

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS ORDERED that Delta Natural Gas Company ("Delta") shall file within 14 days of the date of this Order the original and 7 copies of the following information with the Commission 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. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Items 125 and 126.

a. Identify each source of the \$122,870 of revenue labelled "Other Revenue."

b. (1) Does Delta expect any change in the frequency of its assessment of these charges?

(2) Explain why, in light of the historic trends of these charges, Delta's expectations are reasonable.

2. Why has Delta proposed to use its year-end level of short-term debt in its capital structure rather than its average level for the test year? Which is most representative of short-term debt in the test year?

3. Refer to Delta's Response to the Commission's Order of May 2, 1997, Item 35(a). Provide a printed copy of this response.

4. Refer to Delta's Response to the Commission's Order of May 2, 1997, Item 40. How long does Delta anticipate continuing to serve the customer whose special contract expires September 30, 1997? State the terms under which Delta will serve this customer after the expiration of the current special contract.

5. Refer to Delta's Response to the Commission's Order of May 2, 1997, Item 48; Delta's Application, Volume 3, Section 36, pages R1 and S1; and Delta's Application, Volume 3, Section 25, Schedule 2. Delta's Response to Item 48 indicates that all volumes normalized for each class are assumed to be in the first rate block. A review of the large commercial and industrial sales classes and the transportation classes show that there are volumes assigned to rate blocks over the first rate block. Explain how Delta determined the level of normalized^o volumes to assign to each rate block in calculating its summary of revenues at present rates and total revenues at present and proposed rates in the cost-of-service study.

6. Refer to Delta's Response to the Commission's Order of May 2, 1997, Item 57. Based on the manufacturer's information provided, should higher usage levels be designated for three and four mantle lamps? If yes, what usage levels should be used for these lamps?

7. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 16. Recalculate Delta's long-term debt cost and include in this calculation unamortized debt expense. Show all calculations.

8. Why did Delta not weather normalize transportation volumes?

9. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 101. Develop and provide an estimate of the number of customers expected to take service under the proposed gas light tariff, the associated volumes, and the associated revenues that should be allocated to this service.

10. Refer to Delta's Response to the Commission's Order of May 2, 1997, Item 2.

a. Provide a breakdown of the total test-year-end balance in Account 165, Prepayments, to show the class and amount of each prepayment, including rents, insurance premiums, taxes, interest.

b. Why is an allocation of these assets and costs to Delta's subsidiaries not "applicable"?

c. Do any of Delta's subsidiaries record these types of assets and costs on their books? If yes, identify these subsidiaries.

d. Given that Delta funds its entire operations through debt and equity issuances and internally generated funds, and since Delta's subsidiaries are funded through their parent corporation, explain why none of the unamortized debt is applicable to the subsidiaries.

11. Refer to Delta's Response to the Commission's Order of May 2, 1997, Item 7(b)(3). Why did Delta not include all accumulated deferred income taxes, totalling \$7,801,800, in its proposed rate base?

12. Refer to Delta's Response to the Commission's Order of May 2, 1997, Item 7(d). Why should Delta be allowed to earn a return on Unamortized Debt Expense when these costs are amortized to the income statement, as shown in WP 9-2 of Item 25 of the application, and recovered through rates?

13. Refer to Delta's Response to the Commission's Order of May 2, 1997, Item 13.

a. What is the basis for the \$300 per month allocation of Administrative Overhead to each of the subsidiaries listed? Provide all documentation to support the reasonableness of this allocation for each subsidiary.

b. Explain why Delta did not allocate Administrative Overhead to each of Delta's other subsidiaries.

c. What is the basis for imputing interest on payables outstanding to Delta's subsidiaries?

d. What is the amount of interest expense recorded in the test year that is related to the payables outstanding to Delta subsidiaries?

e. Has Delta reduced its proposed interest expense to be recovered from ratepayers by the amount of interest that it pays to its subsidiaries?

f. Explain how Delta subsidiaries fund their receivables.

g. For each subsidiary for whom Delta recorded outstanding payables as of the test year end, explain the nature of the payable including the service or commodity provided and the length of time for which the payable has been outstanding.

14. Refer to Delta's Response to the Commission's Order of May 2, 1997, Item 16.

a. Provide all studies, memoranda and other documentation which discuss the level of Director's Fees and Expenses paid to each individual director for each year shown.

b. Explain why Director's Fees and Expenses have increased over 53 percent since 1991.

15. Refer to Delta's Response to the Commission's Order of May 2, 1997, Items 15 and 19 and to Delta's Response to the Attorney General's Data Request of May 2, 1997, Items 52 and 66.

a. State when each additional construction crew members was hired.

b. Provide a cost/benefit analysis on the hiring of the additional staff.

This analysis should include a dollar quantification (based on end of test-year wage rates) of this action's effect on the level of overtime incurred by Delta employees during the test year.

