COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.	))	CASE NO. 99-176

O R D E R

IT IS ORDERED that Delta Natural Gas Company ("Delta") shall file the original and 15 copies of the following information with the Commission within 10 days of this Order, with a copy to all parties of record. Each copy of the information 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 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. When applicable, the requested information should be provided for total company operations and jurisdictional operations, separately.

1. Refer to Delta s Response to the Attorney General s Initial Request for Information, Item 116. Provide the cost-of-service model on electronic media (e.g., computer diskette, CD-ROM). **This model shall contain formulas rather than values**.

2. a. How will Delta s acquisition of the assets of Mt. Olivet Natural Gas Company[1] (Mount Olivet) affect Delta s revenues? Revise Application Schedules 24, 25, and 38 (and any other schedule deemed appropriate) to reflect the effects of this acquisition. For each element of rate base, capital structure, operating revenue, and operating expense, state the effect of Delta s acquisition. Provide all workpapers, state all assumptions, and show the calculations used to derive each revised element.

b. Provide a comparison of Delta s proposed rates and charges with the rates and charges that Delta would have proposed had the effect of Delta s acquisition been included in Delta s pro forma operations.

3. In Case No. 95-098,[2] Delta argued that Delta s customers were best served by its transfer of its Canada Mountain storage field assets (Canada Mountain) to Deltran, Inc. (Deltran) and its recovery of the storage project costs through Delta s gas cost recovery (GCR) mechanism. Is it still in the best interest of Delta s customers to permit Delta s recovery of Canada Mountain project costs through Delta s GCR rather than through general rates? If yes, why?

4. Explain why Delta did not propose in this proceeding to include the recovery of Canada Mountain in its base rates.

5. a. Recalculate Delta s revenue requirement to reflect recovery of the Canada Mountain costs through the base rates rather than through Delta s GCR. Revise Application Schedules 24, 25, and 38 (and any other schedule deemed

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[1] See Case No. 98-613, The Application of Delta Natural Gas Company, Inc. for an Order Authorizing the Purchase of the Assets of the Mt. Olivet Natural Gas Company (September 7, 1999).

[2] See Case No. 95-098, The Application of Delta Natural Gas Company, Inc. for an Order Authorizing the Purchase and Financing of the Canada Mountain Gas Storage Field (September 7, 1995).

appropriate) to reflect the effects of this change in the method of cost recovery. For each element of rate base, capital structure, operating revenue, and operating expense, state the effect of changing the method of cost recovery. Provide all workpapers, state all assumptions, and show the calculations used to derive each revised element.

c. Provide a comparison of Delta s proposed rates and charges with the rates and charges that Delta would have proposed had recovery of Canada Mountain been through Delta s base rates.

d. Describe the effect on Delta s GCR if the Commission determined that the costs of Canada Mountain facilities should be recovered through base rates.

6. a. When did Delta complete the construction of its Canada Mountain facilities?

b. If the construction is not completed,

(1) What percentage of the project has been constructed as of the date of Delta s Response?

(2) What is the current estimated cost of the Canada Mountain facilities?

(3) What is the expected date of completion?

7. State the percentage of Canada Mountain s storage capacity that Delta is currently using.

8. Provide all contracts and lease agreements between Delta and Deltran that involve the Canada Mountain storage facilities.

9. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 23.

a. Reconcile the $14,323,170 Utility Plant adjustment for Canada Mountain with the $14,423,765 Canada Mountain investment deemed reasonable in Case No. 98-055.[3]

b. Provide all workpapers, state all assumptions, and show all calculations used to derive the following proposed adjustments:

(1) $3,099,324 - Back out storage gas in Canada Mountain

(2) $185,781 - Back out balance of investment in subsidiaries

(3) $1,049,138 - Back out non rate base item

c. Delta states that Adjustment No. 15 is [t]o adjust for proposed capital structure and difference in rate base and capital structure. Provide a detailed analysis describing the components that make up the difference in Delta s rate base and capital structure.

10. Provide the journal entry that Delta recorded to reflect its purchase of the gas utility facilities of the city of North Middletown, Kentucky (North Middletown).

11. a. Does Delta propose to recover through its general rates any utility plant acquisition adjustment that resulted from its acquisition of the North Middletown facilities?

b. If yes, provide documentary evidence to demonstrate that:

(1) The purchase price was established upon arms-length negotiation.

