

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS	)	CASE NO.
COMPANY, INC. FOR AN ADJUSTMENT OF	)	2010-00116
RATES	)	

SECOND DATA REQUEST OF COMMISSION STAFF  
TO DELTA NATURAL GAS COMPANY, INC.

Pursuant to 807 KAR 5:001, Delta Natural Gas Company, Inc. ("Delta") is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due on or before June 8, 2010. 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 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.

Delta shall make timely amendment to any prior response if it 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 Delta fails or refuses to furnish all or part of the requested information, Delta shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should 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 Volume 1 of the Application, the Financial Exhibit, page 2 of 7. Has Delta redeemed any of the 7-percent debentures that mature in February 2023 or the 5.75-percent insured quarterly notes that mature in April 2021? If yes, provide full details of the redemption, including the amount redeemed, the date of redemption, and all costs associated with the redemption.

2. Refer to Volume 1 of the Application, Tabs 7 and 8, Sheet No. 14, Gas Cost Adjustment Clause. Did Delta intend to omit the second sentence in definition (d), "Reporting Period," as well as the provision for Interim Gas Cost Adjustment Filings?

3. Refer to the Application, Tab 24. Provide the calculations used to produce the exhibit.

4. Refer to Volume 1 of the Application, Tab 27.

a. Refer to Schedule 3, lines 6 and 7. Provide the work papers showing the details of the allocation of lobbying expenses and the calculation of the benefits-and-taxes loading rate as stated on line 15.

b. Refer to Schedule 3.1.

(1) Provide the work papers showing the determination of the annualized salaries and wages and the pro forma capitalized wages and subsidiary allocation as shown on lines 1 and 2. The work papers should indicate whether employees are salaried or hourly and identify those who were employed for only a portion of the test year.

(2) Provide an explanation of how Delta prepared the payroll adjustment proposed in this case and explain why such an approach is reasonable.

(3) Confirm that the text on line 4 should read "Actual 2009 test year . . . ."

c. Refer to Schedule 3.3 and page 6 of the Direct Testimony of John B. Brown ("Brown Testimony") regarding Delta's proposed adjustment for bad-debt expense.

(1) It is Staff's understanding that the proposed adjustment is intended to reflect an ongoing level of bad-debt expense recoverable through base rates while shifting the recovery of the portion of bad debts related to gas costs to the Gas Cost Recovery ("GCR") mechanism. If that is correct, explain why the rate-making adjustment for Delta's regulated operations is not limited to the calculation shown on Schedule 3.3, which results in the amount of \$145,581 as the pro forma bad-debt expense.

(2) If not contained in the response to part c.(1) of this request, provide a detailed description of Account 1.904 and explain why it is included in the adjustment.

d. Refer to Schedule 5.

(1) Provide the work papers showing the determination of the amounts of the test-year deductions on line 2.

(2) Provide the calculation used to determine the ratio used in line 9.

e. Refer to Schedule 8 and Item 10 of Staff's First Request.

(1) The \$4,075,601 of interest expense per books on line 20 of Schedule 8 includes a reduction of \$152,900 for subsidiary interest paid per the trial balance at Item 10, page 4. Provide an explanation of this amount paid by the subsidiary. Provide an estimate of the pro forma amount to be expected from the subsidiary for future interest expense.

(2) Provide the interest rate for Delta's short-term debt as of June 1, 2010.

(3) Reconcile the common equity per Delta's balance sheet with the test-year ending balance provided in the response to Staff's First Request, Item 10, page 2.

5. Provide the amount of Delta's minimum pension liability as of the end of the test year.

6. Refer to the pro forma income statement in the Application, Volume 2, Tab 42. Delta's adjusted O&M expenses are \$13.55 million, which is \$2.0 million, or 17.4 percent, greater than the adjusted O&M expenses of \$11.53 million in its last rate case,

Case No. 2007-00089.<sup>1</sup> Explain in detail what has caused Delta's O&M expenses to increase by the indicated magnitude in a span of three years.

