



Delta Natural Gas Company, Inc.

3617 Lexington Road
Winchester, Kentucky 40391-9797

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July 11, 2012



RECEIVED

JUL 12 2012

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
P O Box 615
Frankfort, KY 40602-0615

**RE: AN ADJUSTMENT OF THE PIPE REPLACEMENT PROGRAM RIDER
OF DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00136**

Dear Mr. Derouen:

Enclosed are the original and ten (10) copies of the responses to the Commission Staff's Third Request for Information in the above-styled case.

Please confirm your receipt of these documents by placing the File Stamp of your Office on the enclosed additional copy.

Please contact me if you have any questions about this filing.

Sincerely,

Connie King

Connie King
Manager – Corporate & Employee Services

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00136

THIRD PSC DATA REQUEST
DATED JULY 5, 2012

1. Refer to Delta's response to Items 1.1. and 6 of Commission Staff's Second Request for Information ("Staff's Second Request").
 - a. Explain whether Delta is willing to add the following tariff provision to its Calculation of Pipe Replacement Rider Revenue Requirement in its Pipe Replacement program Rider ("PRP") tariff, in order to provide for operating expense reductions: "e) Reduction for savings in Operating and Maintenance expenses."
 - b. Show the effect on Delta's proposed PRP rate if its PRP revenue requirement includes reductions for savings in operating and maintenance expenses.

RESPONSE:

- a. Yes, Delta is willing to add savings in operation and maintenance to its PRP tariff.
- b. See Exhibit 1 for the effect on Delta's PRP rate if its PRP revenue requirement includes reductions for savings in operating and maintenance expenses. Schedule I computes the PRP rate as instructed in question 1.b, compares it to Delta's proposed PRP rates and is supported by Schedule II which shows the PRP expenditures and related depreciation and tax impacts. Schedule I is also supported by Schedule III which shows the Cost of Service items. Finally, Schedule IV is a revised tariff sheet reflecting the language mentioned in question 1.a. above.

Delta also respectfully requests the Commission to consider allowing Delta recovery through the PRP tariff of increased property taxes resulting from additions of PRP-related plant In-Service, similar to methodology used in the Atmos PRP filing. Delta has prepared Exhibit II with all of the detail schedules as explained for Exhibit I above assuming the Commission allows consideration of the increased expenses as well as the reduction of expenses.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
 Pipe Replacement Program Filing
 Program Year Ended: December 31, 2011
 Rates Effective: May 1, 2012

	2010	2011	Total
1 Total annual expenditures under the PRP (Schedule II)	\$ 1,612,302	\$ 1,735,887	
2 Less:			
3 Accumulated depreciation	(45,730)	(19,950)	
4 Accumulated deferred income taxes	(564,926)	(651,370)	
5 Net PRP Rate Base, as of December 31, 2011	1,001,646	1,064,567	
6 WACOC, per case no 2010-00116	7.97025%	7.97025%	
7 Allowed Return	79,834	84,849	
8 Tax expansion factor, w PSC (per Case No. 2010-00116)	1.60658	1.60658	
9 Return, grossed up for income taxes	\$ 128,260	\$ 136,317	\$ 264,577
10 Cost of Service Items (Schedule III)			36,947
12 Current Year PRP Adjustment			<u>\$ 301,524</u>
13 Balancing Adjustment			
14 Prior Year PRP Adjustment			139,471
15 Less: Collections of Prior Year PRP Adjustment, through February			(111,638)
16 Less: Actual Collections March 2012 - May 2012			(23,971)
17 Total PRP Adjustment			<u>\$ 305,386</u>

	Calculated Net Revenue @ Approved Rates		Class		Allocated		# Customers		Monthly		Proposed	
	per Case No. 2010-00116	2010-00116	Allocation	PRP Adjustment	2010-00116	Rate	Per Case No. 2010-00116	PRP Rate	PRP Rate	Monthly Effect	PRP Rate	Monthly Effect
18 Residential	\$ 14,846,218	54.3%	\$ 165,894	367,914	\$ 0.45	\$ 0.47	\$ 0.47	\$ (0.02)				
19 Small Non-Residential	3,991,286	14.6%	44,599	50,794	\$ 0.88	\$ 0.92	\$ 0.92	\$ (0.04)				
18 Large Non-Residential	7,008,122	25.6%	78,310	11,460	\$ 6.83	\$ 7.16	\$ 7.16	\$ (0.33)				
19 Interruptible	1,484,119	5.4%	16,584	486	\$ 34.12	\$ 35.76	\$ 35.76	\$ (1.64)				
20	\$ 27,329,745	100.0%	\$ 305,387	430,654								

