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

<u>O R D E R</u>

IT IS ORDERED that the Attorney General ("AG") shall file the original and 8 copies of the following information with the Commission no later than October 14, 1999, 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.

1. What utilities, if any, to which Carl G.K. Weaver refers in his testimony have a Weather Normalization Adjustment (WNA) mechanism?

2. Refer to Testimony of Thomas S. Caitlin (July 1999) at 15 - 18.

a. At page 16 of his testimony, Mr. Caitlin refers to Delta Natural Gas Company, Inc. s (Delta s) WNA proposal in Case No. 99-070. Did he intend to refer to Case No. 99-176 instead?

b. For each issue listed below, state whether Mr. Caitlin believes that Delta has in this proceeding adequately addressed the issue as it relates to Delta s proposed WNA mechanism and the reasons for his position:

(1) The definition of normal weather;

(2) The determination of weather-related gas usage;

(3) The consistency of normal weather used in base rate determinations and in the WNA clause;

(4) The consistency of normal weather determinations over time; and,

(5) The statistical and methodological bases of making these various determinations.

3. Provide gas distribution utilities tariffs containing WNA mechanisms that, in Mr. Caitlin s opinion, adequately address the issues listed in Item 2(b) and are appropriate as a model for WNA mechanisms for gas distribution utilities under the Commission s jurisdiction.

4. Refer to Testimony of Carl G.K. Weaver (September 23, 1999) at 37, line 15. Should the range be 9.92 percent to 10.92 percent instead of 9.92 percent to 10.82 percent ?

5. Refer to Testimony of Carl G.K. Weaver (September 23, 1999) at 5, lines 10 - 18.

a. When updating his testimony of July 30, 1999, why did Dr. Weaver narrow the range by striking the high-low values when he did not take this action when preparing his testimony of July 30, 1999?

b. Provide the average of the three methods if the high-low values are not excluded.

6. Refer to Testimony of Carl G.K. Weaver (July 30, 1999) at 38. Show the calculations to support Dr. Weaver s statement that [t]he cost of equity for the five companies would average from 9.75 to 10.75 percent.

7. Refer to Testimony of Carl G.K. Weaver (September 23, 1999), Schedule 34. Explain how the short-term and long-term debt cost rates were derived. Show all calculations and state all assumptions used to derive these rates.

8. Refer to Testimony of Carl G.K. Weaver (September 23, 1999) at 2, lines 5 - 10. Does Dr. Weaver consider Delta s capital structure to be high risk? Explain.

9. Refer to Testimony of Carl G.K. Weaver (September 23, 1999) at 2, lines 13 16, and Testimony of Carl G.K. Weaver (July 30, 1999) at 8, lines 10 - 14. Dr. Weaver s positions on the use of a hypothetical capital structure appear to conflict. Clarify Dr. Weaver s position on the use of a hypothetical capital structure.

10. In his testimony of September 23, 1999, Dr. Weaver did not amend Schedule 5, but did amend Schedule 1 to show that Delta s increase in total assets from 1997 to 1998 is 6.4 percent instead of 3.1 percent. What effect, if any, does this amendment have on page 15, lines 13 through 15, of Dr. Weaver s testimony of July 30, 1999?

11. Refer to Testimony of Carl G.K. Weaver (July 30, 1999), Schedule 5. In light of the amendment that Dr. Weaver has made to Schedule 1 of his testimony and its effect on Schedule 5 and considering the disparity between the five selected

companies data and that of Delta, are the companies listed in Schedule 5 comparable to Delta or simply the closest relative to all 23 <u>Value Line</u> companies? Explain.

12. Refer to Testimony of Carl G.K. Weaver (July 30, 1999) at 16, lines 2 7. How much of Delta s relatively greater financial risk is mitigated by its lesser amount of current liabilities?

13. Refer to Testimony of Carl G.K. Weaver (July 30, 1999) at 17, line 2. Based upon the information in Schedule 7, should Delta s fixed capital service payment financing be set out as 65.4 percent instead of 64.4 percent?

14. Refer to Testimony of Carl G.K. Weaver (September 23, 1999), Schedule 15, and Testimony of Carl G.K. Weaver (July 30, 1999), Schedule 16. Considering the disparity in Beta estimates between <u>Standard & Poor s</u> and <u>Value Line</u>, could Delta be considered as having higher systematic risk by a rating agency other than <u>Standard & Poor s</u>? Explain the answer thoroughly.

15. Refer to Testimony of Carl G.K. Weaver (July 30, 1999) at 30. Dr. Weaver indicates that the majority of Delta s Earnings Per Share (EPS) fluctuations are weather related. To what causes does he attribute the remainder of the EPS fluctuations?

16. a. Provide a comparison of the residential and commercial load of each of the five comparable companies and Delta.

b. Provide all <u>Value Line</u> and <u>Standard & Poor s</u> reports that discuss the effect of warmer weather on each of the five comparable companies. If such reports are unavailable, provide data showing the effect of such weather on each company s EPS.

17. Refer to Testimony of Carl G.K. Weaver (July 30, 1999) at 30, lines 9 - 14. During the period from 1989 to 1998, did other natural gas utilities experience a large amount of variability in EPS and yet maintain a relatively constant and slowly growing dividend? Explain.