7. Refer to page 15 of the Brown Testimony.

a. Provide the calculations producing the example monthly customer charge increases attributable to the Pipe Replacement Program ("PRP") in the amounts of \$.30, \$.44, \$1.89, and \$3.15.

b. Explain why Delta is proposing to recover PRP costs strictly through increases to the customer charges.

c. For PRPs it has approved, the Commission has required that the costs be identified as a separate item on customers' bills. Explain whether Delta has any reason to oppose similar treatment of its PRP costs.

8. Refer to page 17 of the Brown Testimony, lines 15 through 17. Explain how Delta proposes to estimate quarterly uncollectible gas cost.

9. Provide the amounts of Delta's uncollectible expense per year for the last five years, broken down between gas cost and base rate revenue.

10. Refer to page 6 of the Direct Testimony of Martin J. Blake ("Blake Testimony"). Provide a copy of the Edward Jones Company report "Natural Gas Industry Summary Quarterly Financial & Common Stock Information."

11. Refer to page 7 of the Blake Testimony, which discusses customers' ability to switch between natural gas and electricity, and to page 17, lines 19 through 22. If Delta's proposed \$24.20 customer charge is approved by the Commission, will

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<sup>1</sup> Case No. 2007-00089, Delta Natural Gas Company, Inc. (Ky. PSC Oct. 19, 2007).

customers be more or less likely to choose electricity as their sole fuel source in order to minimize their monthly expenses, especially given the fact that Delta's service territory substantially overlaps that of Kentucky Utilities Company, whose electric rates are some of the lowest in the nation?

12. Refer to page 8 of the Blake Testimony. To what does Dr. Blake attribute the negative 44.8-percent earnings-per-share growth in 2009; the 32.5-percent five-year return on investment; and the 2-percent five-year dividend growth rate?

13. Refer to page 14 of the Blake Testimony, lines 8 through 10, which reference Delta's being below the average percentage equity for natural gas distribution companies of similar size. Provide a comparison of Delta's equity percentage, total capitalization, number of customers, and service area to the referenced natural gas distribution companies of similar size, or indicate where in the record such comparison is provided.

14. Refer to page 17 of the Blake Testimony, lines 2 through 4.

a. Provide any data or studies available to support the statements that:

(1) Rural customers tend to have lower annual usage than urban customers; and

(2) Rural customers have a larger proportion of temperature-sensitive load than urban customers.

b. If these statements were based on personal observation of other utilities in other jurisdictions only, provide the names of the utilities, service area

characteristics, numbers of customers, usage per customer, and temperature-sensitive usage per customer over the last five years.

15. Provide a copy of Delta's equity management plan.

16. Provide copies of Board minutes where equity levels were discussed and determined to be too low, as well as copies of any resolutions passed concerning equity levels and the need to raise them.

17. Refer to page 19 of the Blake Testimony, which discusses Delta's GCR mechanism, as well as significant under-recoveries of gas cost and deferred gas cost due to increased gas price volatility. Delta's GCR mechanism includes a provision for Interim Gas Cost Adjustment Filings on page 14 of its tariff on file with the Commission. This provision allows Delta to file more frequently than quarterly in order to respond more quickly to price volatility. Commission records indicate that, during the calendar years 2005 through 2009, for which Dr. Blake has provided the amounts of under-recovered and deferred gas cost, Delta filed with the Commission only its scheduled quarterly GCR filings and no interim filings. Why did Delta choose to forego the opportunity to file interim GCR filings so as to minimize its under-recovered gas cost?

18. Has Delta considered proposing any changes to its GCR mechanism that would minimize its under-recovery of gas cost?

19. Refer to page 19 of the Blake Testimony, lines 16 through 19. Is the cost of financing under-recoveries of gas cost included in the cost of borrowing for the test year?

20. Refer to Exhibit MJB-14 of the Blake Testimony. Provide earnings-per-share growth rates, as well as monthly high and low stock prices for the six months

ending April 2010 for the companies in the Edward Jones Natural Gas Distribution Utility Panel.

21. Provide all calculations and work papers used in producing the Discounted Cash Flow analysis.

22. Refer to Exhibit MJB-18 to the Blake Testimony. Provide Data Sources 2, 3, and 4.

23. Explain how the 6.7-percent equity risk premium was calculated.

24. Refer to page 5 of the Direct Testimony of William Steven Seelye ("Seelye Testimony") beginning on line 14.

a. Provide support for the statement that many environmental and conservation advocates consider Straight Fixed Variable rate design to be a cornerstone to the implementation of comprehensive energy conservation programs.

b. Provide support specific to Delta's service area for the statement that low-income customers typically use more gas than the average customer.

