

**CASE**

**NUMBER:**

99-046

Filing 6-18-99



32. Please show how you calculated the annual revenue amounts of \$27,912,362, \$30,711,266, and \$36,116,328 on page 6 from all the other data shown in the "ANALYSIS of Proposed Alternative Ratemaking Methodology.

RESPONSE:

The actual revenue for the year ended April 1997 and last 10 months of revenue for the year ended April 1996 can be calculated by adding the numbers shown in the first column on page 3 of the Analysis. In the interest of not making the exhibit too cumbersome, the actual year ended April 1995 revenue and two months of actual revenue for the year ended April 1996 were not shown on the exhibit but were simply included in the totals. As indicated, Schedules A through C and the Analysis were merely provided to illustrate how the mechanism works (i.e. the mechanics). Therefore, we felt that it was unnecessary to show the source of each and every number used to make the calculations contained in these illustrative examples.

WITNESS: Randall Walker

33. The second column of page 3 of the "ANALYSIS of Proposed Ratemaking Methodology" shows the actual common equity balances for each month from July 1995 through June 1998. In this regard, provide the following information:

- (a.) Extend all actual equity balances through December 1998.
- (b.) For each of the actual balances as of December 1995, 1996 1997 and 1998 shown on this updated page 3, provide the actual per books starting point, and all adjustments made to these per books starting points (for Canada Mountain, non-regulated subs, etc) to arrive at the adjusted utility common equity balances. Indicate specifically to what extent (expressed in percentage) Canada Mountain, the non-regulated subs, etc, were removed from the per books equity balance.
- (c.) Explain whether the budgeted equity balances shown in the second column of page 1 were determined through the exact same methodology as the methodology described in part b above for the actual equity balances. If not, explain to what extent it was determined differently.

RESPONSE:

- (a) The attached worksheet shows the actual common equity extended through April 1998.
- (b) The file contained on the disk provided in response to Question No. 30 shows the calculations to determine the utility common equity balances for each month shown on the "ANALYSIS" exhibit to the Application. The attached worksheet shows the methodology for each month since July 1997. Actual Common Equity, exclusive of the subsidiaries, was reduced by the common equity assigned to Canada Mountain utilizing the methodology authorized by the Commission for purposes of Delta's GCR filings.
- (c) Delta did not estimate monthly common equity balances for purposed of its budget during this period. Therefore, for purposes of the "ANALYSIS" exhibit to the application, a monthly budgeted equity was calculated by deducting the actual net income from the actual utility common equity and then adding the budgeted net income, as shown on the attached worksheet.

WITNESS: Randall Walker

## COMMON EQUITY - BUDGET

Year	Month	Actual Common Equity W/O Subs.	Actual Canada Mountain Investment	Actual Canada Mountain Equity	Actual Utility Common Equity	Less: Actual Net Income	Plus: Budgeted Net Income	Estimated Budget Utility Common Equity
1997	July	27,118,745	11,751,688	4,259,987	22,858,758	(300,120)	(413,700)	22,745,178
	Aug	26,939,055	12,991,052	4,709,256	22,229,799	(198,674)	(404,200)	22,024,273
	Sep	25,939,055	13,196,568	4,783,756	21,155,299	(409,474)	(429,900)	21,134,873
	Oct	25,732,141	13,747,179	4,983,352	20,748,789	(224,177)	(208,000)	20,764,966
	Nov	27,288,736	13,936,313	5,051,913	22,236,823	171,068	157,100	22,222,855
	Dec	27,299,346	13,954,815	5,058,620	22,240,726	567,217	552,300	22,225,809
	Jan	28,301,450	13,967,895	5,063,362	23,238,088	1,002,104	1,035,900	23,271,884
	Feb	28,946,246	13,961,839	5,061,167	23,885,079	629,458	722,800	23,978,421
	Mar	28,971,234	13,970,614	5,064,348	23,906,886	614,284	389,000	23,681,602
	Apr	29,525,137	14,230,685	5,158,623	24,366,514	544,434	61,500	23,883,580
	May	29,560,229	14,245,704	5,164,068	24,396,161	3,067	(217,000)	24,176,094
	Jun	28,600,399	14,248,308	5,165,012	23,435,387	(373,464)	(369,900)	23,438,951
July	28,470,159	14,255,196	5,167,509	23,302,650	(253,247)	(264,600)	23,291,297	
Aug	28,254,977	14,256,093	5,167,834	23,087,143	(232,785)	(226,800)	23,093,128	
Sep	27,331,636	14,296,255	5,182,392	22,149,244	(327,046)	(285,400)	22,190,890	
Oct	27,181,899	14,307,536	5,186,482	21,995,417	(185,139)	(103,200)	22,077,356	
Nov	27,591,652	14,313,679	5,188,709	22,402,943	118,305	266,800	22,551,438	
Dec	27,224,637	14,323,170	5,192,149	22,032,488	237,287	536,900	22,332,101	
Jan	28,221,463	14,323,170	5,192,149	23,029,314	978,865	965,200	23,015,649	
Feb	28,952,229	14,325,978	5,193,167	23,759,062	709,706	870,100	23,919,456	
Mar	29,123,240	14,326,597	5,193,391	23,929,849	747,754	575,200	23,757,295	
Apr	29,671,966	14,327,153	5,193,593	24,478,373	516,310	444,300	24,406,363	

Common Equity



34. The third column of page 3 of the "ANALYSIS of Proposed Ratemaking Methodology" shows the actual NIAC for each month from July 1995 through June 1998. In this regard, provide the following information:
- (a) Extend all actual adjusted NIAC balances through December 1998.
  - (b) For each of the calendar years 1996, 1997 and 1998, provide the workpapers showing all calculations made to arrive at the annual NIAC amounts for these years. The workpapers should show the actual capital structure, capital structure cost rates, and the corresponding actual interest expense adjustments used to arrive at the NIAC numbers for each year. These workpapers should also show actual per books data as the starting point, and all adjustments made to arrive at the Utility NIAC amounts. Such adjustments should include all items that are typically treated below the line for ratemaking purposes, reflect PSC ratemaking principles and interest synchronization consistent with the capital structure and capital structure weighted debt rates used, etc.
  - (c) Explain whether the budgeted NIAC balances shown in the third column of page 1 were determined through the exact same methodology as the methodology described in part b above for the actual NIAC numbers. If not, explain to what extent it was determined differently.

RESPONSE:

- (a) The attached worksheet shows the NIAC extended through April 1998.
- (b) Since Schedules A through C and the "ANALYSIS" contained in the Application were provided merely for purposes of illustrating how the mechanism would work, there were no adjustments made to the net income other than those shown on the worksheets.
- (c) The budgeted NIAC was prepared in the same manner.

WITNESS: Randall Walker

Bas12015 excl subs of BAS120 (Reporter)

# ACTUAL

Friday, December 18, 1998 6:23:56 PM

12/18/98

Roll-up Description, Fiscal Year (YYYYMM), DELTA NATURAL GAS CO, INC., Calendar Year (YYYYMM), Budget Month, Agent Description, Total Amount

	1995/Jul	1995/Aug	1995/Sep	1995/Oct	1995/Nov	1995/Dec	1996/Jan	1996/Feb	1996/Mar	1996/Apr	1996/May	1996/Jun
Operating Revenues	(1,011,793)	(903,931)	(931,170)	(1,469,171)	(2,180,795)	(3,453,909)	(5,394,650)	(4,841,875)	(3,984,761)	(3,991,372)	(1,898,430)	(1,173,410)
PURCHASED GAS	276,528	280,147	288,027	561,556	818,719	1,446,078	2,402,462	2,277,833	1,805,134	1,791,624	822,663	400,057
OPERATION EXPENSE	553,478	660,749	601,064	653,472	613,795	569,418	655,727	649,228	697,372	521,395	634,597	1,181,157
MAINTENANCE EXPENSE	53,564	53,235	58,553	57,458	40,424	33,368	42,343	34,053	37,359	37,093	35,016	43,249
DEPRECIATION EXPENSE	198,200	198,200	198,200	198,200	198,200	213,992	200,500	200,500	200,500	200,500	200,500	264,361
TAXES OTHER THAN INCOME TAXES	71,332	79,598	80,633	79,645	79,360	77,240	98,584	89,539	89,356	85,268	85,866	107,994
INCOME TAXES	(127,100)	(214,500)	(186,900)	(113,600)	72,700	324,500	650,400	503,500	340,300	410,700	(47,000)	(425,300)
Operating Expenses	1,026,001	1,057,429	1,039,578	1,436,731	1,823,198	2,664,596	4,050,016	3,754,653	3,170,022	3,046,579	1,731,641	1,571,519
Operating Income	14,208	153,498	108,409	(32,441)	(357,597)	(789,313)	(1,344,634)	(1,087,221)	(814,740)	(944,793)	(166,790)	398,109
NON REGULATED INCOME (Excl. Subs)	(2,344)	(3,209)	(1,653)	(3,843)	(773)	(2,668)	(1,840)	2,651	(1,872)	(10,602)	(2,961)	(3,392)
INTEREST ON LONG TERM DEBT	155,807	157,679	154,101	155,113	156,412	154,602	154,890	154,151	148,854	154,018	152,949	153,191
OTHER INTEREST	39,015	46,614	48,429	63,436	69,944	74,789	74,909	68,233	79,057	84,044	86,566	89,480
AMORTIZATION OF DEBT EXPENSE	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	71,123
Net Income (Excl. Subs)	214,087	361,982	316,686	189,666	(124,614)	(555,190)	(1,109,275)	(854,785)	(581,300)	(709,932)	77,166	708,511

Yearly Accumulation

(2,066,998)



Bas12015 excl subs of BAS120 (Reporter)

# ACTUAL

Friday, December 18, 1998 6:23:56 PM

12/18/98

Roll-up Description, Fiscal Year (YYYYMM), DE

	1996/Jul	1996/Aug	1996/Sep	1996/Oct	1996/Nov	1996/Dec	1997/Jan	1997/Feb	1997/Mar	1997/Apr	1997/May	1997/June
Operating Revenues	(1,103,500)	(1,009,575)	(1,026,022)	(1,660,656)	(2,614,213)	(4,353,564)	(6,605,206)	(6,263,523)	(4,362,207)	(4,046,020)	(2,534,625)	(1,686,327)
PURCHASED GAS	277,386	285,244	270,199	645,935	1,222,854	2,335,215	3,774,756	3,697,113	2,420,922	2,218,763	1,188,278	639,662
OPERATION EXPENSE	674,138	607,693	581,284	686,858	612,982	713,908	729,869	661,993	683,706	622,176	682,150	708,622
MAINTENANCE EXPENSE	57,946	44,147	39,262	49,212	26,459	31,215	36,688	36,887	40,875	65,061	47,613	68,875
DEPRECIATION EXPENSE	239,200	239,200	239,200	239,200	239,200	211,453	245,300	245,300	251,200	270,900	270,900	204,999
TAXES OTHER THAN INCOME TAXES	82,074	81,830	82,219	82,578	82,712	81,238	90,688	89,068	87,854	93,678	92,237	102,906
INCOME TAXES	(177,500)	(194,100)	(168,200)	(120,500)	51,700	234,200	499,500	452,200	206,500	170,600	(24,300)	(158,300)
Operating Expenses	1,153,244	1,064,013	1,043,965	1,583,283	2,235,906	3,607,229	5,376,802	5,182,562	3,691,058	3,441,179	2,256,878	1,566,764
Operating Income	49,744	54,438	17,943	(77,372)	(378,307)	(746,335)	(1,228,404)	(1,080,961)	(671,150)	(604,841)	(277,746)	(119,563)
NON REGULATED INCOME (Excl. Subs)	(4,557)	(6,560)	(2,866)	(4,555)	(1,648)	(2,808)	(1,665)	(1,805)	(1,509)	(5,637)	(1,121)	(6,124)
INTEREST ON LONG TERM DEBT	187,398	235,570	234,928	235,626	234,226	235,835	366,097	254,736	254,667	249,824	254,641	253,844
OTHER INTEREST	60,407	22,682	24,097	37,597	46,709	102,475	2,528	47,056	55,421	55,117	54,752	73,891
AMORTIZATION OF DEBT EXPENSE	7,400	14,966	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300	9,300
Net Income (Excl. Subs)	300,392	321,076	283,403	200,596	(89,720)	(401,533)	(852,144)	(771,674)	(353,270)	(296,238)	39,825	211,348

