

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS COMPANY) CASE NO.
INC. FOR AN ADJUSTMENT OF RATES) 2004-00067

FIRST DATA REQUEST OF COMMISSION STAFF
TO THE ATTORNEY GENERAL

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that the Attorney General, by and through his Office of Rate Intervention, file the original and 8 copies of the following information with the Commission with a copy to all parties of record. The information requested herein is due on July 29, 2004. 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 person 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, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the Direct Testimony of Robert J. Henkes ("Henkes Testimony"), pages 19 and 20. Would Mr. Henkes agree that in previous general rate cases the

Commission has generally amortized rate case expense over a 3-year period, as was done in Case Nos. 2000-00080¹ and 2001-00092?²

2. Refer to the Henkes Testimony, page 23.

a. Was Mr. Henkes aware that Delta increased the monthly retainers for directors effective June 1, 2003?

b. Did Mr. Henkes normalize the directors' monthly retainer to reflect the increase authorized during the test year?

c. Does Mr. Henkes agree that the directors' monthly retainer should be normalized to reflect the monthly retainer in effect at test-year end? If no, explain why not.

d. Concerning the March 2004 increase in the monthly retainer authorized by Delta's Nominating and Compensation Committee, does Mr. Henkes believe the increase represents a known and measurable change? Explain the response.

3. Refer to the Henkes Testimony, pages 26 through 29.

a. On page 27 there is a discussion of the American Gas Association ("AGA") dues. Explain how Mr. Henkes determined that the AGA advertising activities are institutional and promotional in nature. Include copies of any descriptions of expense activity categories.

¹ Case No. 2000-00080, The Application of Louisville Gas and Electric Company to Adjust Its Gas Rates and to Increase Its Charges for Disconnecting Service, Reconnecting Service and Returned Checks, final Order dated September 27, 2000.

² Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company, final Order dated January 31, 2002.

b. In discussing several of his proposed adjustments, Mr. Henkes cites that the expense does not provide a material benefit to ratepayers. Provide Mr. Henkes' definition of the term "material benefit."

4. Refer to the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Testimony"), page 21 of 23.

a. In preparing his Geometric Mean Turnover analysis for Account No. 376 – Distribution Mains, was the type of material used for the main (plastic, steel, cast iron) considered?

b. Would it be reasonable to consider the type of material used for the main when determining the service life?

5. Refer to the Majoros Testimony, page 22 of 23 and Exhibit MJM-2, pages 1 and 2 of 7.

a. Explain why Mr. Majoros did not mention the positive net salvage shown on Exhibit MJM-2 for Account Nos. 383, 391, and 397 in his testimony on page 22.

b. Explain in detail why Mr. Majoros believes it is necessary to separate the net salvage component from Delta's depreciation rates.

c. Provide a version of Exhibit MJM-2, pages 1 and 2 of 7, that modifies the "Snavelly King Recommended" columns to reflect the inclusion of the net salvage component in the determination of the overall depreciation rate for each plant account.

6. Refer to the Direct Testimony of David H. Brown Kinloch, page 18.

a. Mr. Brown Kinloch states that he is unaware of money for research, funded by other utilities, which is collected from customers through a separate tariff rider on a bill. Is Mr. Brown Kinloch unaware of the stipulations the Attorney General entered into with Columbia Gas of Kentucky, Inc. (“Columbia”) and Atmos Energy Corporation (“Atmos”) in those companies’ most recent rate cases which allow them to collect money for research through riders on their customers’ bills?

b. Columbia’s tariff applies its research rider to all rate schedules. In light of this, does Mr. Brown Kinloch still contend that Delta must include the research expense in its base rates in order to apply the charge to customers other than sales customers? Explain the response.

c. Mr. Brown Kinloch suggests that money for research should be collected through base rates. Columbia’s and Atmos’s tariffs allow them to terminate their riders by filing a notice of rescission with the Commission. Given that the only way to remove an expense item from base rates is through a general rate case, is Mr. Brown Kinloch still of the opinion that it would be beneficial to include this charge in base rates? Explain the response.

7. Refer to the Direct Testimony of Charles W. King (“King Testimony”), page 7 and Exhibit CWK-1. Mr. King used an average of his estimated 2004 and 2005 dividends in his discounted cash flow analysis. Explain why it is appropriate to use an average dividend for these two years rather than the 2005 estimated dividend.

8. Refer to the King Testimony, page 9. Mr. King excludes two companies from his comparison group because Value Line rates them below a “B” for financial

strength. Explain why Mr. King chose to exclude companies with a financial strength rating below "B."

9. Refer to the King Testimony, page 19. Mr. King uses the rate on a Treasury security with a maturity of one year as the risk-free rate in his CAPM analysis. Provide any articles from financial literature, textbook chapters, or other authoritative sources that support using a security with a maturity of one year in the CAPM model.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED July 16, 2004

cc: All Parties