COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.	)) CASE NO. 97-066

O R D E R

IT IS ORDERED that Delta Natural Gas Company ("Delta") shall file the original and 7 copies of the following information with the Commission no later than May 16, 1997, with a copy to all parties of record. 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 ensure 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.

1. Provide a detailed explanation for each adjustment disclosed in the middle two columns of the Balance Sheet included in Item 38 of the application.

2. Refer to the Proposed Rate Base included with Item 25 and to the Balance Sheet included with Item 38 of the application. Explain why Delta has not allocated any

Prepayments, Materials and Supplies, Gas in Storage, Unamortized Debt or Advances for Construction to any of Delta's subsidiaries.

3. Refer to WP 4-1 of Schedule 4 included in Item 25 of the application.

a. Reconcile the $6,159,200 in Total Payroll with the with the $5,781,054 in Direct Total Payroll as shown on Schedule 6 of Item 25, as well as with the $5,826,952 in Total Salaries and Wages included in the response to Item 18(c) and the $5,404,918 total included in the response to Item 19 of the Commission's March 14, 1997 Order. Include an explanation for each item included in the reconciliation.

b. Provide workpapers, calculations and other documentation to support the proposed $378,146 adjustment to Total Payroll. Explain why this total is subtracted twice in the calculation of the proposed Total Payroll Adjustment.

c. Provide workpapers, calculations and other documentation to support the methodology and calculations used in determining the proposed payroll adjustment. Include with this response the calculations necessary to derive the following factors:

(1) 1/2 Year Increase, 1.01875

(2) Increase, 1.875

d. Provide a breakdown, by account and amount, of the $54,140 adjustment to remove expenses related to the Canada Mountain project from the expenses includable for rate-making purposes.

4. Refer to WP 4-2 of Schedule 4 included in Item 25 of the application. Provide workpapers, calculations and other documentation to support the proposed 23.47 percent Payroll to Benefits factor. Reconcile the Total Benefits used to derive the

percentage with the Total Benefits reflected in the Response to Item 44 of the Commission's March 14, 1997 Order.

5. Refer to Schedule 4 of Item 25 of the application. Provide a breakdown of the $54,140 adjustment to remove expenses related to Canada Mountain. Include with this breakdown, the accounts and respective amounts to which this adjustment applies.

6. Refer to Schedule 6 of Item 25 of the application. Explain whether the Payroll Taxes totalling $450,783 represent the payroll tax on total payroll or payroll tax on only the Direct Total Payroll of $5,781,054. Additionally, if the payroll tax is on total payroll, provide the payroll tax on only the direct payroll.

7. Refer to Schedule 7 of Item 25 of the application.

a. Provide Exhibit A-1 referred to on the line, "Working Capital." Include with this response all workpapers, calculations and documentation necessary to support the $1,006,651 in total Working Capital.

b. Reconcile the following balances as shown on this schedule with the balances shown on the Balance Sheet included with the application as Section 6(9), page 8 of 8. Include with this reconciliation evidence to support any allocations made to Delta subsidiaries.

(1) Property, $95,382,553

(2) Reserve for Depreciation, $26,992,242

(3) Accumulated Provision for Deferred Income Taxes, $8,414,800

c. Reconcile the Construction Work in Progress ("CWIP") total of $1,350,673 to the balance included in the response to Item 12, page 1 of 5, of the Commission's March 14, 1997 Order. Additionally, provide the amount of any CWIP related to the Canada Mountain Storage Field included in the calculation of the proposed Rate Base on Schedule 7 of Item 25 of the application.

d. Provide the basis for including Unamortized Debt in the calculation of Delta's proposed rate base.

e. Provide the basis for using test-year-end balances as opposed to 13-month averages for Prepayments, Materials and Supplies and Gas in Storage, at cost in the rate base computation.

8. Provide a monthly update, during this rate proceeding, of any transfers of assets, currently included in the Property or CWIP components of Delta's proposed rate base, to any of Delta's subsidiaries. This update should disclose the subsidiary to whom the transfer was made, the amount by account and the journal entries made to reflect the transfer. Additionally, adjust the proposed rate base and capital structure to reflect the impact of these transfers.

