



Delta Natural Gas Company, Inc.

3617 Lexington Road
Winchester, Kentucky 40391-9797



www.deltagas.com

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October 19, 2011

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

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OCT 21 2011

PUBLIC SERVICE
COMMISSION

RE: CASE NO. 2011-00409

Dear Mr. Derouen:

We enclose for filing an original and ten (10) copies of data requested in an informal conference yesterday related to the Application of Delta Natural Gas Company, Inc. for an order authorizing the issuance of up to \$75,000,000 of long term debt. Thank you in advance for your assistance with this matter.

Sincerely,

John B. Brown
Chief Financial Officer/Treasurer & Secretary

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL)
GAS COMPANY, INC. FOR AN ORDER) **CASE NO. 2011-00409**
AUTHORIZING THE ISSUANCE OF UP TO)
\$75,000,000 OF LONG TERM DEBT)

VERIFICATION

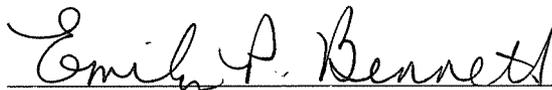
The undersigned, **John B. Brown**, being duly sworn, deposes and states that he is Chief Financial Officer, Treasurer and Secretary of Delta Natural Gas Company, Inc. and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



John B. Brown

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 19th day of October, 2011.

 (SEAL)

Notary Public

My Commission Expires:

6/20/12

Delta Natural Gas Company, Inc.



JOHN B. BROWN
CHIEF FINANCIAL OFFICER,
TREASURER AND SECRETARY

3617 Lexington Road
Winchester, Kentucky 40391



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October 19, 2011

L. Allyson Honaker
Staff Attorney
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Dear Allyson:

Thank you for arranging yesterday's informal conference with respect to Delta's proposed financing (Case No. 2011-00409).

The attached exhibits are responsive to the requests for data raised in yesterday's meeting.

Exhibit I—This exhibit calculates the projected cost savings that Delta and ultimately Delta's customers can expect due to the refinancing. Based on the assumptions chosen, in the short term, there will be approximately \$534,000 of annual expense savings and \$416,000 of annual cash flow savings, net of income taxes. That translates into a net present value of savings through 2031 of approximately \$2.5 million of expenses and \$2.1 million of cash. Exhibit I is followed by a legend to the significant assumptions.

Exhibit II—Calculation of average weighted cost of capital, used in the net present value computation.

Exhibit III—Schedule of Delta's Asset Retirement Obligations, which reconciles the original cost of property disclosed on page 2 of the application and in Exhibit A page 2 with the balance sheet provided in Exhibit B page 7.

Please let me know if you have further questions. Thank you again for your expedited treatment of this matter.

Sincerely,

John B. Brown

- (a) For comparison purposes, the assumption is that the current debt would be refinanced at the end of its term to 2031, the due date of the proposed debt.
The interest rate used is 4.3%, estimated based on current treasuries and the Prudential term sheet for 10 year notes.
- (b) An estimate of \$150,000 in fees for each refinancing was used. This includes an estimate of Prudential's fees plus Delta's attorney and accountant fees.
- (c) The interest rate used is 5%, estimated based on current treasuries and the Prudential term sheet for 20 year notes.
The ten year US Treasury rate today (10/19/11) is 2.125%.
Delta has the option to structure the notes with shorter maturities and required repayments, but this analysis is shown conservatively, contemplating all debt refinanced for 20 years with no required repayments.
- (d) Numbers are shown net of income taxes, using the statutory rate of 37.96%.
- (e) The net present value was calculated using the company's average weighted cost of capital of 8.04%, as calculated on Exhibit II.

Weighted Average Cost of Capital Calculation

July 31, 2011

	<u>Balance</u>	<u>Rate</u>	<u>Cost</u>
Common shareholders' equity	63,674,162	10.40% (a)	6,622,113
Long Term debt	57,888,006	5.00% (b)	2,894,400
Short Term debt	-		60,000 (c)
Debt expense amortization	-		195,893 (d)
	<u>121,562,168</u>		<u>9,772,406</u>
Weighted Average Cost of Capital			8.04%

(a) Per 2010-00116

(b) Estimated 20 year rate for proposed Prudential notes

(c) Annual cost of unused line

(d) Estimated after refinancing

Gross Plant Reconciliation

Gross Plant per Application and Exhibit A 208,811,186

Asset Retirement Obligations (assets for SEC books, but excluded from rate base)

Gas distribution	870,140	
Gas production-gathering	10,790	
Gas storage	11,721	
Gas transmission	<u>35,635</u>	
		<u>928,286</u>

Gross Plant per Balance Sheet on Exhibit B 209,739,472