

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS	)	
COMPANY, INC. FOR AN ADJUSTMENT	)	CASE NO.
OF RATES	)	2007-00089

FIRST DATA REQUEST OF COMMISSION STAFF TO  
THE ATTORNEY GENERAL

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before September 13, 2007. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

The AG shall make timely amendment to any prior responses if he obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

the AG fails or refuses to furnish all or part of the requested information, the AG shall provide a written explanation of the specific grounds for his failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. 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 request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the Direct Testimony of Michael J. Majoros, Jr. (“Majoros Testimony”), page 6. Provide specific citations and copies of the citations from generally accepted accounting principles and the Securities and Exchange Commission that require reporting of non-legal asset retirement obligations as a liability that is specific to ratepayers.

2. Refer to the Majoros Testimony, page 10. Does Mr. Majoros believe it is reasonable to rely solely on his geometric mean turnover analysis when determining the appropriate depreciation rates for Delta? Explain the response.

3. Refer to the Majoros Testimony, page 17. While Mr. Majoros has determined that depreciation expense should be reduced by \$972,418, he has not recognized that proposed reduction as an adjustment to the accumulated depreciation balance included in his rate base calculations.

a. Explain in detail why the proposed adjustment to depreciation expense was not also reflected in the accumulated depreciation balance included in the rate base calculations.

b. Was Mr. Majoros aware that in previous rate cases the Commission has included adjustments to depreciation expense when determining the balance for accumulated depreciation included in rate base calculations? Explain the response.

c. What circumstances exist in this rate case that justifies a different approach in determining the accumulated depreciation balance?

4. Refer to the Majoros Testimony, pages 17 through 19. Mr. Majoros has included a customer growth adjustment based on discrepancies that he found in Delta's customer numbers. Is Mr. Majoros contending that the customer numbers that he found in the data responses, which were lower than the customer numbers provided in Delta's original testimony, indicate that Delta is gaining customers? Explain the response.

5. Refer to the Majoros Testimony, page 20. Does Mr. Majoros believe it is reasonable to use a 3-year historic average to determine normalized pension expense? Explain the response.

6. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), pages 7 and 8. Explain why investors, as a result of the 2003 tax law change, would willingly give up that incremental increase in investment returns and give it to ratepayers vis a vis lower equity returns awarded to utilities.

7. Refer to the Woolridge Testimony, pages 8 and 9, and Exhibits JRW-2, JRW-6, and JRW-7.

a. Explain why it is appropriate to include Delta in the group of gas companies that serve as a proxy for Delta.

b. Was Atmos Energy inadvertently left off Exhibit JRW-2 or inadvertently included in Exhibits JRW-6 and JRW-7?

c. There are substantial size differences between Delta and several companies in the proxy group: AGL Resources has 2.2 million customers, Atmos Energy has 3.2 million customers, and WGL Holdings has over 1 million customers. Nicor, Inc does not appear to be in Dr. Blake's proxy group, but also has over 2 million customers. In terms of operating revenues, Atmos Energy has over \$5.5 billion; AGL Resources, New Jersey Resources, and WGL Holdings have over \$2 billion; and Laclede Group, Northwest Natural Gas and Piedmont Natural Gas have over \$1 billion. Delta's operating revenue is less than \$100 million. Explain why these companies are suitable proxies for Delta.

8. Refer to the Woolridge Testimony, pages 27 through 29, and Exhibit JRW-6, pages 3 through 5 of 5.

a. Explain why blending the mean and median values of 10-year, 5-year, and 1-year averages produces a meaningful estimate of growth rates.

b. Explain how blending projected estimates of earnings, dividends, and book value growth rates into a single number provides a meaningful estimate of growth rates.

9. Refer to the Woolridge Testimony, pages 36 through 54, and Exhibit JRW-7, page 3 of 5.

a. Exhibit JRW-7 does not contain references for all of the entries. Provide the references for all the exhibit entries.

b. Explain why it is appropriate to use risk premium estimates based upon the geometric mean in the context of obtaining forward looking market risk premiums.

c. Under the exhibit heading "Puzzle Research," there is wide disparity between the various risk premium entries. Provide a copy of the Mehra and Prescott paper referenced on page 37 and a copy of each of the studies in this subsection.

d. Under the exhibit heading "Puzzle Research," the reported risk premium estimates appear to be very sensitive to the historical time period used to make the calculations. Explain why it is appropriate to use studies that rely on relatively recent or short historical time periods for purposes of forward looking estimates.

e. Provide a copy of each of the studies listed in the Surveys and Social Security subsections of the Exhibit JRW-7 and explain why it is appropriate to use each study in the context of the present rate case.

f. There is a substantial difference between the Ibbotson and Cheng and the Woolridge risk premium estimates using the Building Block approach. Provide an explanation of the source of these differences and a copy of the Ibbotson and Cheng study.

g. If the Ibbotson SBBI yearbook 2007 contains any discussion of estimating and using the ex ante approaches and/or a discussion comparing the ex ante and historical approach to calculating risk premiums (i.e. appropriate methodologies for the analyst), provide those discussions.

h. Provide the historical data from the Ibbotson SBBI Yearbook 2007 which is used to derive the historical entries 6.50 percent and 5.00 percent.

i. Provide an explanation of whether any of the Exhibit JRW-7 entries have been adjusted for inflation in any way. If so, further explain which entries and how the adjustment was performed.

j. A few of the Exhibit JRW-7 entries are almost 6 years old. For those exhibit entries that were published prior to 2006, explain why they are still valid for use in current risk premium analysis.

10. Refer to the Woolridge Testimony, page 40. Provide a copy of the Derrig and Orr paper.

11. Refer to the Woolridge Testimony, pages 41 through 46.

a. Were geometric averages used in any of the calculations?

b. Provide a copy of both the Ibbotson and Cheng and the Ilmanen papers referenced on page 41.

c. Does the Goedhart, Koller and Williams paper referenced on page 45 and Exhibit JRW-7, page 3 of 5, use the geometric average of any variables used in calculating the risk premium found in the exhibit? Provide a copy of the paper.

12. Refer to the Woolridge Testimony, pages 49 through 51. Explain why the rationale for the reasonableness of Dr. Woolridge's recommendation is not circular and self-fulfilling when the many of the studies that are used in reaching his Capital Asset Pricing Model estimates are also used as benchmarks for reasonableness.

13. Refer to the Direct Testimony of Charles W. King ("King Testimony"), pages 7 through 10.

a. Did Mr. King review Delta's response to the Commission Staff's Second Data Request dated June 7, 2007, Item 22, concerning any cost and benefit analysis of Delta's proposed conservation and efficiency program?

(1) If Mr. King did review the response, explain why Mr. King states on page 7 that Delta did not provide a cost and benefit analysis.

(2) If Mr. King did not review the response, explain why the data response was not included in Mr. King's review and analysis.

b. Has Mr. King reviewed the entire text of KRS 278.285 in conjunction with the preparation of his direct testimony? Explain the response.

c. Was Mr. King aware that KRS 278.285(1)(c) and 278.285(2) allow for the recovery of lost revenues resulting from the implementation of demand side management ("DSM") programs?

d. Was Mr. King aware that the Commission has approved DSM cost recovery mechanisms for investor-owned electric and natural gas utilities that include a lost revenue recovery component? Explain the response.



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DATED August 29, 2007

cc: All Parties