(1,407,939)

Yearly Accumulation



Bas12015 excl subs of BAS120 (Reporter)

**ACTUAL**

Friday, December 18, 1998 6:23:56 PM

12/18/98

Roll-up Description, Fiscal Year (YYYYMM), DE

	1998/Jul	1998/Aug	1998/Sep	1998/Oct	1998/Nov	1998/Dec	1999/Jan	1999/Feb	1999/Mar	1999/Apr	1999/May	1999/Jun
Operating Revenues	(1,254,840)	(1,161,228)	(1,176,935)	(1,537,698)	(2,349,206)	(3,142,905)	(6,564,059)	(4,095,155)	(4,735,589)	(4,051,655)	-	-
PURCHASED GAS	156,554	103,149	160,529	319,762	699,780	1,160,990	3,156,414	1,687,905	2,003,254	1,675,936	-	-
OPERATION EXPENSE	675,049	616,103	668,899	668,655	643,407	773,916	698,691	738,131	683,439	706,123	-	-
MAINTENANCE EXPENSE	59,938	42,149	47,560	40,216	26,128	35,141	47,113	32,403	58,605	62,117	-	-
DEPRECIATION EXPENSE	307,316	305,688	308,627	311,162	313,828	315,279	317,468	318,579	317,482	315,104	-	-
TAXES OTHER THAN INCOME TAXES	103,617	99,512	104,197	103,897	103,080	103,286	111,731	125,961	116,734	113,973	-	-
INCOME TAXES	(151,625)	(140,025)	(195,025)	(112,225)	64,075	135,575	571,575	413,375	435,975	298,574	-	-
Operating Expenses	1,150,849	1,026,577	1,094,787	1,331,468	1,850,298	2,524,188	4,902,992	3,316,354	3,615,489	3,171,827	-	-
Operating Income	(103,991)	(134,652)	(82,147)	(206,230)	(498,906)	(618,717)	(1,661,066)	(778,801)	(1,120,100)	(879,826)	-	-
NON REGULATED INCOME (Excl. Subs)	(1,402)	(1,887)	(1,307)	(2,376)	(5,152)	(2,955)	(2,104)	(2,146)	(1,880)	(4,976)	-	-
INTEREST ON LONG TERM DEBT	325,418	325,197	345,003	323,057	324,468	324,809	324,330	324,280	324,280	324,054	-	-
OTHER INTEREST	19,793	30,697	52,068	57,258	47,857	46,147	346,545	(266,469)	36,516	31,012	-	-
AMORTIZATION OF DEBT EXPENSE	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	13,430	-	-
Net Income (Excl. Subs)	253,247	232,785	327,046	185,139	(118,305)	(237,287)	(978,865)	(709,706)	(747,754)	(516,310)	-	-

(2,310,010)

Yearly Accumulation



35. The second column of page 3 of the "ANALYSIS of Proposed Ratemaking Methodology" shows the actual common equity balances for each month from July 1995 through June 1998. In this regard, provide the following information:
- (a) Extend all actual adjusted equity balances through December 1998.
  - (b) For each of the months for which each of the actual equity balances are shown (through December 1998), provide the complete adjusted capital structure (dollar amounts and percentage ratios), showing equity, long term debt, short term debt and total balances, including long term and short term cost rates. Indicate for which items adjustments were made to the actual structure.

RESPONSE:

- (a) The worksheet provided in response to Question 33(a) shows the common equity extended through April 1999.
- (b) See Attached.

WITNESS: John Hall



36. The data on the "ANALYSIS of Proposed Ratemaking Methodology" shows that the Company has consistently under-budgeted its NIAC, as evidenced by the following data:

	<u>Actual NIAC</u>	<u>Budgeted NIAC</u>	<u>Actual vs. Budgeted</u>	
			<u>Amount</u>	<u>%</u>
FY 7/95-6/96	\$2,066,998	\$1,784,600	\$ 282,398	16
FY 7/96-6/97	\$1,407,939	\$ 778,850	\$ 629,089	81
FY 7/97-6/98	\$2,025,723	\$ 875,900	\$1,149,823	131

In this regard, provide the following information:

- (a) Confirm the numbers in the above table. If you do not agree, explain in detail why not.
- (b) As can be seen on pages 1 and 3 of Schedule B attached to the ARP, this NIAC under-budget resulted in very high achieved ROE numbers of 13.29 and 13.61% in two out of the three years in the Company's hypothetical historic analysis. Please confirm this. If you do not agree, explain your disagreement in detail.
- (c) Under the proposed ARP, a portion of the excess ROE numbers of 13.29% and 13.61% referenced in part b above must be returned to the customers, but only up to the point where the Company will still be allowed to earn 12.1% ROE (the upper range of the band) Please confirm this. If you do not agree, please explain your disagreement.

RESPONSE:

- (a) The numbers are correct. However, we want to point out that the 97-98 budgeted numbers did not reflect any increase in rates resulting from the rate case whereas the actual numbers do reflect six months of billings under the approved rates from Delta's last rate case. This played a major role in causing the actual NIAC to exceed the budgeted NIAC in that year.
- (b) We agree that the actual results did turn out better than the budget numbers indicated. The 96, 97 and 98 budgets indicated expected ROE's of 8.6%, 3.4% and 3.7%, respectively, as compared to actual 96, 97 and 98 ROE's of 10.2%, 6.1% and 8.6%, respectively. Notwithstanding the differences, the ROE's remained well below acceptable levels.
- (c) Yes. There is a bandwidth of 0.5% above and below the 11.6% mid-point ROE. While the mechanism provides for the return of amounts above 12.1% to customers, it also requires the Company to absorb amounts between 11.1% and 11.6%.

WITNESS: Randall Walker

37. The Company has provided an analysis of sample results for its fiscal years ended July 1996, 1997 and 1998. Please provide the similar analysis of the historic sample results for fiscal years ended July 1994 and 1995 and for calendar year 1998.

RESPONSE:

In the response to Item 7 of the Commission Order dated June 4, 1999, we provided a similar historical analysis for the current 1999 budget year. However, as indicated in that response, we don't have the historical data available to reconstruct the mechanism beyond July 1, 1995 (the first month of the three budget years analyzed).

WITNESS: Randall Walker





38. For each of the last 10 years (through 1998), provide Delta's actual utility construction expenditures (capital expenditure program) as compared to the budgeted construction expenditures (capital expenditure program) approved for each corresponding year by the Board of Directors.

RESPONSE:

See attached.

WITNESS: John Hall

**DELTA NATURAL GAS COMPANY, INC.  
ACTUAL CAPITAL CONSTRUCTION EXPENDITURES VS  
BUDGETED CAPITAL EXPENDITURES  
FISCAL YEARS 1989 TO 1998**

**ITEM 38**

<b>YEAR ENDED</b>			
<b><u>JUNE 30</u></b>	<b><u>ACTUAL</u></b>	<b><u>BUDGET</u></b>	<b><u>DIFFERENCE</u></b>
1998	11,227,310	11,635,000	407,690
1997	16,563,682	16,400,000	(163,682)
1996	13,671,031	12,439,100	(1,231,931)
1995	8,277,858	8,413,800	135,942
1994	7,375,009	7,258,200	(116,809)
1993	6,433,290	6,730,400	297,110
1992	4,869,297	6,986,700	2,117,403
1991	5,205,489	3,983,200	(1,222,289)
1990	NOT AVAILABLE		
1989	NOT AVAILABLE		

39. For each of the last 10 years (through 1998), provide Delta's actual utility O & M expenses as compared to the budgeted O & M expense approved for each corresponding year by the Board of Directors.

RESPONSE:

See attached.

WITNESS: John Hall

**Delta Natural Gas Company, Inc.**

**Operation and Maintenance Expense Compared to Approved Budget  
for the years 1989 through 1998**

AG 39

	Operations	Maintenance	Total O&M	Budget	Variance
1989	5,929,095	593,573	6,522,668	6,591,500	68,832
1990	6,580,418	552,729	7,133,147	6,917,300	(215,847)
1991	6,495,729	534,623	7,030,352	6,966,200	(64,152)
1992	7,393,444	524,976	7,918,420	7,591,300	(327,120)
1993	7,400,487	436,455	7,836,942	7,794,500	(42,442)
1994	7,786,185	408,505	8,194,690	7,708,000	(486,690)
1995	7,394,186	471,392	7,865,578	7,865,600	22
1996	7,991,451	525,715	8,517,166	7,979,000	(538,166)
1997	7,965,992	544,242	8,510,234	8,229,550	(280,684)
1998	8,188,080	585,411	8,773,491	9,022,100	248,609



40. For each of the last 10 years (through 1998), provide the following for Delta:
- a. Delta's actual utility operating income (utility operating revenues less utility operating expenses and taxes) as compared to the budgeted utility operating income approved for each corresponding year by the Board of Directors.
  - b. Delta's actual utility Net Income Available for Common Stock ("NIAC") as compared to the budgeted Net Income Available for Common Stock approved for each corresponding year by the Board of Directors.

RESPONSE:

See attached.

WITNESS: John Hall

## Actual Operating Income and Net Income Compared to Budgeted Amounts

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
<b>Operating Income</b>	6,336,245	5,602,844	4,863,304	3,737,058	4,322,502	4,351,732	4,093,085	2,480,582	2,364,775	2,577,269
<b>Budgeted</b>	5,237,500	5,021,951	4,358,800	4,132,700	4,215,907	4,030,601	4,046,494	1,832,760	2,965,699	2,634,200
<b>Variance</b>	1,098,745	580,893	504,504	(395,642)	106,595	321,131	46,591	647,822	(600,924)	(56,931)
<b>Fav/(Unfav)</b>	F	F	F	U	F	F	F	F	U	U
<b>Net Income</b>	2,451,539	1,724,265	2,661,349	1,917,735	2,671,001	2,620,664	2,453,813	1,162,582	1,195,512	1,535,077
<b>Budgeted</b>	1,431,300	1,278,750	2,359,500	2,223,800	2,144,407	2,217,901	2,156,094	1,712,804	1,935,699	1,417,100
<b>Variance</b>	1,020,239	445,515	301,849	(306,065)	526,594	402,763	297,719	(550,222)	(740,187)	117,977
<b>Fav/(Unfav)</b>	F	F	F	U	F	F	F	U	U	F



41. In the same format as per Schedule A, supported by budgeted data in the same format as per the "ANALYSIS" package, provide the Board of Director's approved budgeted ROE for purposes of the proposed AAC calculations for the period July 1, 1999 – June 30, 2000, and calculate the required change to current rates (the AAC surcharge or credit).