Calendar Year 2010
PRP Worksheet

A

	Book Depr		Book Depreciation Reserve		Book Net Book Value	COR Rate	COR Depr
	2010 Investment	Year 2	Beginning	Ending			
1 Distribution Mains	816,750	3.10%	(12,660)	(37,979)	778,771	0.01%	\$ 82
2 Transmission Mains	23,974	2.33%	(279)	(838)	23,136	0.02%	5
3 Services	118,268	2.69%	(1,591)	(4,772)	113,496	0.42%	497
4 Gathering Lines	37,514	2.25%	(422)	(1,266)	36,248	0.00%	-
5 Storage Lines	-	2.05%	-	-	-	0.00%	-
6 Cost of Removal	615,796	various	(292)	(583)	614,921	0.00%	-
	1,612,302		(15,243)	(30,486)	1,566,572		\$ 583

B

	Book Investment	Qualifying Tax Expense Percentage	Tax Expense	Tax Additions	50% Bonus Depreciation	Depreciable Base	MACRS YEAR 2		Tax Depreciation Reserve		Tax Net Book Value
							MACRS YEAR 2	MACRS Depr	Beginning	Ending	
7 Distribution Mains	816,750	94.5%	(771,829)	44,921	(22,461)	22,461	15	9.50%	(796,423)	(798,557)	18,193
8 Transmission Mains	23,974	100.0%	(23,974)	-	-	-	15	9.50%	(23,974)	-	(23,974)
9 Services	118,268	0.0%	-	118,268	(59,134)	59,134	20	7.22%	(63,403)	-	(67,672)
10 Gathering Lines	37,514	0.0%	-	37,514	(18,757)	18,757	7	24.49%	(23,351)	-	(27,945)
11 Storage Lines	-	0.0%	-	-	-	-	15	9.50%	-	-	-
12 Cost of Removal	615,796	NA	-	-	-	-	NA	NA	-	-	NA
	1,612,302		(795,803)	200,703	(100,352)	100,352			(907,451)	-	78,358

	Net Book Value	Tax	Cumulative		Statutory Rate	Deferred Income Taxes
			Timing Difference	Rate		
13 Distribution Mains	778,771	18,193	(760,579)	37.96%	(288,716)	
14 Transmission Mains	23,136	-	(23,136)	37.96%	(8,782)	
15 Services	113,496	50,596	(62,900)	37.96%	(23,877)	
16 Gathering Lines	36,248	9,569	(26,679)	37.96%	(10,127)	
17 Storage Lines	-	-	-	37.96%	-	
18 Cost of Removal	614,921	NA	(614,921)	37.96%	(233,424)	
	1,566,572	78,358	(1,488,215)		(564,976)	

A Depreciation rate for lines 1-5 exclude cost of removal rate. Provision for cost of removal on PRP assets is reflected on line 6.
 B 2010 PRP filing included, as depreciation expense, the cost of removal provision on all assets rather than only PRP assets placed during 2010. This worksheet has been corrected for the current year filing.

Calendar Year 2011
PRP Worksheet

	Book Depreciation Reserve			Book Net Book Value	COR Rate	COR Depr
	2011 Investment	Book Depreciation Year 1	A Beginning Depreciation Expense Ending			
1 Distribution Mains	828,951	3.10%	(12,849)	816,102	0.01%	(41)
2 Transmission Mains	88,312	2.33%	(1,029)	87,283	0.02%	(9)
3 Services	383,075	2.69%	(5,152)	377,923	0.42%	(804)
4 Gathering Lines	5,783	2.25%	(65)	5,718	0.00%	-
5 Storage Lines	-	2.05%	-	-	0.00%	-
6 Cost of Removal	429,766	various	(855)	428,911	0.00%	-
	1,735,887		(19,950)	1,715,937	\$	(855)

	Qualifying Tax		100% Bonus Depreciation		Tax Depreciation Reserve		Tax Net Book Value
	Book Investment	Expense Percentage	Tax Additions	Depreciation	Beginning Expense	Ending Depr	
7 Distribution Mains	828,951	71.0%	240,396	(240,396)	(588,555)	(240,396)	(828,951)
8 Transmission Mains	88,312	94.0%	5,331	(5,331)	(82,981)	(5,331)	(88,312)
9 Services	383,075	100.0%	-	-	(383,075)	-	(383,075)
10 Gathering Lines	5,783	0.0%	5,783	(5,783)	-	(5,783)	(5,783)
11 Storage Lines	-	0.0%	-	-	-	-	-
12 Cost of Removal	429,766	NA	-	-	-	-	NA
	1,735,887		251,510	(251,510)	(1,054,611)	(251,510)	(1,306,121)

