COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DELTA NATURAL GAS COMPANY, INC. EXPERIMENTAL ALTERNATIVE REGULATION PLAN	) CASE NO.) 99-046

O R D E R

IT IS ORDERED that Delta Natural Gas Company ("Delta") shall file the original and 8 copies of the following information with the Commission no later than June 18, 1999, with a copy to all parties of record. Each copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet shall 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 its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this Order.

1. a. What analyses of its finances and operations, if any, has Delta performed to determine why it has been unable to earn its authorized rate of return over the last 10 years? Provide each analysis and describe its results.

b. If no analyses have been performed, explain why not.

2. Provide a schedule that compares for each year since 1987 Delta s earned rate of return with its authorized rate of return.

3. Refer to letter from John F. Hall to Helen C. Helton of February 5, 1999 (Application) at 3. Provide a schedule that compares for each year since 1987 Delta s marginal cost of serving new customers to its embedded cost per customer.

4. Refer to Application at 3. Why is Delta s marginal cost of serving new customers greater than the embedded cost of providing service?

5. Refer to Application at 3.

a. Has Delta s average unit cost increased over the past 10 years?

b. Provide a schedule that compares for each year since 1987 Delta s average unit cost, the percentage increase in Delta s average unit cost, and the rate of inflation.

6. a. Provide a schedule that compares for each year since 1987 the percentage increase in Delta s marginal cost of serving new customers with the rate of inflation.

b. For each instance where the percentage increase in Delta s marginal cost of serving new customers differs from the rate of inflation, explain why the amounts differ.

7. Assume that Delta had, beginning on January 1, 1988, implemented the proposed mechanism (with the inflation adjustment discussed in Mr. Seeyle s testimony).

a. What would the annual percentage increase in revenue to Delta be for each year following implementation?

b. What would Delta s current rates, by customer class, be?

8. At page 4 of the Application, Mr. Hall writes: Although the alternative rate mechanism would likely involve a comprehensive 3-year review, it is anticipated that such a review would be less resource intensive and costly than a full-blown rate case.

a. Describe the scope of the 3-year review proceeding.

b. Describe how the 3-year review proceeding will differ from a full-blown rate case.

c. Explain why the 3-year review proceeding will be less resource intensive and costly than a full-blown rate case.

9. Refer to Application at 4.

a. How often would the zone of reasonableness be revised?

b. What type of proceeding would be used to revise the zone of reasonableness ?

10. Refer to the Application at 5. Describe the type of annual review of the utility s rate of return that would occur under Delta s proposal.

11. How will the Commission meet its statutory duty to ensure fair, just and reasonable rates if no review of a utility s costs is made when adjusting the utility s rates?

12. a. Is the process of adjusting rates based on the budgeted level of expenses tantamount to establishing rates based on a forecasted test year?

b. (1) If yes, explain why the Commission should approve a mechanism that relinquishes any oversight authority over the reasonableness of costs to be included in rates.

(2) If no, why not?

13. At page 4 of the Application, Mr. Hall states: The proposed alternative ratemaking mechanism would save time and resources at the Commission while still allowing the Commission to fulfill its obligations of ensuring that the utility is not over or under earning.

a. Under Delta s proposal, will the Commission be reviewing Delta s operating costs and earnings on an annual basis?

b. If yes,

(1) Describe the scope of the annual review proceeding.

(2) Describe how the annual review proceeding will differ from a full-blown rate case.

(3) Describe how the annual review proceeding will be time saving for the Commission.

14. Refer to the Application at 5. Explain why an annual review proceeding would not be as adversarial as a general rate case proceeding.

15. a. Explain why Delta has chosen to adjust rates on an annual basis to achieve its desired level of earnings rather than implementing cost saving measures.

b. Describe the actions that Delta has taken in the last 5 years to control or reduce costs and their resutls.

c. Describe how Delta will used its additional revenues to create new services and to enhance existing services in order to attract and retain customers.

16. a. What effect will Delta s proposal have on Delta s retail prices over

(1) the short term?

(2) the long term?

b. If the effect of the proposal is to increase Delta s retail prices for natural gas, how will the proposal better enable Delta to compete with alternative sources of energy (e.g., electricity or propane)?

17. Given current economic conditions and the current price of alternate fuels, how much could Delta s current rates increase and still remain competitive with alternative sources of energy? (The response shall state all assumptions and identify the level of rates Delta could charge and the price of each alternate fuel.)

18. a. Is the proposed mechanism designed to improve Delta s operational and financial performance?

b. (1) If yes, identify the components of the proposed mechanism (other than increased earnings) that would accomplish this result.