25. Refer to page 12 of the Seelye Testimony. Table 1 shows percentage increases for all affected customer classes; however, the increases for on- and off-system transportation classes necessarily are exclusive of gas commodity costs. Provide a revised Table 1 showing the percentage increases for all classes net of gas commodity costs.

26. Provide electronic copies of Seelye Testimony Exhibits 2 through 11 with all formulas intact and unprotected.

27. Refer to the Seelye Testimony, page 1 of Exhibit 2. Provide detailed calculations supporting the miscellaneous revenues of \$302,580.

28. Refer to the Seelye Testimony, Exhibit 4. Page 15 of 15 is not included, which may be the "Calculated Increase in Revenue under Revision of Rates" for off-system transportation which is not included elsewhere in the Exhibit. Please provide this page.

29. Refer to Seelye Testimony Exhibit 4, pages 3 through 6. No volumes over 5,000 Mcf were used by the Large Non-Residential General Service or by the Interruptible Commercial and Industrial Service classes. Similarly, in Delta's last rate case, Case No. 2007-00089, there were no volumes over the first blocks containing 5,000 Mcf. Has Delta considered simplifying its rate structure for these classes by eliminating the over-5,000 Mcf rate blocks and associated rates?

30. Has Delta considered eliminating its declining block rate structure for relatively larger volume users as part of its energy conservation efforts? Explain.

31. Refer to Seelye Testimony Exhibit 9.

a. How were Heating Degree Days ("HDD") determined? Is it the variance from 65 degrees Fahrenheit?

b. Explain why industrial loads are temperature-normalized.

c. Provide monthly Mcf sales for all classes for the test year as well as calendar years 2007 and 2008.

d. Provide monthly actual and normal HDD.

e. Provide calculations supporting "Non-Temp Mcf" in column 2.

32. Refer to Seelye Testimony Exhibit 10, Year-End Customer Adjustment, which is not proposed.

a. Provide the number of customers in each rate class for each month of the test year as well as for calendar years 2007 and 2008.

b. Provide calculations supporting "Average Number of Customers" in column 1.

c. Reconcile the number of customers in column 1 with the number of customer bills in Seelye Testimony Exhibit 4.

33. Provide calculations supporting "Weather Normalized McF" in column 6.

34. Pages 17 and 18 of the Seelye Testimony state that Mr. Seelye participated in the preparation of the cost-of-service ("COS") studies filed in prior Delta rate cases. The COS study filed in Case No. 2004-00067<sup>2</sup> calculated the customer-related portion of distribution mains to be 56.5 percent.<sup>3</sup> In Case No. 2007-00089, the customer-related portion was calculated to be 65.81<sup>4</sup> percent, and in the present case it is 66.79 percent. Provide in detail the reasons for this upward trend.

35. Refer to Seelye Testimony Exhibit 6. Pages 1, 7, and 19 are not included in the exhibit. Provide the missing pages.

36. Refer to Seelye Testimony Exhibit 6, page 3 of 20. Provide a narrative explanation for the allocation vector TDEM and state where in the COS study it is calculated.

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<sup>2</sup> Case No. 2004-00067, Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates (Ky. PSC Nov. 10, 2004).

<sup>3</sup> Id., Nov. 10, 2004 Order, page 56.

<sup>4</sup> Id., Direct Testimony of William Steven Seelye, Exhibit 8, page 1.

37. Refer to Seelye Testimony Exhibit 6, page 15 of 20. Reconcile the temperature-normalization class allocations shown in this exhibit with the temperature-normalization class allocations shown in Seelye Testimony Exhibit 9.

38. Refer to Seelye Testimony Exhibit 6, page 16 of 20.

a. Explain why the pro forma adjustments for lobbying expenses, community relations, and elimination of advertising expenses are allocated to the customer classes based on allocation vector OTTT.

b. Explain how the allocation vector TXINC is calculated.

39. Refer to Seelye Testimony Exhibit 6, page 18 of 20. For CUST02 and CUST03, provide the work papers supporting the calculations.