This analysis should show the annual budgeted capital structure and capital structure ratios between equity and debt and the assumed debt cost rates that will be in existence on average during this future AAC period. The analysis should also show how the average per books equity balance for the future AAC has been adjusted and for what items. In addition, the analysis should show what PSC rate making adjustments have been made to the Board of Directors approved budget for the future AAC period in order to put everything on a basis consistent with PSC-espoused ratemaking policies

RESPONSE:

In response to Item 28 of the Commission Order dated June 4, 1999, in this case we have provided a calculation of the AAC for the 1999-2000 budget year, along with the supporting schedules. Inasmuch as this proceeding is in progress and we do not know the extent of the adjustments that may ultimately be required by the Commission for such filings, there were no "rate making" adjustments to the budgeted numbers.

WITNESS: Randall Walker



42. For each of the last 10 years (through 1998), provide the actual non-gas O & M cost per employee for Delta and provide the average compound annual growth rate during this 10-year period.

RESPONSE:

See attached.

WITNESS: John Hall

**Delta Natural Gas Company, Inc.**  
**Operation and Maintenance Expense per Employee**  
**for the years 1989 through 1998**

AG 42

	Operations	Maintenance	Total O&M	# of Employees	O&M per Employee
1989	5,929,095	593,573	6,522,668	181	36,037
1990	6,580,418	552,729	7,133,147	184	38,767
1991	6,495,729	534,623	7,030,352	186	37,798
1992	7,393,444	524,976	7,918,420	182	43,508
1993	7,400,487	436,455	7,836,942	176	44,528
1994	7,786,185	408,505	8,194,690	172	47,644
1995	7,394,186	471,392	7,865,578	168	46,819
1996	7,991,451	525,715	8,517,166	172	49,518
1997	7,965,992	544,242	8,510,234	181	47,018
1998	8,188,080	585,411	8,773,491	181	48,472

43. For each of the last 10 years (through 1998), provide the actual CPI-U numbers and the average compound annual growth rate during this 10-year period.

RESPONSE:

See attached.

WITNESS: John Hall

# CONSUMER PRICE INDEX

ALL URBAN CONSUMERS (1982-1984 = 100)  
Source: U.S. Bureau of Labor Statistics

To figure the percentage increase between any two months: Subtract the index for the earlier month from that of the later month. Divide that number by the index for the earlier month. And then multiply by 100 by moving the decimal two places to the right.

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Dec.- Dec. Increase
1972	41.1	41.3	41.4	41.5	41.6	41.7	41.9	42.0	42.1	42.3	42.4	42.5	3.4%
1973	42.6	42.9	43.3	43.6	43.9	44.2	44.3	45.1	45.2	45.6	45.9	46.2	8.7%
1974	46.6	47.2	47.8	48.0	48.6	49.0	49.4	50.0	50.6	51.1	51.5	51.9	12.3%
1975	52.1	52.5	52.7	52.9	53.2	53.6	54.2	54.3	54.6	54.9	55.3	55.5	6.9%
1976	55.6	55.8	55.9	56.1	56.5	56.8	57.1	57.4	57.6	57.9	58.0	58.2	4.9%
1977	58.5	59.1	59.5	60.0	60.3	60.7	61.0	61.2	61.4	61.6	61.9	62.1	6.7%
1978	62.5	62.9	63.4	63.9	64.5	65.2	65.7	66.0	66.5	67.1	67.4	67.7	9.0%
1979	68.3	69.1	69.8	70.6	71.5	72.3	73.1	73.8	74.6	75.2	75.9	76.7	13.3%
1980	77.8	78.9	80.1	81.0	81.8	82.7	82.7	83.3	84.0	84.8	85.5	86.3	12.5%
1981	87.0	87.9	88.5	89.1	89.8	90.6	91.6	92.3	93.2	93.4	93.7	94.0	8.9%
1982	94.3	94.6	94.5	94.9	95.8	97.0	97.5	97.7	97.9	98.2	98.0	97.6	3.8%
1983	97.8	97.9	97.9	98.6	99.2	99.5	99.9	100.2	100.7	101.0	101.2	101.3	3.8%
1984	101.9	102.4	102.6	103.1	103.4	103.7	104.1	104.5	105.0	105.3	105.3	105.3	3.9%
1985	105.5	106.0	106.4	106.9	107.3	107.6	107.8	108.0	108.3	108.7	109.0	109.3	3.8%
1986	109.6	109.3	108.8	108.6	108.9	109.5	109.5	109.7	110.2	110.3	110.4	110.5	1.1%
1987	111.2	111.6	112.1	112.7	113.1	113.5	113.8	114.4	115.0	115.3	115.4	115.4	4.4%
1988	115.7	116.0	116.5	117.1	117.5	118.0	118.5	119.0	119.8	120.2	120.3	120.5	4.4%
1989	121.1	121.6	122.3	123.1	123.8	124.1	124.4	124.6	125.0	125.6	125.9	126.1	4.6%
1990	127.4	128.0	128.7	128.9	129.2	129.9	130.4	131.6	132.7	133.5	133.8	133.8	6.1%
1991	134.6	134.8	135.0	135.2	135.6	136.0	136.2	136.6	137.2	137.4	137.8	137.9	3.1%
1992	138.1	138.6	139.3	139.5	139.7	140.2	140.5	140.9	141.3	141.8	142.0	141.9	2.9%
1993	142.6	143.1	143.6	144.0	144.2	144.4	144.4	144.8	145.1	145.7	145.8	145.8	2.7%
1994	146.2	146.7	147.2	147.4	147.5	148.0	148.4	149.0	149.4	149.5	149.7	149.7	2.7%
1995	150.3	150.9	151.4	151.9	152.2	152.5	152.5	152.9	153.2	153.7	153.6	153.5	2.5%
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	3.3%
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	1.7%
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	1.6%

**Delta Natural Gas Company, Inc.  
3617 Lexington Road  
Winchester, Kentucky 40391**

**Notice To Common Shareholders Of Annual Meeting  
To Be Held November 19, 1998**

Please take notice that the Annual Meeting of Shareholders of Delta Natural Gas Company, Inc. will be held at the principal office of the Company, 3617 Lexington Road, Winchester, Kentucky, on Thursday, November 19, 1998 at 10:00 a.m. for the purposes of:

1. Electing three Directors for three year terms expiring in 2001; and
2. Acting on such other business as may properly come before the meeting.

Holders of Common Stock of record at the close of business on October 5, 1998 will be entitled to vote at the meeting.

By Order of the Board of Directors

**John F. Hall**

Vice President - Finance,  
Secretary and Treasurer

Winchester, Kentucky  
October 12, 1998

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**To ensure proper representation at the meeting at a minimum of expense, it will be very helpful if you fill out, sign and return the enclosed proxy promptly.**

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## **Proxy Statement**

**Delta Natural Gas Company, Inc.  
3617 Lexington Road  
Winchester, Kentucky 40391**

### **Information Concerning Proxy**

This solicitation of proxies is made by Delta Natural Gas Company, Inc. ("Delta" or "the Company"), upon the authority of Delta's Board of Directors and the costs associated with this solicitation will be borne by Delta. Management intends to use the mails to solicit all Shareholders and intends first to send this proxy statement and the accompanying form of proxy to Shareholders on or about October 12, 1998. Delta will provide copies of this proxy statement, the accompanying proxy and the Annual Report to brokers, dealers, banks and voting trustees and their nominees for mailing to beneficial owners and upon request therefor will reimburse such record holders for their reasonable expenses in forwarding solicitation materials. In addition to using the mails, proxies may be solicited by directors, officers and regular employees of Delta in person or by telephone, but without extra compensation. As part of its duties as registrar and transfer agent, Fifth Third Bank mails Delta's proxy solicitation materials to shareholders. Fees for this service are included in the annual fee paid by Delta to Fifth Third Bank for its services as registrar and transfer agent.

You may revoke your proxy at any time before it is exercised by giving notice to Mr. John F. Hall, Vice President - Finance, Secretary and Treasurer of Delta.

### **Election of Directors**

Delta's Board of Directors is classified into three classes, with terms expiring in either 1998, 1999 or 2000.

The terms of three Directors, Donald R. Crowe, Billy Joe Hall and John D. Harrison are scheduled to end in 1998. Donald R. Crowe, Billy Joe Hall and John D. Harrison are nominated as Directors for a three year term ending in 2001 and until their successors have been elected and qualified.

If the enclosed proxy is duly executed and received in time for the meeting, and if no contrary specification is made as provided therein, the shares represented by this proxy will be voted for Donald R. Crowe, Billy Joe Hall and John D. Harrison as Directors of Delta. If one of them should refuse or be unable to serve, the proxy will be voted for such person as shall be designated by the Board of Directors to replace them as a Nominee. Management presently has no knowledge that any of the Nominees will refuse or be unable to serve.



The names of Directors and Nominees and certain information about them are set forth below:

<b>Name, Age and Position Held With Delta</b>	<b>Additional Business Experience During Last Five Years</b>	<b>Period of Service As Director</b>
Donald R. Crowe (1) - 64 Director	Retired Senior Analyst, Department of Insurance, Commonwealth of Kentucky, Lexington, Kentucky	1966 to present
Jane Hylton Green (3) - 68 Director	Retired Vice President - Human Resources and Secretary, Delta and Delta's subsidiaries,	1976 to present
Billy Joe Hall (1) - 61 Director	Investment Broker, LPL Financial Services (general brokerage services), Mount Sterling, Kentucky	1978 to present
John D. Harrison (1) - 83 Director	Retired President, Power Line Construction Co., Inc. (utility construction contractor), Stanton, Kentucky; Retired Vice- President	1950 to 1993 1996 to present
Glenn R. Jennings (2) - 49 President and Chief Executive Officer; Director	President & Chief Executive Officer and Director, Delta's subsidiaries	1984 to present
Harrison D. Peet (3) - 78 Chairman of the Board	Chairman of the Board, Delta's subsidiaries	1950 to present
Virgil E. Scott (2) - 77 Director	Retired Vice President - Administration, Delta and Delta's subsidiaries; Retired Director, Delta's subsidiaries	1950 to present

Name, Age and Position Held With Delta	Additional Business Experience During Last Five Years	Period of Service As Director
Henry C. Thompson (3) - 76 Director	President, Triple Land Company, Inc. (land development and real estate rental); Retired President, Henry Thompson Construction Company, Inc. (land development and commercial real estate rental); both of Nicholasville, Kentucky	1967 to present
Arthur E. Walker, Jr. (2)(4) - 53 Director	President, The Walker Company (general and highway construction), Mount Sterling, Kentucky	1981 to present

- (1) Term expires November 19, 1998.
- (2) Term expires on date of Annual Meeting of Shareholders in 1999.
- (3) Term expires on date of Annual Meeting of Shareholders in 2000.
- (4) On November 8, 1993, Arthur E. Walker, Jr., entered a guilty plea in Montgomery County, Kentucky, District Court to the charge of making a political contribution in the name of another, a misdemeanor under Kentucky Law. The Court fined Mr. Walker \$1,000 plus court costs.