(2) If no, explain why the proposed mechanism should not be modified to include components to improve Delta s operational and financial performance.

19. Provide a copy of the references listed in footnote 5 of the Application.

20. Refer to the Application at 8 - 10.

a. Provide a copy of the current Rate Stabilization and Equalization Plans for Alabama Power Company and Alabama Gas Company and the Orders of the Alabama Public Service Commission in which approval for those plans was granted.

b. (1) List all other regulated public natural gas or electric utilities that have alternative regulation plans similar to Delta s proposal.

(2) For each utility listed above, provide its alternative regulation plan and the order of the appropriate regulatory commission in which the plan was approved.

c. For each plan provided in response to Item 20(a) and 20(b),

(1) Identify the provisions that are similar to those contained in Delta s proposal.

(2) Identify and describe all provisions for cost containment.

(3) Describe the extent of regulatory oversight of the level of operating costs that are included in the annual rate adjustments.

(4) State if the utility is subject to any annual review of revenues and expenses prior to implementation of the annual adjustment.

(5) Describe how changes in the allowed rate of return can be made.

21. Refer to the Application at 11.

a. List and describe each step in the process by which Delta s Board of Directors reviews and approves Delta annual budget.

b. What information is provided to Delta s Board of Directors during its budgetary process?

c. Provide all written procedures, guidelines, internal standards, rules, policies, and regulations that govern Delta s budget process and are used to evaluate the budgetary proposals.

22. Refer to the Application at 12.

a. Describe how the Budgeted ROE is determined.

b. Provide details of the Budgeted ROE used in the calculations set forth in Schedule A.

23. At page 12 of the Application, Mr. Hall states that if the application of the AAC [Annual Adjustment Clause] would increase Delta s rates to an uncompetitive level, then, subject to Commission approval, we could reduce the annual revenue deficiency amount.

a. How will Delta determine that rates will be at an uncompetitive level? Describe in detail the analysis of energy costs that Delta will use to make this determination.

b. How will Delta determine the amount of the requested increase if the amount permitted under the AAC would place rates at an uncompetitive level?

24. a. What is the effect of using budgeted costs in establishing rates through the proposed mechanism as opposed to using the level of costs included in Delta s last rate case?

b. Does the use of the budgeted costs effectively negate any Commission decision in Delta s last rate case to disallow certain costs?

c. Why is the use of budgeted costs a reasonable approach to ratemaking?

25. a. How will Delta determine the 12-month average equity for purposes of calculating the AAC?

b. Will Commission adjustments, if any, from prior rate cases be taken into consideration in calculating this amount?

c. Why would a 12-month average of equity better represent the amount to use in the calculation of AAC, contrasted with a 13-month average, as is commonly used by the Commission for determining average balance sheet accounts in rate cases?

26. Provide the calculations supporting the Composite State and Federal Tax Rate used in the calculations found in Schedule A.

27. Explain why Delta did not use the fiscal year 1998-99 budget for the preparation of its example in Schedule A to the Application.

28. a. Provide a revised version of Schedule A to the Application using the Budget year 1999-2000 as the basis for the rate adjustment. Include all supporting schedules as if Delta were filing the Alternative Regulation Mechanism for the first time to be effective July 1, 1999.

b. Provide a comparison of the budgeted costs and return on equity used to calculate the amount of increase based on the fiscal year ending June 30, 2000 with the revenue requirement found reasonable in Delta s last rate case. Provide a detailed explanation of any differences in the operating expenses and calculation of the capitalization and cost of capital.

29. Refer to the Application at 20. Explain why it is unlikely that the implementation of the alternative regulation plan will not have an impact on how investors will view Delta s long-term risk profile.

30. Refer to Direct Testimony of John R. Hall at 2. Explain how Delta s proposal will ensure that Delta s customers are receiving the lowest and most current rates.

31. Refer to Direct Testimony of John R. Hall at 3.

a. What are the cost control measures in the plan to which Mr. Hall refers?

b. How do these measures ensure that specific costs are reasonable?

32. Refer to Direct Testimony of John R. Hall at 3. List and describe the differences in Delta s proposal and Alabama Gas Company s current Rate Stabilization and Equalization Plan.