9. Refer to Schedule 9 of Item 25 of the application. Provide a breakdown, by subsidiary, of the $10,332,953 adjustment to exclude Canada Mountain and Subsidiaries from Delta's capital structure. Reconcile the capital allocated to Deltran, Inc. ("Deltran") as identified in this breakdown with the rate base as calculated by Deltran in its most recently approved Gas Cost Recovery filing.

10. Refer to Item 12, page 1 of 5, of Delta's response to Item 12 of the Commission's March 14, 1997 Order. Explain the basis for including the Account 184 balances in the Total Materials and Supplies balance that is included in the calculation of Delta's proposed rate base as shown on Schedule 7 of Item 25 of the application.

11. Refer to Section 6(7), page 5 of 8, of the Financial Exhibit included with the application. Provide the journal entries made by Delta in recording the capital lease of computer equipment; and provide the journal entries made in 1995 and 1996 to reflect lease and interest payments made or accrued, and the write-off of the lease. Include with this response all workpapers, calculations and documentation necessary to support the entries.

12. Provide any cost/benefit analysis Delta performed supporting its decision to lease the computer equipment as opposed to purchasing equipment or internally developing any software included in the lease.

13. Provide a detailed description, including all workpapers, calculations and other necessary documentation such as a cost allocation manual, of the allocation methodologies used by Delta when making allocations (direct or indirect) to and from affiliated companies. Additionally, provide the total amount of these allocations, by account and subsidiary, for the test year and the 2 years preceding the test year.

14. Refer to Delta's response to Item 18 of the Commission's March 14, 1997 Order. Provide a detailed explanation for the variances in the following accounts. Include with this explanation a detailed analysis of any extraordinary or nonrecurring charges included in the test year totals.

a. 1753020 - Wells & Gathering Misc.

b. 1765020 - Mnt Compressor Station Other

c. 1871000 - Telemetry Costs

d. 1880010 - Operations Office Telephone

e. 1880030 - Operations Office, Misc.

f. 1880040 - Fees Training Schools

g. 1880050 - Uniforms

h. 1881920 - Rent Land & Land Rights

i. 1887010 - Mnt Trans & Dist Mains Payroll

j. 1887020 - Mnt Trans & Dist Mains Other

k. 1900030 - Small Tools & Work Equipment

l. 1913000 - Advertising

m. 1921010 - Adm Telephone

n. 1921040 - Company Forms

o. 1921060 - Misc Other Items

p. 1921080 - Safety Literature & Education

q. 1923010 - Outside Services Legal

r. 1923020 - Outside Services Accounting

s. 1923050 - Outside Services Computers

t. 1926010 - Time Off Payroll

u. 1930010 - Directors Fees & Expenses

v. 1930090 - Customer & Public Information

w. 1930100 - Public & Community Relations

x. 1932020 - Mnt Office Equipment

y. 1932030 - Mnt General Structures

z. 1932050 - Maintenance Computer Equipment

15. Refer to Delta's response to Item 18 of the Commission's March 14, 1997 Order. Explain the purpose of the house trailers referred to on page 73 of 89. Explain

why expenses related to these assets should be included in Delta's proposed cost of service as reflected in Delta's test-year employee benefits as shown in the response to Item 44 of the Commission's March 14, 1997 Order.

16. Refer to Delta's response to Item 18 of the Commission's March 14, 1997 Order. Provide a breakdown of the Director Fees and Expenses by board member during the test year and the 5 years preceding the test year. Identify in this response officers for each year.

17. Refer to Delta's response to Item 18(c) and (d) of the Commission's March 14, 1997 Order. Explain why Delta's overtime dollars have increased nearly 200 percent in the past 5 years including the 29.3 percent increase between 1996 to 1995. If any of this overtime is related to Delta's subsidiaries, explain whether this was considered in the proposed payroll adjustment.