18. Provide all source documents used for all calculations made to analyze Delta s cost of equity.

19. Refer to Testimony of Carl G.K. Weaver (July 30, 1999) at 31. If I/B/E/S has updated its EPS forecast for Delta since May 1999, provide the updated forecast.

20. a. Does I/B/E/S forecast Dividends per Share (DPS) and Book Value per Share (BVS) growth?

b. If yes, provide I/B/E/S s most current forecasts of DPS and BVS growth for Delta and each of the five comparable companies.

21. Refer to Testimony of Carl G.K. Weaver (July 30, 1999) at 40. Explain how the Alternative Rate Plan would reduce or eliminate the following:

a. Competition with alternative sources of energy;

b. Uncertainty in recovery of gas cost;

c. Volatility in the price of natural gas.

22. Refer to Testimony of Carl G.K. Weaver (July 30, 1999) at 44. Why does Dr. Weaver use the Yield to Maturity method in calculating the cost of long-term debt?

23. At pages 12 through 18 of his testimony of July 30, 1999, Robert J. Henkes challenges Delta s claim that the alternative rate mechanism . . . would be less resource intensive and costly than a full-blown rate case and asserts that the filing

costs and oversight costs for alternative regulation will result in costs equivalent to or greater than that from traditional regulation.

a. Identify each administrative proceeding involving alternative rate regulation in which Mr. Henkes was involved, Mr. Henkes role in such proceeding, and the party for whom Mr. Henkes was employed.

b. For each proceeding identified in Item 21(a), describe the costs of such proceeding and how such costs compared with traditional rate-making proceedings.

c. Identify all studies of which Mr. Henkes is aware that have reviewed or considered the cost of alternative rate regulation proceedings as compared to traditional rate-making proceedings. Provide a copy of each study listed.

24. Refer to Testimony of Robert J. Henkes (July 30, 1999) at 20, lines 4 through 6. What modifications are necessary to Delta s proposed alternative regulation plan (ARP) to provide clear and quantifiable incremental ratepayer benefits? For each proposed modification, provide a detailed description and, if the proposed modification is part of an ARP approved by a utility regulatory commission, identify the proceeding in which that ARP was approved.

25. Refer to Testimony of Richard A. Galligan at 17. Table 2 reflects the class rates of returns based upon Delta s cost-of-service study and the class rates of return as modified by the AG s cost-of-service witnesses based on actual rates. Provide a comparable table based upon the proposed rates for service.

26. The AG s cost-of-service witnesses propose modifications to Delta s cost-of-service model.

a. Provide in a format similar to Seelye Exhibit 5 the rate structure results for each class of service when this modified cost-of-service model is used.

b. For each modification proposed by the AG s cost-of-service witnesses, show all calculations, state all assumptions upon which the modification is based, and provide all documents that support the proposed modification.

27. The AG advocates an across-the-board increase for all classes of service. What class rates of return are produced using this approach?

28. On page 19 of his Direct Testimony, Mr. Henkes states that, if the company didn t have the cumulative customer deposit balances available as a continuous source of funds, it would have to borrow short term debt at a similar interest rate. Provide any evidence the AG has to show that Delta is using its customer deposit balances to reduce its short-term borrowings.

29. a. On page 20 of his Direct Testimony, Mr. Henkes states that, the PSC has always treated customer deposit balances as rate base deductions while treating the associated interest expenses as a pro forma operating expense in all prior Kentucky Power Company rate cases. Is the AG aware of any other rate case proceedings where the Commission has reduced rate base by the customer deposit balance while including the associated interest expense in the operating expenses?

b. Describe how the issue of customer deposits (balances and interest) was treated in Kentucky-American Water Company s prior rate case.

30. In this proceeding the AG has proposed to reduce Delta s rate base by the customer deposit balance. Would the more appropriate treatment be to include the

customer deposit balance as a source of cost free capital in Delta s capital structure? If no, provide a detailed explanation.

31. Explain if it is in the best interest of Delta s customers to permit Delta s recovery of the Canada Mountain storage field assets (Canada Mountain) costs through Delta s gas cost recovery (GCR) rather than through general rates.

32. How would the recovery of Canada Mountain through Delta s base rates rather than through the GCR impact the revenue requirement proposed by the AG?

33. Explain how Delta s acquisition of the assets of the Mt. Olivet Natural Gas Company would impact the AG s recommended revenue requirement.

34. On page 29 of his Direct Testimony, Robert J. Henkes states that, amortization is designed to make the Company whole for expense amounts actually incurred for a particular event. Since the cost of a rate case is incurred for a particular event, explain why normalization should be used rather than amortization.

35. Would eliminating the amortization expense of Delta s prior rate case be disallowing the recovery of a legitimate operating expense?

36. Is the AG aware of any other jurisdiction that uses the normalization methodology for the recovery of rate case expense? If yes, provide a listing of the jurisdictions and a copy of a recent decision describing the use of the normalization methodology for rate case expense.

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

By the Commission

ATTEST:

Executive Director