Delta Natural Gas Company, Inc. ("Delta") shall file the original and 10 copies of the following information with the Commission with a copy to all parties of record within 20 days from the date of this Order. Delta shall furnish with each response the name of the witness who will be available to respond to questions concerning each item of information should a public hearing be scheduled. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets is required for an item, each sheet should be appropriately labeled, for example, Item 1(a), Sheet 2 of 6.

1. Provide technical and financial feasibility studies for selecting an optimal alternative to secure gas supply to Delta's customers following the depletion of natural gas from local wells. Include with this study the estimated costs and benefits of the alternatives over the next 20 years, the estimated delivered price of gas and a demonstration of why purchase of the storage field is the best alternative.

2. Provide the design parameters and describe the current condition of the 8-inch pipeline connecting Delta's system with Canada Mountain Gas Storage Field ("Canada Mountain").

3. Is Delta's southern system connected to its northern system? Explain in detail.

4. Has Delta considered the option of tying its transmission system to the major interstate pipelines (Texas Eastern Transmission, Texas Gas Pipeline, Columbia Gas Transmission)? Explain whether this option is more feasible than the proposed purchase in providing a reliable supply of gas at competitive costs.

a. What are the estimated costs of connecting the northern system to one or more of the three major interstate pipelines? Provide a breakdown of the costs.

b. What are the estimated costs of connecting the northern and southern systems together to transport the peak requirements to the southern system from the interstate pipelines?

c. How reliable will the gas supply be if the Delta system is connected to one or more of the three major interstate pipelines?

5. How many customers are served by the northern system and what is the peak demand?

6. Provide the design parameters and the estimated costs of the proposed 12-inch, 12.9 mile pipeline to connect Flat Lick to the Canada Mountain storage field.

7. What criteria were used by Delta in estimating the value of a natural gas storage field? Provide a comparison of the

estimated value of the Canada Mountain storage facility to the purchase price.

8. Provide a topographical map showing the area and easement requirements for the Canada Mountain gas wells and the protective zone? Are there any regulations specifying the area of the protective zone?

9. Describe the quality, including hydrogen sulfide and water content, of the natural gas retained in the Canada Mountain storage field.

10. Identify the source of gas which will be delivered into the storage facility after the termination of the agreements with local gas producers. Identify the location of transmission lines between the proposed gas delivery station and the storage facility. Provide the costs and a construction schedule if these lines will be installed at a later date.

11. Describe Deltran, Inc. ("Deltran") and its experience in operating natural gas facilities.

12. Provide a detailed timeline for each phase of the proposed project including all relevant milestones. Estimate the total costs that will be incurred at each milestone and points at which any transfer of assets to Deltran might occur.

13. Describe any stranded assets or other costs Delta will have as a result of this construction.

14. Will Delta have to buy out or otherwise prematurely cancel any existing gas purchase or transportation contracts as a

result of this construction? If yes, describe the contracts and any potential costs Delta will have to incur.

15. Explain how Delta plans to finance each phase of this project.

16. Will Delta be able to pay the financing cost of this project with its existing rates? Explain.

17. Has Delta considered what impact this project could have on its cost of capital? Explain the potential impact under the proposed plan and under a scenario in which Delta would retain ownership of the storage field and transmission line.

18. Quantify the level of risk that the project will be unsuccessful, i.e. that the storage field will leak or be susceptible to thefts of gas. To what extent does Delta believe its ratepayers should be required to contribute to an unsuccessful project?

19. Delta has stated in its application that it intends to transfer the storage field and transmission line to Deltran in the future. Explain how Delta will determine and track all costs, including carrying costs, to be transferred to Deltran.

20. Explain why Delta should assume the risks of this transaction and then transfer the asset to an affiliate at cost.

21. Estimate the annual costs to Deltran if it operates the transmission line and storage facility. State whether Deltran plans to hire its own staff or whether it will contract with another entity for the daily operations of the system. Provide any

contracts or other documentation to support the annual operating costs.

22. Describe how Delta and Deltran intend to price transactions between themselves. Provide supporting workpapers and other documentation as necessary.

23. Will excess transmission or storage capacity result from the proposed construction? Will Delta customers realize the benefits of any income earned by selling excess pipeline or storage capacity?

24. Explain how Delta customers are going to benefit from the transfer of the storage field to Deltran.

Done at Frankfort, Kentucky, this 24th day of May, 1995.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director