[3] Case No. 98-055, Tariff Filing of Deltran, Inc. to Establish its Monthly Lease Charge (April 24, 1998).

(2) The initial investment plus the cost of restoring the facilities to required standards will not adversely impact the overall costs and rates of the existing and new customers.

(3) Operational economies can be achieved through the acquisition.

(4) The purchase prices of utility and non-utility property are clearly identified.

(5) The purchase price results in overall benefits in the financial and service aspects of Delta s operations.

12. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 25(a). Explain why the following rate base items should not be allocated for rate-making purposes to Delta s subsidiaries:

a. Prepayments.

b. Materials and Supplies.

c. Gas In Storage.

d. Unamortized Debt

e. Advances for Construction.

13. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 26(b). Delta s original revenue requirement of $7,085,868 reflects an overall return on capital of 9.235 percent.[4] In its response Delta shows that its proposed adjustment to rate base will result in an increase to its revenue requirement of $33,896. State whether the proposed $33,896 increase to Delta s revenue requirement will result in a return on capital greater than Delta s requested return.

[4] $7,085,868 Requested Return / $76,728,462 Proposed Capital = 9.235%.

14. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 27.

a. Reconcile the $1,551,279[5] of net TranEx plant addition with the $1,587,945 TranEx adjustment included in Delta s Response to Item 23 of the Commission s Order of August 11, 1999.

b. Reconcile the $4,044,291 of TranEx plant with the journal entry of $4,300,000 for Plant In Service that the Commission directed in its Order of June 27, 1999 in Case No. 97-140.[6]

15. Provide TranEx s 1998 balance sheet, income statement, statement of retained earnings, and cash flow statement.

16. Provide Enpro s 1998 balance sheet, income statement, statement of retained earnings, and cash flow statement.

17. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 27.

a. Does the $1,587,945 TranEx adjustment include a utility plant acquisition adjustment?

b. If yes, provide documentary evidence to demonstrate that:

(1) The purchase price was established upon arms-length negotiation.

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[5] $4,046,127 TranEx Plant - $2,494,848 TranEx Depreciation = $1,551,279.

[6] Case No. 97-140, The Application of Delta Natural Gas Company, Inc. for an Order Authorizing the Purchase of All of the Issued and Outstanding Stock of the TranEx Corporation (June 27, 1997) at 6.

(2) The initial investment plus the cost of restoring the facilities to required standards will not adversely impact the overall costs and rates of the existing and new customers.

(3) Operational economies can be achieved through the acquisition.

(4) The purchase prices of utility and non-utility property are clearly identified.

(5) The purchase price results in overall benefits in the financial and service aspects of Delta s operations.

c. Upon what cost methodology (original cost or current market value) was the purchase price of TranEx based?

18. Provide all contracts and lease agreements between Delta and TranEx.

19. Explain why Delta proposed to recover its TranEx acquisition costs through its base rates, but proposed a different method of recovery for its Deltran acquisition costs.

20. a. Describe the procedures that Delta uses to identify, assign, and allocate costs to Canada Mountain and TranEx.

b. Provide all internal memoranda, correspondence, policy manuals and other documents that discuss these procedures.

21. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 29(b).

a. Explain why Delta annualized the pay period ending December 31, 1998 rather than apply the wages effective July 1, 1998 to the actual hours worked in 1998 to arrive at its pro forma salaries and wages.

b. Provide all workpapers, state all assumptions, and show all calculations used to derive the $5,873,600 of wages effective February 18, 1998.

c. Provide all workpapers, state all assumptions, and show all calculations used to derive the $6,042,900 of wages effective July 1, 1998.

22. Refer to Delta s Response to the AG s Initial Information Request, Item 36.

a. Provide a detailed analysis of Delta s 1998 salaries and wages that were allocated to clearing accounts. This analysis shall include descriptions and titles of each clearing account included in the allocation.

b. Explain why Delta did not adjust its pro forma salaries and wages to reflect the test period allocations to the clearing accounts.