## **Committees and Board Meetings**

Delta has an Audit Committee comprised of Mrs. Green and Messrs. Harrison, Scott and Thompson. The Committee, which met one time during fiscal 1998, is empowered to recommend independent auditors to the Board, review audit results and financial statements, review the system of internal control and make reports and recommendations to the Board.

Delta has a Nominating and Compensation Committee comprised of Messrs. Crowe, Hall and Walker. The Committee, which met four times during fiscal 1998, is empowered to make recommendations to the Board as to the compensation of the Board and Officers and any other personnel matters. The Committee is empowered to present to the Board names of individuals who would make suitable Directors. The Committee will consider Nominees recommended by Shareholders, if such nominations are submitted in writing to the attention of Mr. John F. Hall at Delta's corporate office in Winchester, Kentucky.

Delta has an Executive Committee comprised of Messrs. Jennings, Peet and Walker. The Committee, which met one time during fiscal 1998, is empowered to act for and on behalf of the Board of Directors, during the interval between the meetings of the Board of Directors, in the management and direction of the business of the Company.

During fiscal 1998, Delta's Board of Directors held four meetings. All Directors attended 75% or more of the aggregate number of meetings of the Board of Directors and applicable committee meetings.

Each Non-Officer Director (except for the Chairman) receives a monthly Directors' fee of \$600 and no additional fees for attending board and committee meetings. Mr. Peet, as Chairman of the Board of Directors, is paid a monthly fee of \$3,000. Directors who are also Officers of the Company receive no Directors' fees.

## Officers of Delta

Name	Position(1)	Age	Date Began in this Position(2)
Johnny L. Caudill (3)	Vice President - Administration and Customer Service	49	3/1/95
John F. Hall	Vice President - Finance, Secretary and Treasurer	55	3/1/95
Robert C. Hazelrigg	Vice President - Public and Consumer Affairs	51	5/20/93
Alan L. Heath	Vice President - Operations and Engineering	51	5/21/84
Glenn R. Jennings	President and Chief Executive Officer; Director	49	11/17/88

- (1) Each Officer is normally elected to serve a one year term. Each Officer's current term is scheduled to end on November 19, 1998, the date of the Board of Directors' meeting following the Annual Shareholders' Meeting, except Mr. Jennings has an employment contract in his present capacity through November 30, 2000 (see "Employment Contract and Termination of Employment and Change in Control Agreement").
- (2) All current Officers except Mr. Caudill have functioned as Officers of Delta for at least five years.
- (3) Mr. Caudill was elected an Officer on March 1, 1995. Prior to that, Mr. Caudill held the position of Manager - Customer Service for 2 years and Manager - Distribution for 3 years. Mr. Caudill has been employed by Delta since 1972.

## **Board Nominating and Compensation Committee Report on Executive Compensation**

The Nominating and Compensation Committee of the Board of Directors ("Committee") is composed of three independent, non-employee directors. Among other duties, the Committee is responsible for developing and making recommendations to the Board with respect to Delta's executive compensation. All decisions by the Committee relating to the compensation of Delta's executive officers, including the Chief Executive Officer, are reviewed and given final approval by the full Board of Directors. During 1998, no decisions of the Committee were modified in any material way or rejected by the full Board.

The goal of the Committee in establishing the compensation for the Company's executive officers is to provide fair and appropriate levels of compensation that will ensure the Company's ability to attract and retain a competent and energetic management team. The Committee believes Mr. Jennings has positioned the Company well to address a changing business climate, to provide for total shareholder return and to continue the Company's growth.

Salaries for Delta's officers, including all executive officers and the Chief Executive Officer, are determined in a manner similar to that for all employees, using a pay grade system established with the assistance of a consulting firm. Salary grades are developed for all positions in the Company through the use of external comparisons with other companies and are periodically adjusted for inflation. The salary grades have a minimum and maximum compensation level for each grade. Salary increases for executive officers are established by the Committee, considering factors which include the overall raises budgeted for the Company, individual performance of the executive officers and their position in their individual pay grades. There is no specific, quantified relationship between corporate performance and individual compensation.

There is no formal bonus plan for executive officers or the Chief Executive Officer. Bonuses have been paid in the past from time to time, at the discretion of the Company, based on the Company's overall performance and the contributions and performances of the individual officers and other employees. There has been no specific, quantified relationship between corporate performance and individual bonuses.

A summary of the compensation awarded to Glenn R. Jennings, President and Chief Executive Officer of the Company, and Alan L. Heath, Vice President - Operations and Engineering, is set forth in the "Summary Compensation Table". The compensation paid to Mr. Jennings and Mr. Heath for fiscal 1996 reflects a cash bonus. No bonus was paid for fiscal 1997 or fiscal 1998, and the other components of Mr. Jennings' and Mr. Heath's 1998 salary packages are generally consistent with prior years.

**Donald R. Crowe**  
**Billy Joe Hall**  
**Arthur E. Walker, Jr., Committee Chairman**

## Summary Compensation Table

The following table sets forth information concerning the compensation of the Company's Chief Executive Officer and Executive Officers whose total annual salary and bonus exceeded \$100,000 for the last three fiscal years. No other executive officer of the Company earned compensation in excess of \$100,000 for the periods.

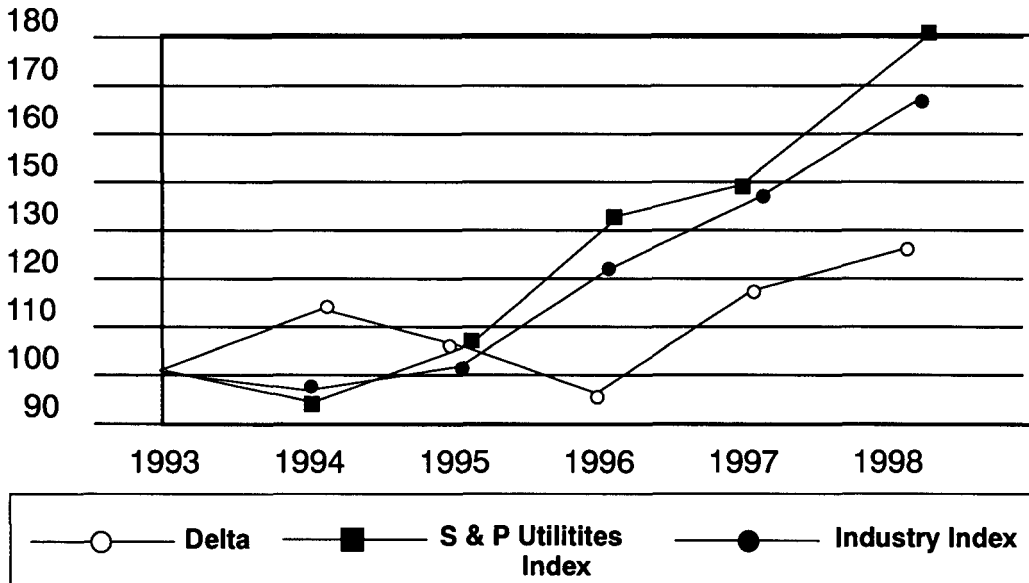
Name and Principal Position	Year	Annual Compensation		All Other Compensation(1)
		Salary	Bonus	
Glenn R. Jennings	1998	\$150,000	\$ —	\$ 24,000
President and Chief	1997	\$143,000	\$ —	\$ 24,000
Executive Officer	1996	\$136,000	\$42,900	\$ 24,500
Alan L. Heath	1998	\$ 97,000	\$ —	\$ —
Vice President -	1997	\$ 93,200	\$ —	\$ —
Operations and Engineering	1996	\$ 88,700	\$16,776	\$ —

(1) During each of the last three fiscal years, Delta forgave a portion of the principal amount of a loan made by Delta to Mr. Jennings (see "Certain Relationships and Related Transactions" for a discussion of this loan).

## Comparison of Five Year Cumulative Total Return Among the Company, S & P Utilities Index and Natural Gas Distribution Industry Index

The following graph sets forth a comparison of five year cumulative total returns among the common shares of the Company, the S & P Utilities Index and the Edward D. Jones & Co. Natural Gas Distribution Industry Index ("Industry Index") for the fiscal years indicated. Information reflected on the graph assumes an investment of \$100 on June 30, 1993 in each of the common shares of the Company, the S & P Utilities Index and the Industry Index. Cumulative total return assumes reinvestment of dividends. The Industry Index consists of thirty-three natural gas distribution companies chosen by Edward D. Jones & Co. The Company is among the thirty-three companies included in the Industry Index.

### Cumulative Total Return



	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Delta	100	112.5	100.8	96.7	117.9	125.7
S & P Utilities Index	100	92.5	106.1	131.8	139.1	181.1
Industry Index	100	96.0	100.1	120.9	136.3	168.0

## Extimated Annual Benefits Upon Retirement

Delta has a trusteeed, non-contributory, defined benefit retirement plan. The following table illustrates the approximate pension benefits payable under the terms of the plan to employees retiring at the normal retirement age of 65 assuming five years' average annual compensation and years of service as indicated.

Average Annual Compensation (Five Year Average)	Estimated Annual Benefits For Years of Service Indicated				
	15	20	25	30	35
\$100,000	\$ 24,000	\$ 32,000	\$ 40,000	\$ 48,000	\$ 56,000
125,000	30,000	40,000	50,000	60,000	70,000
150,000	36,000	48,000	60,000	72,000	84,000
175,000	42,000	46,000	70,000	84,000	98,000
200,000	48,000	64,000	80,000	96,000	112,000

The plan is available to all employees as they become eligible. The basic retirement benefit is payable for 120 months certain and life thereafter, based upon a formula of 1.6% of the highest five years average monthly salary for each year of service. The compensation used to determine the average monthly salary under the plan includes only base salary of employees (see "Salary" in the "Summary Compensation Table"). An employee may also elect from various joint, survivor, lump sum and annuitant provisions that would change the above amounts. Social Security benefits would be in addition to the amounts received under Delta's pension plan.

Mr. Jennings and Mr. Heath have nineteen years and fourteen years, respectively, of credited service in the plan.

### Employment Contract and Termination of Employment and Change in Control Agreement

Delta entered into an agreement with Mr. Jennings on May 31, 1995. The agreement provides for Mr. Jennings' employment in his present capacity through November 30, 2000, and such agreement continues on a year-to-year basis thereafter. This agreement provides for the termination of Mr. Jennings' employment in the event of his death or incapacity or for cause. In addition, Mr. Jennings may terminate his employment following a change in control if he determines in good faith that, due to the change in control, either his continued employment is not in Delta's best interests or he is unable to carry out his duties effectively. A change in control is defined as a change in control that would be required to be reported under Regulation 14A of the Securities and Exchange Act of 1934 or an acquisition by any person or entity of twenty percent or more of Delta's issued and outstanding voting Common Stock.