40. Refer to Seelye Testimony Exhibit 7, page 1 of 5. Confirm that withdrawals are totaled only through February 9, 2009 because that is the date of the last storage withdrawal. If this is not the case, explain the significance of the date.

41. Refer to pages 2 through 11 of Seelye Testimony Exhibit 11 – Depreciation Study.

a. Explain why it is relevant, as mentioned in the discussion of several of Delta's plant accounts, that "[t]he recommended accrual rate is consistent with other utilities in the region" or that the "[r]ecommended accrual rate is reasonable compared with other gas distribution utilities in the region."

b. Identify the "other utilities in the region" or "other gas distribution utilities in the region" to which the depreciation rates proposed for Delta have been compared.

42. Refer to pages 31 and 32 of the Seelye Testimony, which discuss the methodology used to develop the proposed depreciation accrual rates and state that it is the same methodology used in depreciation studies filed in Delta's two most recent rate cases. The depreciation study submitted in Delta's most recent rate case, Case No. 2007-00089, contained proposed accrual rates for some plant accounts that were significantly lower than the accrual rates contained in the study filed in this case. Explain why the accrual rates for the following accounts have increased since they were developed in the prior study:

a. Account 368, Compressor Station Equipment, Transmission, has increased from 2.00 percent to 3.43 percent;

b. Account 369, Measuring and Regulator Station Equipment, Transmission, has increased from 3.14 percent to 4.30 percent;

c. Account 378, Measuring and Regulator Station Equipment, Distribution, has increased from 3.27 percent to 3.98 percent;

d. Account 381, Meters, increased from 2.28 percent to 3.14 percent;  
and

e. Account 382, Meters and Regulator Installations, increased from 4.50 percent to 5.08 percent.

43. Refer to Appendix B to the Seelye Testimony. Explain how the estimated salvage percentages were developed and provide the work papers, calculations, etc. that contain the salvage data on which they are based.

44. Refer to Delta's response to Item 2 of Commission Staff's Initial Data Request ("Staff's First Request"). Explain why none of the subsidiaries sell gas to Delta.

45. Refer to the response to Item 3 of Staff's First Request. For the five years preceding the calendar year 2009 test year, Delta's short-term debt balance averaged roughly 18 percent of its total capitalization. For the test year, it averaged one-half as much at 9 percent. Explain why short-term debt, which is typically the lowest-cost form of capital, has declined by this magnitude.

46. Refer to Staff's First Request, Item 10, page 5 of 7.

a. Provide an explanation for the amount of \$867,900 in Account 1.823.0000, Storage Gas Losses. Include in the explanation why this amount should be allowed for rate-making purposes, given the fact that there is no amount in this account for the previous five years, as shown in Item 20 of Staff's First Request, page 1 of 3.

b. Confirm that this gas storage loss has not been passed through the GCR mechanism.

47. Refer to the response to Staff's First Request, Item 9.

a. Concerning the reference to the 2009 Federal Energy Regulatory Commission Form 2, do the financial statements contained in that report incorporate the operational results from Delta's three subsidiaries – Delta Resources, Inc.; Delgasgo, Inc.; and Enpro, Inc.?

b. Provide an income statement and balance sheet for the test year that reflect only Delta's regulated operations, excluding the financial information associated with the three subsidiaries.

48. Refer to the response to Staff's First Request, Item 16. Delta was requested to provide schedules, in comparative form, showing by month for the test year, and the year preceding the test year, the total company balance in each gas plant and reserve account or subaccount included in Delta's chart of accounts as shown in Format 16. The response did not provide the requested information for the subaccounts of Account No. 108 or the account information for Account Nos. 301 through 399. Provide the originally requested information for Account Nos. 108 and 301 through 399.