23. a. Calculate Delta s pro forma salaries and wages using (1) the actual regular hours for 1998; (2) the actual overtime hours for 1998; and (3) the July 1, 1998 wage rates. The calculation shall be provided in the format attached hereto as Schedule 23a.

b. State the amount of pro forma salaries and wages set forth in Delta s Response to Item 23(a) that should be capitalized. Provide all workpapers, state all assumptions, and show all calculations used to derive the capitalized pro forma wages.

c. State the amount of pro forma salaries and wages set forth in Delta s Response to Item 23(a) that should be allocated to the clearing accounts. Provide all workpapers, state all assumptions, and show all calculations used to derive the allocated pro forma wages.

24. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 30(b). For each account included in the breakdown of the Canada Mountain

expenses, provide the account title and descriptions of the costs included in the account.

25. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 30(c). For each account included in the breakdown, provide a detailed analysis of the expense items that have been removed and those expense items remaining. The detailed analysis shall include the title and brief descriptions of each expense item.

26. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 30e. Explain why a 3-year amortization period should be used rather than the 5-year amortization period that the Commission applied to these expenses in Case No. 97-066.[7]

27. Item 19 of the AG s Initial Information Request includes a list of the unamortized deferred income tax balances Delta was allowed to recover in Case No. 97-066. Explain why Delta should recover any of the following unamortized deferred income taxes for which recovery was not permitted in Case No. 97-066:

a.	A/C 1282020	Def Inc Tax Pension Plan	$(567,200)
b.	A/C 1282030	Def Inc Tax Stock Plan	$ 22,600
c.	A/C 1282060	Def Inc Tax Annual Leave	$ 153,500
d.	A/C 1282080	Def Inc Tax Amort Ferrin Prom Note	$ 16,200
e.	A/C 1282110	Def Inc Tax Net Unbilled Rev	$ 670,100
f.	A/C 1282110	Def Inc Tax Bad Debt Res	$ 47,300

[7] Case No. 97-066, An Adjustment of the General Rates of Delta Natural Gas Company (December 8, 1997).

g.	A/C 1282110	Def Tax Regulatory Inc Tax	$	(500)
h.	A/C 1283020	Def Tax Regulatory ITC	$ 392,500	

28. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 35. Explain why Delta did not use the federal statutory income tax rate of 35 percent to calculate its unamortized deferred income tax items.

29. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 36. Is the difference between Delta s rate base and capitalization due to capital supporting items that are not allowed for rate-making purposes?

30. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 57(b). Describe the cause(s) of the increase of $4,685,000 in Delta s short-term debt, of the increase of $634,000 in Delta s long-term debt, and of the decrease of $321,000 in Delta s common equity.

31. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 57(c).

a. Provide a detailed narrative discussing the financial stress that Delta is experiencing.

b. What assurances does the Commission have that Delta will use its earned returns to increase its equity component?

32. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 60. Explain why Delta has not reflected its hypothetical capital structure in its 1999 or 2000 budgets.

33. State Delta s current short-term debt cost rate.

34. Refer to Direct Testimony of John F. Hall at 5. Provide the calculations that produce a 9.31 percent cost of capital. Reference to Delta s Response to AG s Initial Information Request, Item 2(c) and 2(d), will not be considered responsive.

35. Refer to Delta s Response to the Commission s Order of August 11, 1999, Item 53. The analysts reports stress the negative impact of warm weather on Delta s earnings. What effect, if any, would Delta s implementation of its proposed Weather Normalization Adjustment Clause have on these analysts views?

36. Refer to Direct Testimony of Martin J. Blake, Exhibit MJB-4. What discounted cash flow estimated return on equity for Delta, if any, did Ibbotson Associates report in its Cost of Capital Quarterly (March 1999)?

37. At page 27 of his Direct Testimony, Dr. Blake using the capital asset pricing model (CAPM) calculated an estimated return on equity of 11.88 percent based upon the lowest beta coefficient reported (0.40), and an estimated return on equity of 15.08 percent based percent based upon the highest beta coefficient of 0.80. Assuming the lowest reported beta coefficient was .02, would 11.88 percent be the more appropriate return on equity to use when analyzing Delta s required return on equity?

Done at Frankfort, Kentucky, this 14th day of September, 1999.

By the Commission

ATTEST:

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Executive Director

Delta Natural Gas Company, Inc.

CASE NO. 99-176

Pro Forma Salaries and Wages

	Wages		Hours Worked		Pro Forma Salaries and W	
Employee Name/Number	Effective 2/18/98	Effective 7/1/98	Regular	Overtime	Regular	Overtime