	Cumulative		Statutory Rate	Deferred Income Taxes
	Net Book Value	Timing Difference		
13 Distribution Mains	816,102	(816,102)	37.96%	(309,792)
14 Transmission Mains	87,283	(87,283)	37.96%	(33,133)
15 Services	377,923	(377,923)	37.96%	(143,459)
16 Gathering Lines	5,718	(5,718)	37.96%	(2,171)
17 Storage Lines	-	-	37.96%	-
18 Cost of Removal	428,911	(428,911)	37.96%	(162,815)
	1,715,937	(1,715,937)		(651,370)

A Depreciation rate for lines 1-5 exclude cost of removal rate. Provision for cost of removal on PRP assets is reflected on line 6.
B Year 1 for PRP assets assumes a half year of depreciation expense.

Delta Natural Gas Company, Inc.
Cost of Service Impact from PRP

	2010		2011		Total
	\$	\$	\$	\$	Cost of Service Impact
1 Increased depreciation expense (schedule II)		30,486		19,950	\$ 50,436

Operating expense reductions

	2010-0116 Calendar 2009 Test Year		2010		2011		Total
	Actual Expense	76,450	Actual Expense	Decrease in Operating Expense	Actual Expense	Decrease in Operating Expense	
2 Maintenance of Transmission and Distribution Mains	\$ 76,450	76,450	\$ 84,618	84,618	\$ 62,961	62,961	\$ (13,489)
			\$ 84,618	-	\$ 62,961	(13,489)	\$ (13,489)

3 Total Cost of Service Impact

\$ 36,947

**CERTIFICATION OF SERVICE
RATE SCHEDULES**

PIPE REPLACEMENT PROGRAM ("PRP") RIDER

APPLICABILITY

Applicable to all customers receiving service under the Company's Rate Schedules, Residential, Small Non-Residential, Large Non-Residential and Interruptible Services.

CALCULATION OF PIPE REPLACEMENT RIDER REVENUE REQUIREMENT

The PRP Rider Revenue Requirement includes the following:

- a. PRP-related Plant In-Service not included in base gas rates minus the associated PRP-related accumulated depreciation and accumulated deferred income taxes;
- b. Retirement and removal of plant related to PRP construction;
- c. The weighted average cost of capital on the net rate base is the overall rate of return on capital authorized in the Company's latest base gas rate case, grossed up for federal and state income taxes and PSC assessment;
- d. Depreciation expense on the PRP - related Plant In-Service less retirement and removals;
- e. Reduction for savings in operating and maintenance expense.

(N)

PIPE REPLACEMENT PROGRAM FACTORS

All customers receiving service under Delta's Residential, Small Non-Residential, Large Non-Residential and Interruptible Service Rate Schedules shall be assessed a monthly charge in addition to the Customer Charge component of their applicable rate schedule that will enable the Company to complete the pipe main replacement program.

(N)

The PRP Rider will be updated annually, in order to reflect the impact on the Company's revenue requirements of net plant additions as well as a balancing adjustment for the preceding program year. Such adjustment to the Rider will become effective with meter readings on and after the first billing cycle of May, and will reflect the allocation of the required revenue increase based on the revenue distribution approved by the Commission.

DATE OF ISSUE:

DATE EFFECTIVE: _____ (Final Meter Reads)

ISSUED BY: Glenn R. Jennings, Chairman of the Board, President and CEO

Delta Natural Gas Company, Inc.
 Pipe Replacement Program Filing
 Program Year Ended: December 31, 2011
 Rates Effective: May 1, 2012

	2010	2011	Total
1 Total annual expenditures under the PRP (Schedule II)	\$ 1,612,302	\$ 1,735,887	
2 Less:			
3 Accumulated depreciation	(45,730)	(19,950)	
4 Accumulated deferred income taxes	(564,926)	(651,370)	
5 Net PRP Rate Base, as of December 31, 2011	<u>1,001,646</u>	<u>1,064,567</u>	
6 WACOC, per case no 2010-00116	7.97025%	7.97025%	
7 Allowed Return	79,834	84,849	
8 Tax expansion factor, w PSC (per Case No. 2010-00116)	1.60658	1.60658	
9 Return, grossed up for income taxes	\$ 128,260	\$ 136,317	\$ 264,577
10 Cost of Service Items (Schedule III)			69,308
12 Current Year PRP Adjustment			<u>\$ 333,885</u>
13 Balancing Adjustment			
14 Prior Year PRP Adjustment			139,471
15 Less: Collections of Prior Year PRP Adjustment, through February			(111,638)
16 Less: Actual Collections March 2012 - May 2012			(23,971)
17 Total PRP Adjustment			<u>\$ 337,747</u>