18. With reference to the Form 10-K for the fiscal year ended June 30, 1995 and Delta's response to Item 42 of the application, provide the following:

a. The accounting treatment accorded the $2,000 per month principal balance forgiveness included in the Officer Agreement included as Exhibit 10(m) of the Form 10-K. Additionally, state whether Delta has included this compensation in its proposed revenue requirements.

b. The journal entries made each month of the test year to reflect the accrual of and forgiveness of the principal and interest cost.

c. Reconcile the amount forgiven in the test year with the "Other Compensation" category included in the response to Item 40 of Delta's response to the Commission's March 14, 1997 Order.

19. Refer to Delta's response to Item 24, page 2 of 2, of the Commission's March 14, 1997 Order. Reconcile the $100,214,034 in Total Gas Plant in Service for the 12 months ended December 31, 1996 with the $106,130,771 in Gas Plant in Service, for the same period, included with the application as Financial Exhibit, Section 6 (9), page 8 of 8.

20. Refer to page 8 of 8 of Section 6 (9) of the Financial Exhibit included with the application. Provide a description of events or transactions that gave rise to each of the following:

a. Deferred Income Taxes, totalling $7,801,800

b. Investment Tax Credits, totalling $743,900

c. Regulatory Items, totalling $915,200

21. Refer to Delta's response to Item 25(a) of the Commission's March 14, 1997 Order. Explain why Delta has not excluded Sales or Promotional Advertising Expense totalling $18,562, pursuant to 807 KAR 5:016, Section 14. Specify the purpose of the expenditure and the expected benefit to be derived as originally requested in the Commission's March 14, 1997 Order.

22. Refer to Delta's response to the Commission's March 14, 1997 Order, Item 25 (b). Explain the nature of the following expenses and provide justification for including these expenses in the utility's operating expenses:

a. Institutional Advertising, $38,992

b. Company Relations, $31,991

c. Public and Community Relations, $51,246

23. Provide the information originally requested in Item 25(c) of the Commission's March 14, 1997 Order.

24. Refer to Delta's response to Item 26 of the Commission's March 14, 1997 Order. Provide an analysis of the test-year billings for Professional Services to reflect the charges incurred for matters involving Delta's subsidiaries. Reconcile these charges to the proposed adjustment included in Item 25 of the application. For any subaccount for which an allocation was not reflected, provide a detailed explanation for not removing the entire amount from the operating expenses for rate-making purposes.

25. Refer to Delta's response to Item 27 of the Commission's March 14, 1997 Order. Explain why Delta has not proposed to remove Charitable Contributions totalling $51,246 from the expenses included for rate-making purposes.

26. Refer to Delta's response to Item 28 of the Commission's March 14, 1997 Order. Provide all workpapers, calculations and other documentation necessary to support the amount of its lobbyists' salaries Delta proposes to exclude from the test year.

27. Refer to Delta's response to Item 29 of the Commission's March 14, 1997 Order. Reconcile the balances in each of the accounts shown for the test year with the adjustments reflected in the Balance Sheet provided in Item 38 of the application.

28. Refer to Delta's response to Item 29 of the Commission's March 14, 1997 Order. Provide a detailed explanation for the changes in the following accounts:

a. Receivable from Parent

b. Taxes Payable

c. Payable to Others

d. Revenues from Parent

e. Other Expenses

29. Refer to Delta's response to Item 40 of the Commission's March 14, 1997 Order. Provide a breakdown of the "Other Compensation" column for 1996. This breakdown should include a description of the other compensation, the amounts, and the business reason for the compensation paid.

30. Refer to Delta's response to Item 36 of the Commission's March 14, 1997 Order. Explain the reason for not capitalizing interest on construction during the test year and the 3 years preceeding the test year.

31. Refer to the following items in Volume I of the Filing Requirements: Financial Exhibit, Section 6(4) and (5), pages 2 and 3 of 8; and Section 25, Schedule 9, WP9-2.

a. Provide details concerning the 8 percent, $40,000 Note listed on WP9-2 which does not appear in the descriptions of long-term debt in the Financial Exhibit.

b. Does the storage listed on line 7 of WP9-2 relate to the Note to Lonnie Ferrin explained in the Financial Exhibit? If so, reconcile the balance of $1,451,357 to the $1.8 million referenced in the Financial Exhibit, page 3 of 8.