16. Refer to Delta's Response the Commission's Order of March 14, 1997, Item 40, Delta's Response to the Commission's Order of May 2, 1997, Item 26, and Delta's Response to the Attorney General's Data Request of May 2, 1997, Items 93 and 228.

a. Provide justification and support for the level of salary related to lobbying expenses Delta is proposing to exclude from its proposed operating expenses in light of the percentages shown in Item 93. Provide all calculations and documentation related to these allocations and the amounts shown.

b. Why Delta has included dues to NGV Coalition, AICPA and Kentucky Society of CPA in its total lobbying expenses to be excluded?

c. Provide a calculation of Mr. Hazelrigg's normalized salary at test-year-end.

17. Refer to Delta's Response the Commission's Order of May 2, 1997, Item 31.

a. Does the Roger A. Byron referenced in Delta's Response serve on Delta's Board of Directors?

b. Provide all independent property appraisals, studies, correspondence, internal memoranda and other documents which discuss the value of the property for which purchase Delta paid \$60,000 to Roger A. and Penelope W. Byron.

c. Provide the most recent property tax assessment for the property purchased from Roger A. and Penelope W. Byron.

d. Why does Delta deem the 8 percent per annum rate on the outstanding balance of the Note to the Byrons reasonable? Provide all correspondence, memoranda, and other documents which Delta used to arrive at this rate.

e. Why did Delta used a 7 percent discount rate in determining the implicit interest on the note with Lonnie Ferrin? Provide all correspondence, memoranda, and other documents which Delta used to arrive at this rate.

18. Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 3 at 6. Delta proposes to include in its rate base \$328,093 related to "Pioneer Field."

a. Describe "Pioneer Field" and the circumstances surrounding Delta's acquisition of it. This description should include the date of acquisition, purpose of the field and the injections and withdrawals from the field for each of the last 3 years.

b. (1) Do any of Delta's subsidiaries use Pioneer Field?

(2) If yes, how is the cost associated with such usage allocated to Delta's subsidiaries?

19. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 7. Explain the purpose of the Contingency Fund listed in the Construction Budget for 1997 and 1998.

20. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 24(e). Provide the amount of insurance related to the non-regulated subsidiaries that Delta expensed in the test year. State whether these amounts are included in Delta's proposed operating expenses.

21. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 27(a).

a. Provide an update of the status of Work Order 1505.107, 1525.292 and 1525.311.

b. For each work order listed above, explain why it is appropriate to record these items in Construction Work In Progress instead of recording the cost associated with these items as deferred assets until the purchases are completed.

22. Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 36.

a. Explain the nature and purpose of Account 252.1, Promissory Note - EXT AGMNT. Include with this explanation, the name(s) of the borrower(s) and all terms and conditions of the Note(s).

b. Why is it appropriate to offset Customer Deposits by the amounts recorded in Account 252.1?

23. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 38.

a. Provide the journal entries made to reflect Delta's adoption of FAS 109 and all supporting documents for the amounts and the journal entries made.

b. Provide all details of the \$654,300 "Regulatory Gross-Up" for taxes on adjustment and ITC. Include all workpapers, calculations and documents necessary to support the amount recorded.

24. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 48(d). Were any of the \$3,100 in legal fees expensed during the test year allocated to Deltran? If yes, how much of these fees? If no, why not?

25. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 53. Explain why amounts related to any of the items listed should be considered for rate-making purposes as reasonable operating expenses.

26. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 54. Explain why the amounts that are recorded in Accounts 921.06, 921.07 and 926.08 and related to amusement park and sporting event tickets, individual memberships to professional and business associations and Christmas cards, luncheons and dinners for officers, directors, and employees should be considered for rate-making purposes as reasonable expenses to be included in Delta's adjusted test-year operating expenses.

27. Refer to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 54. Explain why the amounts that are recorded in Accounts 930.04-930.10 and related to advertising, community and public relations, door prizes, water heater conversion rebates, golf outings, flowers, gifts and awards should be considered for rate-making purposes as reasonable expenses to be included in Delta's adjusted test-year operating expenses.

28. Provide complete details of the water heater rebate program. With this response, Delta shall provide all written policies, guidelines and operating procedures for the program, the date on which the program was implemented, and the total amount

of rebates expensed for the program in the test year and the two years preceding the test year.

29. Refer to Delta's Response the Commission's Order of March 14, 1997, Item 40 and to Delta's Response to the Attorney General's Data Request of May 2, 1997, Item 93. Given the percentages disclosed at Item 93 and the salary level disclosed at Item 40, explain why that portion of Mr. Hazelrigg's salary that is devoted to marketing activities (Economic development - 25 percent, Media relations - 5 percent and Public relations 5 - percent) and to lobbying activities (Governmental relations - 20 percent) should be considered for rate-making purposes as reasonable expenses to be included in Delta's adjusted test-year operating expenses.

Done at Frankfort, Kentucky, this 18th day of June, 1997.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director