	Calculated Net Revenue		Class Allocation	PRP Adjustment	# Customers Per Case No. 2010-00116	Monthly Proposed	
	@ Approved Rates per Case No. 2010-00116					PRP Rate	Monthly Effect
18 Residential	\$ 14,846,218	\$ 183,474	54.3%	367,914	\$ 0.50	\$ 0.47	\$ 0.03
19 Small Non-Residential	3,991,286	49,325	14.6%	50,794	\$ 0.97	\$ 0.92	\$ 0.05
18 Large Non-Residential	7,008,122	86,608	25.6%	11,460	\$ 7.56	\$ 7.16	\$ 0.40
19 Interruptible	1,484,119	18,341	5.4%	486	\$ 37.74	\$ 35.76	\$ 1.98
20	\$ 27,329,745	\$ 337,748	100.0%	430,654			

Calendar Year 2010
PRP Worksheet

A

	Book Depr		Book Depreciation Reserve		Book Net Book Value	COR Rate	COR Depr
	Investment	Year 2	Beginning	Ending			
1 Distribution Mains	816,750	3.10%	(12,660)	(37,979)	778,771	0.01%	82
2 Transmission Mains	23,974	2.33%	(279)	(838)	23,136	0.02%	5
3 Services	118,268	2.69%	(1,591)	(4,772)	113,496	0.42%	497
4 Gathering Lines	37,514	2.25%	(422)	(1,266)	36,248	0.00%	-
5 Storage Lines	-	2.05%	-	-	-	0.00%	-
6 Cost of Removal	615,796	various	(292)	(583)	614,921	0.00%	-
	1,612,302		(15,243)	(30,486)	1,566,572		583

Qualifying Tax

	Book Investment	Expense Percentage	Tax Expense	Tax Additions	50% Bonus Depreciation	Depreciable Base	MACRS YEAR 2	Tax Expense	Tax Bonus Depr	Beginning	Ending	Tax Net Book Value
7 Distribution Mains	816,750	94.5%	(771,829)	44,921	(22,461)	22,461	15	9.50%	-	(796,423)	(798,557)	18,193
8 Transmission Mains	23,974	100.0%	(23,974)	-	-	-	15	9.50%	-	(23,974)	(23,974)	-
9 Services	118,268	0.0%	-	118,268	(59,134)	59,134	20	7.22%	20	(63,403)	(67,672)	50,596
10 Gathering Lines	37,514	0.0%	-	37,514	(18,757)	18,757	7	24.49%	7	(23,351)	(27,945)	9,569
11 Storage Lines	-	0.0%	-	-	-	-	15	9.50%	-	-	-	-
12 Cost of Removal	615,796	NA	-	-	-	-	NA	NA	-	-	-	NA
	1,612,302		(795,803)	200,703	(100,352)	100,352			(907,151)	(918,148)	78,358	

Cumulative

	Net Book Value	Tax	Timing Difference	Statutory Rate	Deferred Income Taxes
13 Distribution Mains	778,771	18,193	(760,579)	37.96%	(288,716)
14 Transmission Mains	23,136	-	(23,136)	37.96%	(8,782)
15 Services	113,496	50,596	(62,900)	37.96%	(23,877)
16 Gathering Lines	36,248	9,569	(26,679)	37.96%	(10,127)
17 Storage Lines	-	-	-	37.96%	-
18 Cost of Removal	614,921	NA	(614,921)	37.96%	(233,424)
	1,566,572	78,358	(1,488,215)		(564,926)

A Depreciation rate for lines 1-5 exclude cost of removal rate. Provision for cost of removal on PRP assets is reflected on line 6.

B 2010 PRP filing included, as depreciation expense, the cost of removal provision on all assets rather than only PRP assets placed during 2010. This worksheet has been corrected for the current year filing.