Under the agreement, if Delta terminates Mr. Jennings without cause, or if Mr. Jennings terminates his employment under the agreement following a change in control because he determines in good faith that his continued employment is not in Delta's best interests or that he is



unable to carry out his duties effectively, then in any such instance Delta is required to continue to pay Mr. Jennings as severance pay an amount equal to his salary for the number of years remaining under the agreement, but in no event less than three years. Mr. Jennings' current yearly salary is \$154,500. In addition, in all such cases the agreement provides for the continuance, at not less than present levels, of Mr. Jennings' employee benefit plans and practices, including the retirement plan, 401-K Plan, stock purchase plan, life and accidental death and dismemberment insurance, company furnished automobile and office, vacation plan, and medical, dental, health, and long term disability plans, and the agreement obligates Delta to forgive any unpaid principal outstanding on a loan made to him (see "Certain Relationships and Related Transactions" for a description of this loan).

If, as described above, Mr. Jennings elects under the terms of the agreement to terminate his employment following a change in control, he has, in addition to the rights described in the immediately preceding paragraph, the right to a lump sum payment for all such amounts due to him under the agreement as salary.

Delta also has agreed to indemnify Mr. Jennings for actions taken by him in good faith while performing services for Delta and has agreed to provide liability insurance for lawsuits and to pay legal expenses arising from any such proceedings.

On December 1, 1985, Delta entered into an agreement with Mr. Heath. The terms of the agreement will become effective with a change in control while Mr. Heath is employed by Delta. For the purpose of the agreement, a change in control will be deemed to take place upon the happening of either of the following events: (a) the acquisition by anyone of ten percent of Delta's issued and outstanding voting Common Stock followed by either (i) a change in the majority of the Board of Directors of Delta as it existed on December 1, 1985, as a result of a Shareholders' meeting involving a contest for the election of Directors or (ii) the termination without cause of Harrison D. Peet as Chairman of the Board of Delta; or (b) the election at any time of two or more Directors whose election is opposed by a majority of Delta's Board of Directors as it existed on December 1, 1985.

The agreement provides that Mr. Heath may continue in the employment of Delta in his customary position for a period of three years immediately following a change in control. During this time he would receive compensation consisting of (i) a base salary which would be not less than the annual rate in effect on the day before the change in control, with such increase as may thereafter be awarded in accordance with Delta's regular compensation practices; and (ii) incentive and bonus awards not less than the annualized amount of any such awards paid to him for the twelve months ending on the date of a change in control. In addition, his agreement provides for the continuance, at not less than present levels, of employee benefit plans and practices, including the retirement plan, 401-K Plan, stock purchase plan, life and accidental death and dismemberment insurance, company furnished automobile and office, vacation plan and medical, dental, health and long-term disability plans.

Under the agreement, if Mr. Heath is terminated by Delta without cause during the three year period immediately following a change in control, his compensation and benefits and service credits under the employee benefit plans will be continued for the remainder of the period, but in no event for less than two years following termination of employment. The current yearly base

salary of Mr. Heath is \$100,700. If Mr. Heath determines that in good faith he cannot continue to fulfill his responsibilities as a result of a change in control, then that is to be considered termination without cause. Further, Delta has agreed to indemnify Mr. Heath for actions taken by him in good faith while performing services for Delta and has agreed to provide liability insurance for lawsuits and to pay legal expenses arising from any such proceedings.

### Security Ownership Of Certain Beneficial Owners and Management (1)

Name Of Owner	Amount and Nature Of Beneficial Ownership(2)(3)(4)	Percent Of Stock
Donald R. Crowe	3,965 (1,365 shares jointly owned)	*
Jane Hylton Green	7,791 (715 shares jointly owned)	*
Billy Joe Hall	3,974	*
John D. Harrison	11,012 (10,010 shares jointly owned)	*
Glenn R. Jennings	6,616	*
Harrison D. Peet (5)	18,156	*
Virgil E. Scott	12,542	*
Henry C. Thompson	4,411	*
Arthur E. Walker, Jr. (6)	14,057 (4,904 shares jointly owned)	*
All Directors, Officers and Nominees, as a Group (13 persons)	91,467 (17,014 shares jointly owned)	3.8%

\* Less than 1%.

(1) The only class of stock issued and outstanding is Common Stock.

- (2) Under the terms of Delta's Employee Stock Purchase Plan, all Officers and employees (with certain limited exceptions) have the right to contribute 1% of their July 1, 1998 annual salary level on a monthly basis. At the end of fiscal 1999, Delta will issue its Common Stock, based upon 1999 contributions, using an average of the last sale price of Delta's stock as quoted in the National Association of Securities Dealers Automated Quotation National Market System at the close of business for the last five business days in June, 1999, and will match those shares so purchased. If employees cease to participate in the plan prior to year end, their contributions will be returned with no matching Company portion. The continuation and terms of the plan are subject to approval by Delta's Board of Directors on an annual basis. As a result, all the persons listed who are Officers (Directors, however, have no rights under this plan, unless they are also Officers) have the right to participate in the Plan in 1999. Stock acquired pursuant to the Plan during fiscal 1999 will not be issued until July, 1999. Accordingly, ownership figures in the above table do not include shares to be issued under the Plan for fiscal 1999.
- (3) The persons listed, unless otherwise indicated in this column, are the sole beneficial owners of the reported securities and accordingly exercise both sole voting and sole investment power over the securities.
- (4) The figures, which are as of August 1, 1998, are based on information supplied to Delta by its Officers and Directors.
- (5) The listed shares include 15,000 shares held by Mr. Peet's wife in a voting trust, which is administered and voted by Mr. Peet.
- (6) The listed shares include 4,154 shares held by Mr. Walker as guardian for his children and 749 shares held by his wife.

### **Appointment of Auditors**

Arthur Andersen LLP, upon recommendation of the Audit Committee and approval by Delta's Board of Directors, was appointed independent public accountants and auditors in connection with Delta's accounting matters and made an annual audit of the accounts of Delta and its subsidiary companies for the fiscal year ending June 30, 1998. Arthur Andersen LLP have been auditors for Delta since 1962 and, both by virtue of their long familiarity with Delta's affairs and their ability, are considered to be well qualified to perform this important function. Representatives of Arthur Andersen LLP are expected to be present at the Annual Meeting of Shareholders, and they will have an opportunity to make a statement, if they so desire, and will be available to respond to questions.

## **Certain Relationships and Related Transactions**

Delta has an agreement with Glenn R. Jennings, President and Chief Executive Officer and a Director of Delta, under the terms of which Mr. Jennings received a secured loan of \$136,000. The agreement provides that interest is to be paid by Mr. Jennings at the annual rate of 8%, payable monthly, with Delta forgiving \$2,000 of the principal amount for each month of service Mr. Jennings completes. The outstanding balance on this loan was \$106,000 as of August 31, 1998. The maximum amount outstanding during fiscal 1998 was \$134,000.

## **Shareholders' Proposals**

Proposals of security holders intended to be presented at Delta's 1999 annual meeting must be received by Delta no later than June 15, 1999, in order to be included in Delta's proxy statement and form of proxy related to that meeting.

## **Financial Statements**

Delta's 1998 Annual Report to Shareholders containing financial statements will precede or accompany the mailing of this proxy to Common Shareholders.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

In accordance with Section 16(a) of the Securities Exchange Act of 1934 and Securities and Exchange Commission regulations, the Company's directors, certain officers, and persons who own greater than 10 percent of the Company's equity securities are required to file reports of ownership and changes in ownership of such equity securities with the Securities and Exchange Commission and the principal national securities exchange on which such equity securities are registered, and to furnish the company with copies of all such reports they file. Based solely on its review of copies of such reports received or written representations from certain reporting persons, the Company believes that during fiscal 1998 all filing requirements applicable to their respective directors, officers, and 10 percent shareholders were satisfied.

## **Other Matters**

Management is not aware of any other matters to be presented at the meeting of Shareholders to be held on November 19, 1998. However, if any other matters come before the meeting, it is intended that the Holders of proxies solicited hereby will vote such shares thereon in their discretion.

As of the close of business on October 5, 1998, the record date fixed for determination of voting rights, Delta had outstanding 2,387,989 shares of Common Stock, each share having one vote. A majority of the shares entitled to be cast on a matter constitutes a quorum for action on that matter. Once a share is represented for any purpose at the meeting, it will be deemed present for quorum purposes for the remainder of the meeting and any adjournment of the meeting (unless a new record date is set). If a quorum exists, action on a matter (other than the election

of Directors) will be approved if the votes cast favoring the action exceed the votes cast opposing the action, unless a higher vote is required by law.

Under applicable Kentucky law, each Common Shareholder of Delta is entitled to vote cumulatively for the election of Directors. This means that each Common Shareholder has the right to give one Nominee votes equal to the number of Directors to be elected multiplied by the number of shares of Common Stock the Shareholder owns or to distribute such votes among two or more Nominees as the Shareholder desires. The three nominees for Director receiving the highest number of votes will be elected.

There are no conditions precedent to the exercise of cumulative voting rights.

Shares represented by a limited proxy, such as where a broker may not vote on a particular matter without instructions from the beneficial owner and no instructions have been received (i.e., "broker non-vote"), will be counted to determine the presence of a quorum but will not be deemed present for other purposes and will not be the equivalent of a "no" vote on a proposition. Shares represented by a proxy with instructions to abstain on a matter will be counted in determining whether a quorum is in attendance. An abstention is not the equivalent of a "no" vote on a proposition.

Under Kentucky law, there are no appraisal or similar rights of dissenters with respect to any matter to be acted upon at the Shareholders' meeting.

Any stockholder may obtain without charge a copy of Delta's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission for the year ended June 30, 1998, by submitting a request in writing to: John F. Hall, Vice President - Finance, Secretary and Treasurer, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, KY 40391.

The above Notice and Proxy Statement are sent by order of the Board of Directors.

**John F. Hall**

Vice President - Finance,  
Secretary and Treasurer

October 12, 1998

44. Please provide a copy of all proxy and other materials sent to Delta Natural Gas Company's stockholders for the year 1998 and for the period January through May, 1999.

RESPONSE:

*See Attached*  
Also, see Items 2 and 3 of the data request.

WITNESS: John Hall



45. Please provide a copy of all studies performed by Delta or by its Consultants which show that an appropriate capital structure for Delta should contain 60% equity.

RESPONSE:

No studies were performed.

WITNESS: Steve Seelye



46. Does Delta have any preferred stock outstanding? If the answer is yes, please provide for each series that is outstanding, the principal amount in the series, the dividend rate or amount, and the payment dates.

RESPONSE:

No.

WITNESS: John Hall

47. Please provide the fiscal year-end consolidated capital structure for Delta Natural Gas Company, including all subsidiary companies, showing the amount and percentage of long-term debt, short-term debt, preferred stock, and common equity for each year 1995 through 1998.