33. Refer to Direct Testimony of William Steven Seelye at 4.

a. Describe the performance-based ratemaking mechanism that was the subject of Case No. 97-171.[1]

b. Is it correct to describe the mechanism proposed in Case No. 97-171 as a targeted incentive program?

c. Is it correct that the mechanism proposed in Case No. 97-171 required certain performance criteria to be met before ratepayers bore any additional costs or shared any cost savings?

d. How is the mechanism proposed in Case No. 97-171 similar to Delta s proposed Alternative Regulation Plan?

e. How does the mechanism proposed in Case No. 97-171 differ from Delta s proposed Alternative Regulation Plan?

f. Does Delta s proposed plan in Mr. Seelye s opinion contain any incentive mechanism to improve performance in any particular area?

[1] Case No. 97-171, Modifications To Louisville Gas And Electric Company's Gas Supply Clause To Incorporate An Experimental Performance-Based Ratemaking Mechanism.

34. At page 4, lines 15 17 of his testimony, Mr. Seelye states: [T]he primary objective of the proposed mechanism is to establish a process, on an experimental basis, for ensuring that Delta s rate of return falls within the range found fair, just, and reasonable by the Commission.

a. What, if any, are the other objectives of the proposed mechanism?

b. List and describe any benefits, other than a refund of excess earnings, that will accrue to Delta s customers from the proposed plan.

35. Refer to Direct Testimony of William Steven Seelye at 5. Would the revenue requirements resulting from the Annual Adjustment Component (AAC) be any different from the revenue requirements that would be determined under a forecasted test year rate case filing under KRS 278.190? If yes, explain the differences.

36. What is the effect on revenues for the budget periods ending in 1999 and 2000 of the two performance-based ratemaking measures which Mr. Seelye describes at pages 7 through 9 of his testimony? Provide all supporting assumptions, calculations, and underlying data used to make these calculations.

37. a. Why was the Consumer Price Index for Urban Consumers (CPI-U) selected as the index to measure the reasonable level of cost increases since Delta s last rate case?

b. (1) Identify the other indices that Delta considered for this purpose.

(2) For each index identified above, state why it was not selected.

c. Provide all workpapers, show all calculations, and state all assumptions used in evaluating each index.

38. Provide a schedule that compares for each year since 1987 annual changes in Delta s non-gas supply operation and maintenance expenses with changes in the CPI-U.

39. Refer to Direct Testimony of William Steven Seelye at 8, lines 8 - 14.

a. Explain the impact of the indexed O&M expenses in one year on the budgeted level of expenses in the following year that are included in the AAC.

b. What limitations on cost increases for the annual increase in the budgeted revenue requirement used in the AAC, if any, did Delta consider?

40. Refer to Direct Testimony of William Steven Seelye at 9, line 3. Why should Delta be permitted to recover any of the expenses that exceed the indexed level of expenses?

41. a. Would Delta s incentive to contain costs under the proposed mechanism be less than under traditional regulation where no shortfall in earnings is recoverable? Explain.

b. How is the non-gas supply O&M expense control provision beneficial to the customers of Delta?

c. If Delta is permitted to recover the full amount of any excessive cost increases through the proposed mechanism, why should the proposed mechanism be considered a performance-based ratemaking concept?

42. a. Have either of the performance-based controls been factored into the calculations set forth in Schedule A to Mr. Seelye s testimony?

b. If no, provide a revised Schedule A that reflects the effect of these controls.

43. Provide a copy of first Rate Stabilization and Equalization Plan that the Alabama Public Service Commission approved for Alabama Gas Company.

44. Refer to Direct Testimony of William Steven Seelye at 9.

a. How was the average common equity level of 60% determined?

b. Provide an analysis of the average common equity for the past 5 years for companies comparable to Delta.

45. Refer to the Application at 15, note 7.

a. Why is the revenue recovered from the application of the customer charge attributed to the first billing block only?

b. Does this method of calculating the ACC increase the proposed mechanism s rate impact on residential and smaller usage customers?

46. Refer to the Application, Schedule A, at 4. Provide the workpapers, show all supporting calculations, and state all assumptions used to establish the allocations to rate class billing blocks shown.

47. Assume that the customer charge revenue was attributed to billing blocks on the basis of net revenue recovered from the application of each billing block.

a. Provide a revised Schedule A, page 4 that reflects this assumption.

b. Provide the workpapers and show all supporting calculations used to prepare the revised schedule.

48. a. Does Alabama Gas Company s current Rate Stabilization and Equalization Plan include a weather normalization component?

b. If yes,

(1) Did Delta consider including such a component in its proposed plan? Explain.

(2) Provide an analysis of the impact weather normalization would have had on Delta s revenues, net income and return on equity for each of the last 10 years if such mechanism had been in place.

Done at Frankfort, Kentucky, this 4th day of June, 1999.

By the Commission

ATTEST:

____
Executive Director