Calendar Year 2011
PRP Worksheet

	Book Depr			Book Depreciation Reserve			Book		
	Investment	Year 1	Percentage	Beginning	Expense	Ending	Net Book Value	COR Rate	COR Depr
1 Distribution Mains	828,951	3.10%	-	(12,849)	(12,849)	816,102	0.01%	\$ (41)	
2 Transmission Mains	88,312	2.33%	-	(1,029)	(1,029)	87,283	0.02%	(9)	
3 Services	383,075	2.69%	-	(5,152)	(5,152)	377,923	0.42%	(804)	
4 Gathering Lines	5,783	2.25%	-	(65)	(65)	5,718	0.00%	-	
5 Storage Lines	-	2.05%	-	-	-	-	0.00%	-	
6 Cost of Removal	429,766	various	-	(855)	(855)	428,911	0.00%	-	
	1,735,887		-	(19,950)	(19,950)	1,715,937		\$ (855)	

	Qualifying Tax		100% Bonus		Tax Depreciation Reserve		MACRS		Tax Depreciation Reserve		Tax		
	Investment	Expense Percentage	Tax Expense	Depreciation	Beginning	Expense	Ending	Year 1	Beginning	Expense	Ending	Net Book Value	
7 Distribution Mains	828,951	71.0%	(588,555)	(240,396)	240,396	(588,555)	(240,396)	15	5.00%	(588,555)	(240,396)	-	(828,951)
8 Transmission Mains	88,312	94.0%	(82,981)	(5,331)	5,331	(82,981)	(5,331)	15	5.00%	(82,981)	(5,331)	-	(88,312)
9 Services	383,075	100.0%	(383,075)	-	-	(383,075)	-	20	3.75%	(383,075)	-	-	(383,075)
10 Gathering Lines	5,783	0.0%	-	(5,783)	(5,783)	-	-	7	14.29%	-	(5,783)	-	(5,783)
11 Storage Lines	-	0.0%	-	-	-	-	-	15	5.00%	-	-	-	-
12 Cost of Removal	429,766	NA	-	-	-	-	-	NA	NA	-	-	-	NA
	1,735,887		(1,054,611)	(251,510)	(251,510)	(1,054,611)	(251,510)			(1,054,611)	(251,510)	-	(1,306,121)

	Net Book Value		Cumulative		Statutory		Deferred	
	Book	Tax	Timing Difference	Rate	Rate	Income	Taxes	
13 Distribution Mains	816,102	-	(816,102)	37.96%	37.96%	(309,792)		
14 Transmission Mains	87,283	-	(87,283)	37.96%	37.96%	(33,133)		
15 Services	377,923	-	(377,923)	37.96%	37.96%	(143,459)		
16 Gathering Lines	5,718	-	(5,718)	37.96%	37.96%	(2,171)		
17 Storage Lines	-	-	-	37.96%	37.96%	-		
18 Cost of Removal	428,911	NA	(428,911)	37.96%	37.96%	(162,815)		
	1,715,937		(1,715,937)			(651,370)		

A Depreciation rate for lines 1-5 exclude cost of removal rate. Provision for cost of removal on PRP assets is reflected on line 6.
 B Year 1 for PRP assets assumes a half year of depreciation expense.

**CERTIFICATION OF SERVICE
RATE SCHEDULES**

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APPLICABILITY

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CALCULATION OF PIPE REPLACEMENT RIDER REVENUE REQUIREMENT

The PRP Rider Revenue Requirement includes the following:

- a. PRP-related Plant In-Service not included in base gas rates minus the associated PRP-related accumulated depreciation and accumulated deferred income taxes;
- b. Retirement and removal of plant related to PRP construction; authorized in the Company's latest base gas rate case, grossed up for federal and state income taxes and PSC assessment;
- d. Depreciation expense on the PRP - related Plant In-Service less retirement and removals.
- e. Reduction for savings in operating and maintenance expense;
- f. Increased property tax expense on the PRP-related Plant In-Service.

(N)
(N)

PIPE REPLACEMENT PROGRAM FACTORS

All customers receiving service under Delta's Residential, Small Non-Residential, Large Non-Residential and Interruptible Service Rate Schedules shall be assessed a monthly charge in addition to the Customer Charge component of their applicable rate schedule that will enable the Company to complete the pipe main replacement program.

The PRP Rider will be updated annually, in order to reflect the impact on the Company's revenue requirements of net plant additions as well as a balancing adjustment for the preceding program year. Such adjustment to the Rider will become effective with meter readings on and after the first billing cycle of May, and will reflect the allocation of the required revenue increase based on the revenue distribution approved by the Commission.

(N)
|

DATE OF ISSUE:

DATE EFFECTIVE: _____ (Final Meter Reads)

ISSUED BY: Glenn R. Jennings, Chairman of the Board, President and CEO