RESPONSE:

See attached.

WITNESS: John Hall

### Fiscal Year End Consolidated Capital Structure

	1998		1997		1996		1995	
Long-Term Debt	54,402,494	63.19%	40,095,460	49.85%	25,573,716	51.98%	24,759,900	46.76%
Short Term Debt	1,875,000	2.18%	10,865,000	13.51%	-	0.00%	5,675,000	10.72%
Common Equity	29,810,294	34.63%	29,474,469	36.64%	23,628,323	48.02%	22,511,513	42.52%
	86,087,788	100.00%	80,434,929	100.00%	49,202,039	100.00%	52,946,413	100.00%



48. Please provide the fiscal year-end company only capital structure for Delta Natural Gas Company, which excludes subsidiary companies, showing the amount and percentage of long-term debt, short-term debt, preferred stock, and common equity for each year 1995 through 1998.

RESPONSE:

See attached.

WITNESS: John Hall

### Fiscal Year End Company Only Capital Structure

	1998		1997		1996		1995	
Long-Term Debt	54,402,494	64.16%	40,095,460	50.70%	25,573,716	53.48%	24,759,900	48.05%
Short Term Debt	1,875,000	2.21%	10,865,000	13.74%	-	0.00%	5,675,000	11.01%
Common Equity	28,510,448	33.63%	28,130,574	35.57%	22,245,222	46.52%	21,089,988	40.93%
	84,787,942	100.00%	79,091,034	100.00%	47,818,938	100.00%	51,524,888	100.00%



49. Please provide a brief description, which includes the principal amount, of each debt obligation of subsidiary companies, joint ventures, or other businesses enterprises engaged in by Delta Natural Gas Company.

RESPONSE:

All current debt obligations are explained in the Notes to Consolidated Financial Statements in Delta's 1998 Annual Report.

WITNESS: John Hall



50. Please provide Delta Natural Gas Company's average daily amount of short-term debt outstanding for the years 1995, 1996, 1997, and 1998.

RESPONSE:

See attached.

WITNESS: John Hall

## AVERAGE DAILY BALANCE OF SHORT TERM DEBT

Weighted Balances	Year Ending			
	<u>6/30/98</u>	<u>6/30/97</u>	<u>6/30/96</u>	<u>6/30/95</u>
1st Qtr	1,159,785,000	374,110,000	674,785,000	395,085,000
2nd Qtr	1,669,640,000	476,650,000	1,048,885,000	666,460,000
3rd Qtr	1,494,315,000	619,130,000	1,148,295,000	513,350,000
4th Qtr	24,760,000	689,540,000	1,416,140,000	381,465,000
Total	4,348,500,000	2,159,430,000	4,288,105,000	1,956,360,000
Average Daily	11,913,698.63	5,916,246.58	11,748,232.88	5,359,890.41

51. Please provide Delta Natural Gas Company's average daily interest rate on the amount of short-term debt outstanding for the years 1995, 1996, 1997, and 1998.

RESPONSE:

See attached.

WITNESS: John Hall

## AVERAGE DAILY INTEREST OF SHORT TERM DEBT

Weighted Balances	Year Ending			
	<u>6/30/98</u>	<u>6/30/97</u>	<u>6/30/96</u>	<u>6/30/95</u>
1st Qtr	624.2200	580.2200	618.7850	522.4200
2nd Qtr	621.6850	601.2200	631.0050	585.8700
3rd Qtr	588.4600	588.1500	604.5350	612.8450
4th Qtr	626.5350	612.4350	585.6350	639.9850
Total	2460.9000	2382.0250	2439.9600	2361.1200
Average Daily	6.7422	6.5261	6.6848	6.4688

52. Please provide a copy of all studies performed by Delta or by its Consultants which show that its cost of equity has not changed from the range of 11.1% to 12.1% which the Commission found to be reasonable in the Order from Case No. 97-066 issued on December 8, 1997.

RESPONSE:

There were no such studies prepared in connection with this filing.

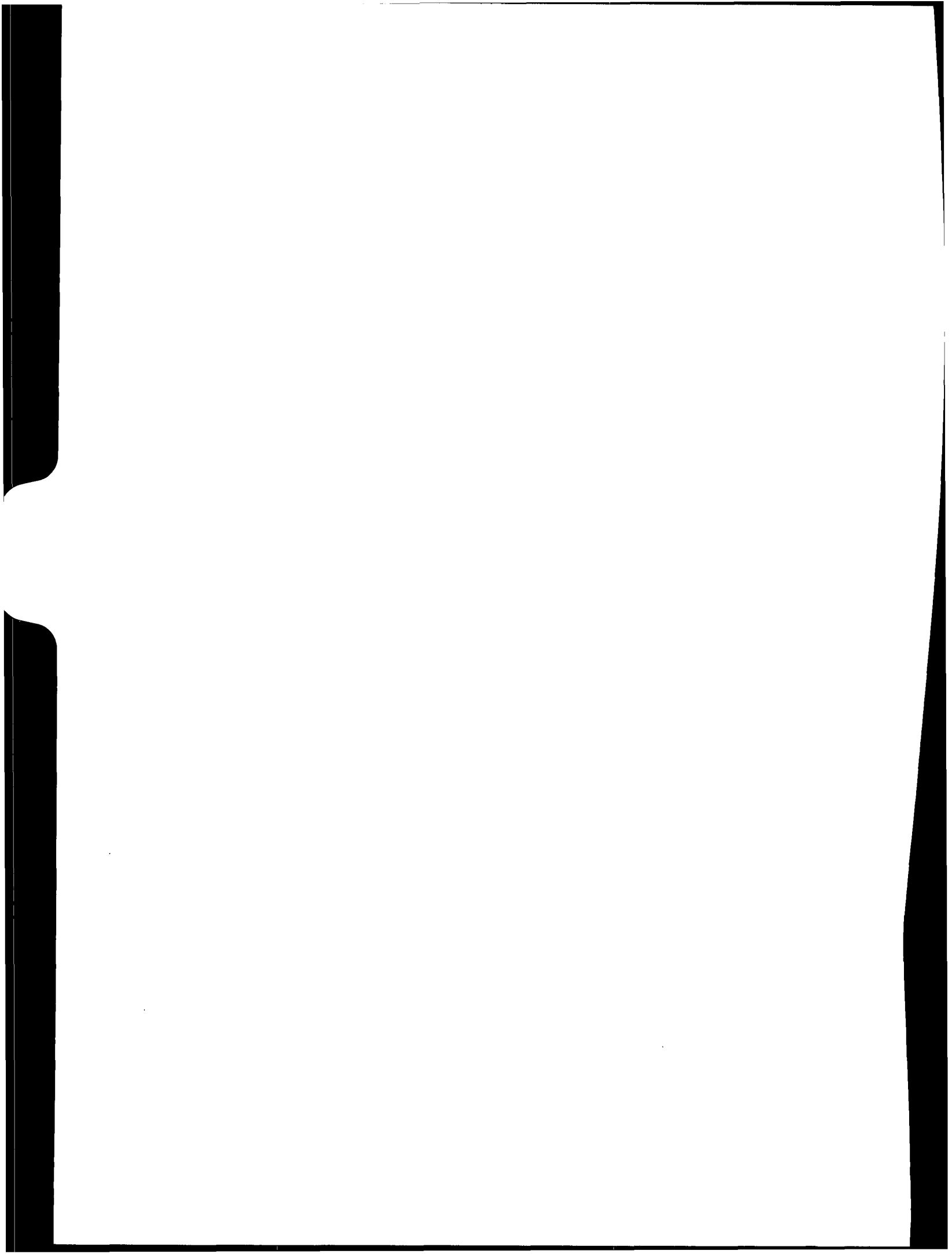
WITNESS: Steve Seelye

53. Please provide a copy of all studies performed by Delta or by its Consultants where the proposed alternative regulation plan was tested using actual data and which were not already included in Schedules A, B and C that were included in the Direct Testimony.

RESPONSE:

There were none.

WITNESS: Randall Walker



54. Please provide a copy of all studies which were performed by Delta or by its Consultants which examined the effect of the proposed alternative regulation plan on the risk premium that is embedded in the cost of equity.

RESPONSE:

No studies were performed.

WITNESS: Steve Seelye



55. Please provide a copy of the Rate Stabilization and Equalization Plan which was developed for Alabama Power Company in response to the Alabama Supreme Court Order and adopted for the Alabama Gas Company. This is the plan that is referred to in the first full paragraph on page 9 of the February 5, 1999 letter to Ms. Helen C. Helton, Executive Director of the Kentucky PSC that is shown in Seelye Exhibit I.

RESPONSE:

See Delta's response to item 20(a) of the Commission's data request.