32. Refer to Delta's response to Item 2 of the Commission's March 14, 1997 Order, Format 2, Schedule 2. Provide similar schedules for the 5 years previous to the test year.

33. How often is the short-term debt cost rate subject to change? How is the rate (daily prime or certificate of deposit) determined?

34. Why has Delta included customer deposits as a component of its capital structure?

35. Refer to the Direct Testimony of James K. Sharpe.

a. Using the methodology employed in calculating Schedules 3 and 4 of JKS Exhibit 1, calculate Delta's cost of equity capital.

b. What was the last return on equity approved for each of the seven proxy group companies by their respective utility commissions?

c. In what years were these returns approved?

d. How was one percent determined to be the appropriate adjustment to the calculated return on equity to take into account the perceived risk of Delta's lower equity ratio?

36. Refer to page 6 of John Hall's Direct Testimony. The overall cost of capital is stated as being 9.65 percent. Calculate the cost of capital by multiplying the proposed capital structure by the proposed debt cost.

37. Refer to the Summary of Revenue at Present Rates, Volume 1 of 3 of the Filing Requirements, Section 25, Schedule 2, page 1, lines 33 and 34. Why are the 12 commercial interruptible bills combined with the 98 industrial interruptible bills in the Proforma Bill Frequency Analysis at present and proposed rates in Volume 3 of 3 of the Filing Requirements, Section 36, pages R and S?

38. Refer to the Summary of Revenue at Present Rates, Volume 1 of 3 of the Filing Requirements, Section 25, Schedule 2, page 2, line 13. What is the source of

$226,395 in Other Revenues? If it is revenues from special charges, show in detail revenues resulting from each charge.

39. Refer to Volume 3 of 3 of the Filing Requirements, Section 36, page R, 2 of 2, line 137. What is the basis for the $263,050 in Other Revenues under proposed rates? If it is revenues from special charges, show in detail the revenues resulting from each charge and justify any expected increases or decreases in revenue.

40. Refer to Volume 3 of 3 of the Filing Requirements, Section 36, page R, 2 of 2, Special Contracts. Does this represent two special contract customers? When do these contracts expire?

41. Refer to Direct Testimony of Glen Jennings, page 6. What has caused the 67 percent decline in off-system transportation volumes since Delta's last rate case?

42. Refer to Direct Testimony of John Hall, page 2, line 22. Has Delta discussed the change in its transportation of gas for others, On-System Utilization, with its on-system transportation customers? If so, what has been their reaction to this proposed change?

43. How will the cost of gas purchased from interrupted on-system transportation customers be determined? Will Delta require supplier invoices from the customers to verify the price, or will some other method be used to establish the price to be paid by Delta?

44. Refer to Direct Testimony of John Hall, page 3, and the explanation of the text change in the off-system transportation tariff. Has Delta experienced problems in the past in settling on the price to be paid for off-system transportation gas?

45. What is the source of the information concerning normal degree days used in calculating Delta's weather-normalized retail sales?

46. Explain how Delta determined base load and heat sensitive volumes in its calculation of weather-normalized retail sales.

47. Provide the calculations used in calculating weather-normalized retail sales on WP2-1 of the summary of revenues at present rates. If the calculation is: (Heat sensitive volumes divided by 1.10253) + base load volumes, explain why normalized sales volumes equals 4,314,881 instead of 4,315,448.

48. Explain how Delta determined the level of normalized volumes to assign to each rate block in calculating its summary of revenues at present and proposed rates. The explanation should include the actual test year volumes in each rate block.

49. Refer to Volume 3 of 3 of the Filing Requirements, Section 36, page R, 1 of 2. Explain the derivation of the rates for Commercial Interruptible, lines 30 through 32.

50. Refer to Exhibit JB1 of John Brown's Direct Testimony. What is the initial cost to disconnect and why was it not included in this analysis?

51. How many disconnects were performed during the test year?

52. Refer to Direct Testimony of Robert Hazelrigg, page 4. How many interruptible customers were actually interrupted during the test year? During the last 5 years? Explain how the right to interrupt these customers had greater value to Delta when it purchased gas for them.