49. Refer to the response to Staff's First Request, Item 20(a). For each account listed below, explain the reason(s) for the change in the total account balance between the test year and the previous 12-month period:

- a. Account 821.02 – CM Purification of Natural Gas-Misc;
- b. Account 832.02 – CM Maintenance of Reservoirs and Wells-Misc.;
- c. Account 887.02 – Mnt. Trans & Dist Mains Other;
- d. Account 900.02 – Opr. Transportation Expenses;
- e. Account 903.02 – Customer Collections & Records;
- f. Account 920.02 – Adm Transportation Expenses;
- g. Account 923.01 – Outside Services Accounting;
- h. Account 923.04 – Outside Services Other;
- i. Account 926.01 – Time Off Payroll;
- j. Account 926.04 – Medical Coverage;
- k. Account 926.1 – Supplemental Retirement Plan; and
- l. The response did not provide the requested information for Account

803 and its subaccounts. Provide the originally requested information for Account 803.

50. Refer to the response to Staff's First Request, Item 20(c). Delta was requested to provide a schedule of the total company and Kentucky jurisdictional operations salaries and wages for the test year and each of the three calendar years preceding the test year as shown in Format 20c. Delta was also requested to show for each time period the amount of overtime pay. The response to Item 20(c) contains none of the detail requested and does not conform to Format 20(c). Provide the originally requested information in the format requested.

51. Refer to the response to Staff's First Request, Item 27(b).

a. Concerning Account No. 930.01, the director fees and expenses shown on sheets 1 and 2 of 6:

(1) Provide a schedule, by individual, listing the compensation for service, cash retainer, cash performance bonus, and anything else of value paid to each person serving as a member of Delta's Board of Directors during the test year. Include for each individual the total sum paid by Delta. If any form of compensation to a director was recorded in an account other than Account No. 930.01, provide the same information as requested for Account No. 930.01.

(2) Provide a description of the decision-making responsibilities or activities of the members of the Board of Directors regarding Delta's subsidiaries, Delta Resources, Inc.; Delgasgo, Inc.; and Enpro, Inc.

b. Concerning Account No. 930.02, industry association dues shown on sheet 2 of 7, describe the nature and purpose of the following organizations and explain why the expense should be included for rate-making purposes:

(1) Kentucky Press Association;

- (2) Society for Human Resource Management;
- (3) Society for Corporate Secretaries;
- (4) Madison County HBA;
- (5) Southeastern Kentucky HBA;
- (6) Bluegrass Tomorrow;
- (7) BP – Membership Fee;
- (8) University of Missouri – FRI/PUD;
- (9) Kentucky Motor Transportation Association;
- (10) Tennessee Gas Association; and
- (11) Commerce Lexington.

c. For the accounts listed below, further information is needed concerning the expenditures contained therein. For each account, repeat the transaction detail as shown in the response, but organize the transactions by vendor name and describe the nature or purpose of the expenditure instead of referencing "Miscellaneous."

- (1) Account No. 930.03 – Fees Conventions & Meetings.
- (2) Account No. 930.05 – Company Relations.
- (3) Account No. 930.09 – Customer & Public Information.

52. Refer to the response to Staff's First Request, Item 28.

a. Provide an explanation for the nature and purpose of the services in the amount of \$29,956.81 provided by Stoll, Keenon and Ogden described as "General."

b. Describe the nature and purpose of the work described as "Citizens Gas Utility" provided by Stoll, Keenon and Ogden.

c. Describe the nature and purpose of the work described as "Related to SEC comment letter & Gas Storage Leak" provided by Deloitte and Touche, LLP.

d. Describe the nature and purpose of the work described as "Installment billing for the unit of property repairs" provided by Deloitte and Touche, LLP.

e. Provide a detail of the additional accrual amounts for accounting services.

f. Describe the nature of the consulting services provided by Mercer.

g. Describe the nature of the consulting services provided by Alan Heath.

h. Describe the nature of the consulting services provided by Clyde Russell.

53. Refer to Staff's First Request, Item 48. The fourth paragraph on the last page of Exhibit 5 indicates that "[e]ffective May 9, 2008, any employees hired on and after that date were not eligible to participate in [Delta's] defined benefit pension plan."

a. Provide the number of employees not eligible to participate in Delta's defined benefit pension plan.

b. Provide the plan details, account numbers, and amounts for any level of contribution related to retirement benefits for those exempted employees.

c. Explain whether Delta anticipates this exemption to be ongoing, and provide an estimate of any decreases in pension expense in future years.



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DATED: MAY 24 2010

cc: Parties of Record

Case No. 2010-00116

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