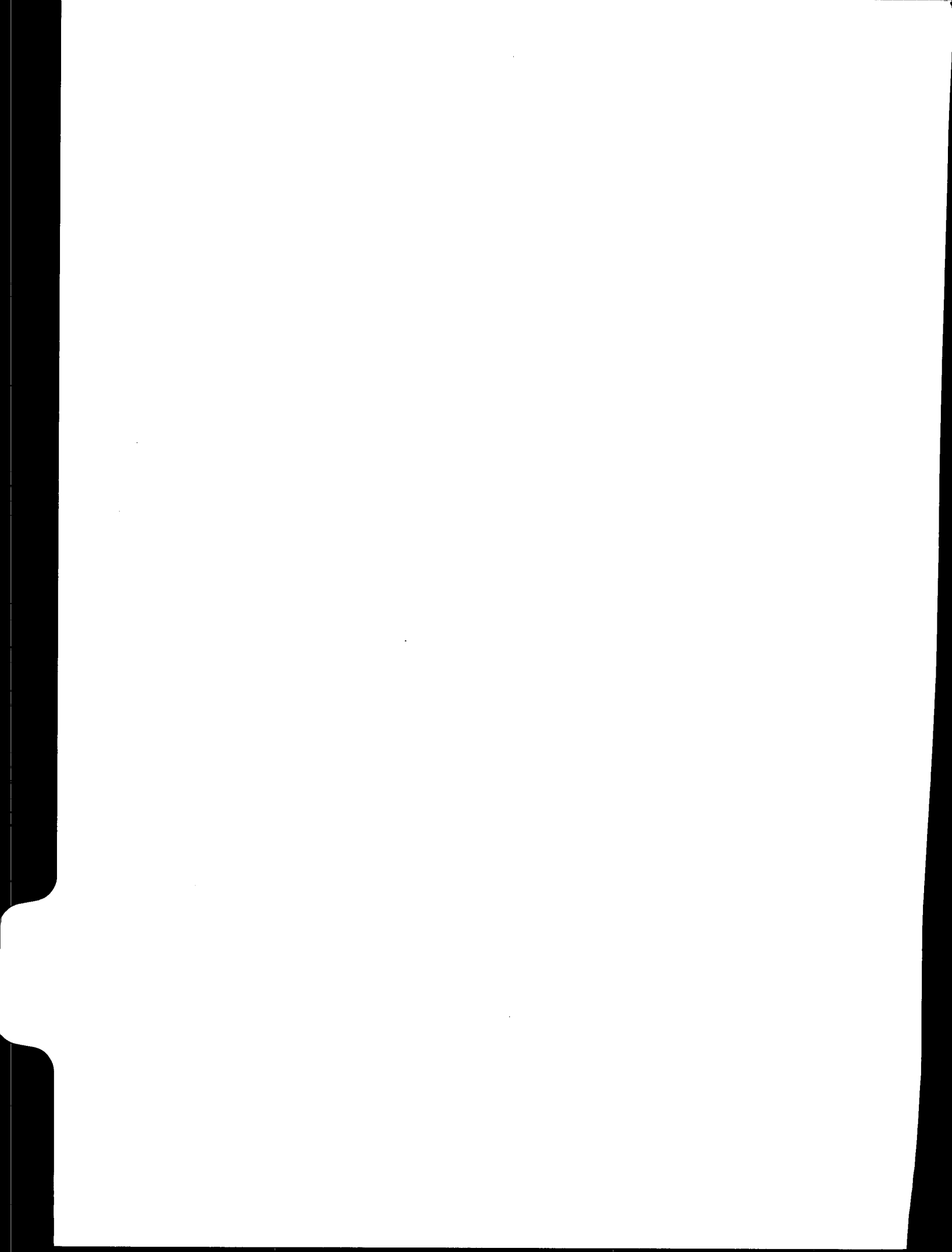
WITNESS: Steve Seelye

56. Please provide a copy of the July 31, 1998; February 14, 1997, and March 28, 1997 Gas Utility Reports referred to in footnote 5 on page 9 of the February 5, 1999 letter to Ms. Helen C. Helton, Executive Director of the Kentucky PSC that is shown in Seelye Exhibit 1. Also provide a copy of the March 19, 1997 Gas Daily referred to in that same footnote.

RESPONSE:

See item 19 of the Commission's data request.

WITNESS: Steve Seelye

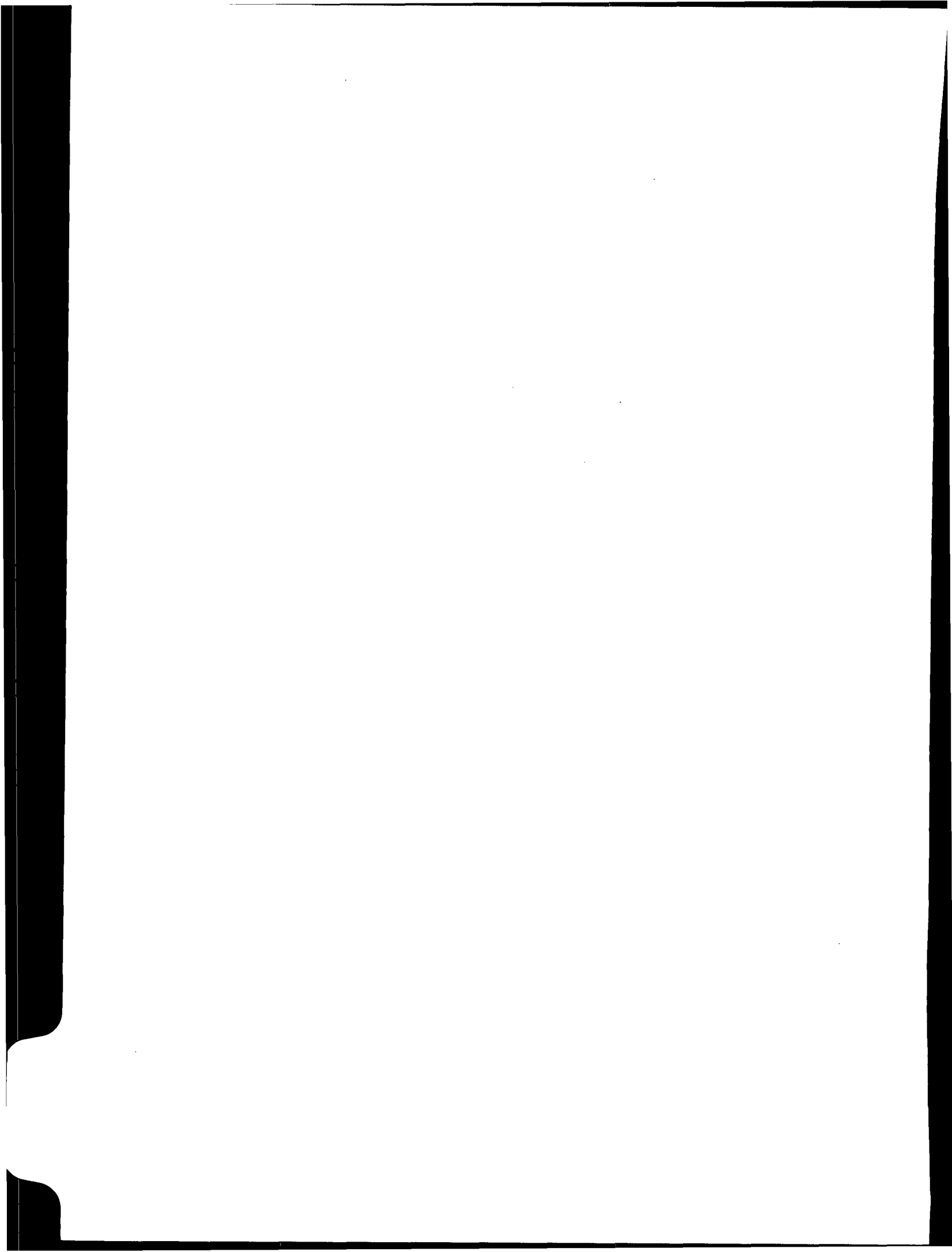


57. Please explain the reasons for setting a 1.50% band around the actual non-gas supply O & M expenses per customer for making comparisons to the Indexed O & M Expenses per customer.

RESPONSE:

The 1.50% band around the actual non-gas supply O& expenses per customer is used in order to provide for a reasonable amount variation in the operation and maintenance expenses.

WITNESS: Steve Seelye



58. Please provide all studies, including the work papers and sensitivity analysis in which other percentage bands have been tested, which have been performed using the 1.50% band around the non-gas supply O & M expenses per customer.

RESPONSE:

No studies were performed.

WITNESS: Steve Seelye

59. Please provide an analysis, using actual data from each year for the five years 1994 through 1998, the manner by which the 1.50% band around the non-gas supply O&M expenses per customer would operate. In the analysis, assume that the non-gas supply O&M expenses per customer that occurred in 1993 represent the base for the "Indexed O&M Expenses." In the analysis, please provide all work papers and data sources.

RESPONSE:

See attached.

WITNESS: Randall Walker

# Indexed Non-Gas Supply O and M Expenses

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average	Index
CPI-U													144.6	100.0
1993	142.8	143.2	143.4	143.9	144.3	144.4	144.6	144.9	145.1	145.7	146.0	146.4	144.6	100.0
1994	146.4	146.8	147.2	147.3	147.6	148.0	148.5	149.1	149.4	149.5	149.9	150.2	148.3	102.6
1995	150.6	151.0	151.3	151.8	152.2	152.5	152.7	153.0	153.2	153.7	153.8	154.1	152.5	105.5
1996	154.7	155.1	155.6	156.2	156.6	156.8	157.2	157.3	157.8	158.3	158.7	159.1	157.0	108.6
1997	159.4	159.8	159.9	160.1	160.1	160.3	160.6	160.9	161.3	161.5	161.7	161.8	160.6	111.1
1998	162.0	162.1	162.1	162.5	162.9	163.0	163.3	163.5	163.6	163.9	164.2	164.4	163.1	112.8

## Non-Gas Supply O&M

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Average	O&M / Cust.
1993	635,534	573,180	660,931	614,055	584,683	931,555	564,895	612,527	653,610	622,069	643,767	690,578	7,767,384	690,578	241.18
1994	680,137	714,830	610,936	597,542	651,101	1,152,692	622,743	624,746	597,992	641,289	612,972	702,137	8,209,117	702,137	248.80
1995	667,113	620,934	732,939	653,170	625,406	744,096	607,042	713,984	659,617	710,930	654,219	602,786	7,992,236	602,786	234.49
1996	698,070	683,281	734,731	558,488	669,613	1,224,406	732,084	651,840	620,546	736,070	639,441	745,123	8,693,693	745,123	247.85
1997	766,557	698,880	724,581	687,237	729,763	777,497	749,943	623,349	789,245	675,299	689,839	815,327	8,727,517	815,327	238.05
1998	613,399	874,439	708,780	580,244	677,193	976,702	734,987	658,252	716,459	708,871	669,535	809,057	8,727,918	809,057	235.42

## Customers

	98.5% of Adjusted Base	CPI-U Adjusted from Base	101.5% of Adjusted Base	Actual O&M per Customer	Recoverable O&M per Customer	Recoverable O&M Expenses
1994	243.75	247.46	251.17	248.80	248.80	8,209,117
1995	250.60	254.41	258.23	234.49	242.55	8,266,680
1996	257.92	261.85	265.78	247.85	252.89	8,870,453
1997	263.95	267.97	271.99	238.05	251.00	9,202,226
1998	268.07	272.15	276.24	235.42	251.75	9,333,211

Base O&M per Customer ('1993) - 241.18



60. With reference to Delta's 2/5/99 transmittal letter to the PSC, pp. 2-3.
- a. Admit or deny that traditional regulation, as that term is used by Delta, continues to be a reasonable method for the setting of rates consistent with regulatory practice in Kentucky.
  - b. If the answer to a) is anything but an unqualified admission, please provide an explanation of why traditional regulation is unreasonable as applied to the determination of Delta's rates, along with all evidence and numerical proof that traditional regulation has become an unreasonable basis for the setting of Delta's rates.

RESPONSE:

Traditional regulation is certainly consistent with regulatory practice in Kentucky and continues to be a reasonable method for setting rates. However, this in no way suggests that an alternative regulatory framework would not (1) satisfy the Commission's obligation of ensuring fair, just and reasonable rates, (2) provide incentives to Delta to control its costs, (3) or provide greater stability in Delta's earnings.

WITNESS: Steve Seelye

61. Is Delta proposing to eliminate traditional regulation in the State of Kentucky as a basis for the setting of Delta" rates? Or is Delta proposing an additional regulatory approach for Commission consideration? Explain.

RESPONSE:

Delta is not proposing to eliminate traditional regulation. Rather, Delta is proposing an alternative to traditional regulation on an experimental basis for three years.