53. Refer to Direct Testimony of Charles Buechel, page 7.

a. Indicate where, in the proposed GS base rates, the differential between blocks is, or is intended to be, five cents.

b. Is 51 cents intended to be the tail block for GS rates, or is the 26 cents for over 10,000 Mcf which is shown in the proposed tariff intended to be the tail block? If 26 cents is intended to be the tail block, provide further discussion as to the reasonableness of establishing 26 cents as the tail block rate.

c. Why was the differential between the GS and Interruptible rate schedules changed from 25 cents to 76.5 cents changed in the last rate case? Provide further explanation as to why these reasons are no longer valid.

54. Compare the three proposed customer charges ($10 for residential and small commercial, $25 for larger volume firm customers, and $200 for interruptible customers) and explain the reasonableness of the relative percentage increases in each.

55. On page 4 of Charles Buechel's Direct Testimony he refers to the demand of the principles of gradualism and rate continuity that a lesser increase be proposed for the residential and small commercial classes than the cost-of-service study indicates. Explain the process used by Delta to determine that the proposed increase is sufficiently gradual for these customer classes.

56. Has Delta considered lowering minimum volume requirements for transportation service so that more customers would be eligible for this service? If not, why not? What would be the impact on Delta of making transportation available to all customers in the commercial and industrial classes?

57. Provide manufacturer information on which gas light usage is estimated for purposes of the proposed Gas Light Tariff. Is sufficient information available to determine estimates for light models with greater consumption?

58. Provide cost support for the proposed increase in the bad check charge.

59. Why is the "cash receipt cut-off date" being deleted from the Monthly Bills section of Delta's tariff (Original Sheet No. 21)?

60. Refer to Item 36, Volume 3 of 3, page P.

a. Explain why lines 18 and 20 are identical.

b. Explain the rationale for footnote 4.

c. Identify "Vol A" and "design B" in footnote 6 and identify or provide the information necessary to reproduce the figures on line 39.

d. Identify "W/gas" and "design - B" in footnote 7 and identify or provide the information necessary to reproduce the figures on line 40.

e. Identify or provide the data necessary to calculate the load factor on line 41.

61. Refer to Item 36, Volume 3 of 3, page Q.

a. Explain the derivation of each cost allocator.

b. Explain how each cost category was distributed to each customer class. Provide the worksheets which illustrate your calculations.

62. Refer to Item 36, Volume 3 of 3, page E, footnote 2. Identify the lines on pages P and Q where each of the allocation factors is derived.

63. Refer to Item 36, Volume 3 of 3, page X (1 of 3) and Volume 2 of 3, Section 5, page 5. Explain the data problems which prevented the calculation of a new zero intercept study and the rationale for a 59 percent demand/41 percent customer split.

64. Refer to Item 36, Volume 3 of 3, page W. Provide the calculations for the figures found on lines 24-6, and 40.

65. Refer to Item 17 of Delta's response to the Commission's March 14, 1997 Order. What was the average annual increase in customers' bills between 1995 and 1996, in amounts and percentages, for the residential and commercial customers as a result of the rate adjustments for gas cost recoveries due to the operation of Canada Mountain Storage facilities?

66. Refer to Delta's response to the Commission's March 14, 1997 Order, Item 50. Explain why Delta has not implemented the depreciation study of 1986. Has Delta considered having an updated study performed?

67. Refer to Delta's response to the Commission's March 14, 1997 Order, Item 50, page 1 of 2. Estimate the difference in the cost of gas per Mcf to Delta's customers, if the $5,370,478 for the total Storage and Processing Plant were included in Rate Base rather than including the Canada Mountain lease payment in Delta's Gas Cost Recovery.

68. Refer to Account 319, Propane Equipment. Will the propane unit be abandoned following the operation of the underground storage facilities? If yes, how will it be depreciated?

Done at Frankfort, Kentucky, this 2nd day of May, 1997.

PUBLIC SERVICE COMMISSION

B. J. Helton

For the Commission

ATTEST:

Don Mills

Executive Director