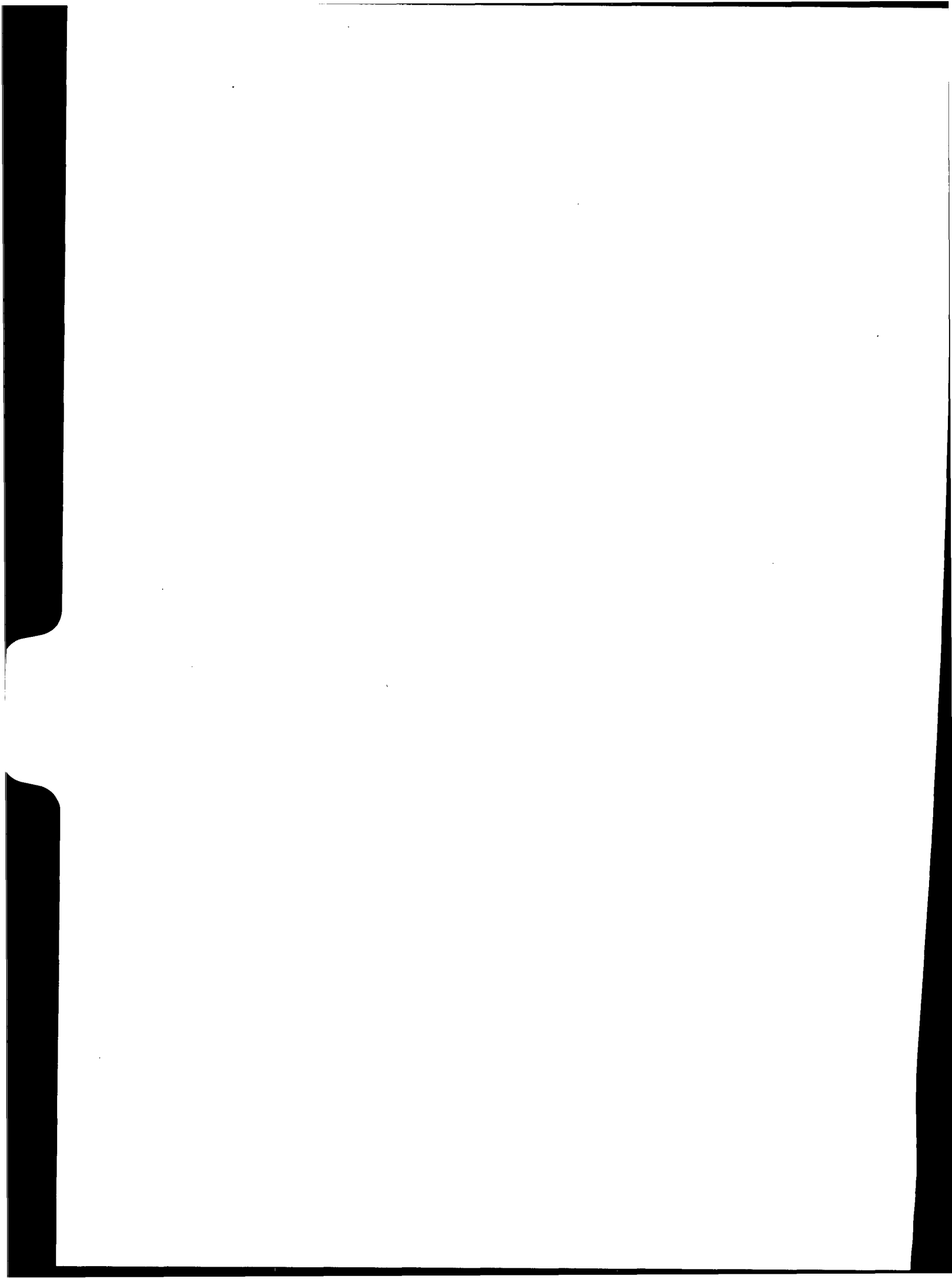
WITNESS: Steve Seelye

62. During the proposed experimental period, would rates based on the proposed Alternative Regulation Plan (ARP) be collected subject to refund?

RESPONSE:

No.

WITNESS: Steve Seelye



63. If the range or zone of reasonableness of a fair rate of return for Delta were to change during the ARP experimental period, how would that cost change affect Delta rates under the ARP? What mechanism would effectuate a change in Delta's rates related to any change in Delta's fair rate of return during the experimental period.?

RESPONSE:

Any change in the rate of return range would apply prospectively in calculating earnings for purposes of applying the mechanism. Any change in the rate of return range would be effectuated by an Order of the Commission and would apply prospectively from the date of the Order.

WITNESS: Steve Seelye

64. If a traditional regulatory process were to be commenced during any period in which Delta's rates were set on the basis of its proposed ARP, when, in the Company's opinion, would its rates be changed consistent with PSC findings, conclusions and Order? At the time of the initiation of the traditional regulatory proceeding? At the time of the Order? Other? Explain.

RESPONSE:

As of the effective date set forth in the Commission's Order or by operation of law at the end of any suspension period.

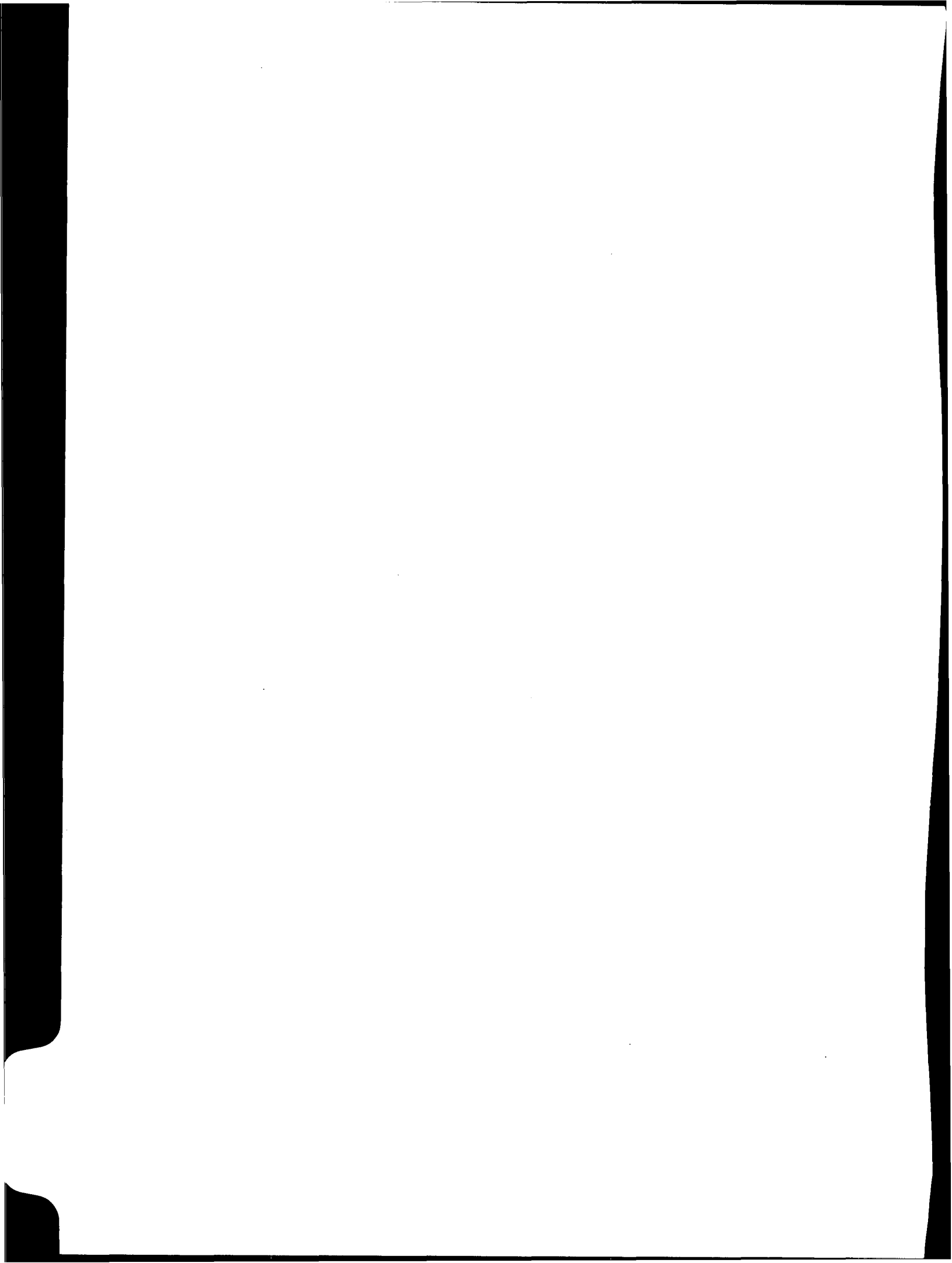
WITNESS: Steve Seelye

65. Would the Actual Adjustment Factor, among other things, be larger if the review period rate of return was lower due to revenues being lower because review period weather was warmer than normal? If the answer is no, please explain what ARP features prevent the effects of weather on revenues from affecting the magnitude of the ARMAC.

RESPONSE:

The AAF would provide recovery of Delta's fixed costs, including a reasonable return on equity and associated income taxes. To the extent that Delta does not recover these fixed costs, for example, because of below normal temperatures, then Delta would be allowed to recover any deficiency subject to the constraints of the mechanism.

WITNESS: Steve Seelye





66. Does the Company claim that any non-gas supply O & M expenses are not controllable by management? If yes, please indicate which non-gas supply expenses the Company believes are not controllable by management, and explain why they are not within management's control.

RESPONSE:

The company does not claim that there are any O & M expenses not controllable to some extent by management. It is management's role to operate as efficiently as possible while providing safe, reliable service.

Some items of O & M, such as salaries and benefits, are more fixed in nature if job requirements and work loads do not vary significantly. Decisions on staffing levels and pay adjustments require management judgment. Pay and benefits must be reasonably competitive to prevent costly turnover. Many O & M expenses require the informed judgment of Delta's management. But, O & M expenses are required to operate at certain levels of service, and thus vary little with increased or decreased demand due to seasonality or temperature. Gas costs are also based more on supply and demand, which can be impacted by weather, for wellhead pricing of gas.

WITNESS: John Hall

67. Please provide the number of customers, by customer class, at the end of each year from 1989 to present.

RESPONSE:

See attached.

WITNESS: John Hall

## Delta Natural Gas Company

Average Number Customers Fiscal Year - 1991-1998

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Small Comm</u>	<u>Total Comm</u>	<u>Industrial</u>	<u>Total</u>
1991	26,073	4,132		4,132	64	30,269
1992	26,700	4,182		4,182	70	30,952
1993	27,474	4,246		4,246	70	31,790
1994	28,221	4,347		4,347	77	32,645
1995	29,054	4,418		4,418	73	33,545
1996	29,969	4,554		4,554	73	34,596
1997	31,104	4,764		4,764	73	35,941
1998	31,953	2,381	2,492	4,873	70	36,896

68. Please provide all information in the Company's possession that indicates the percentage of new residential construction central heating by type of fuel or equipment.

RESPONSE:

See attached.

WITNESS: John Hall

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DELTA NATURAL GAS COMPANY  
NEW CUSTOMER REPORT

YEARLY TOTALS FOR 1998

RESIDENTIAL-NEW CONSTRUCTION

BRANCH	NEW METER SETS	HEATING	WATER HEATING	STOVE	DRYER	FIREPLACE	GRILL	LIGHT	WATER HEATING %
Owingsville	25	25	9	6	2	7	0	0	36%
Berea	108	94	37	14	4	45	1	7	34%
Nicholasville	221	214	134	2	2	70	0	0	61%
Stanton	82	81	50	17	2	4	0	0	61%
London	55	50	13	3	3	8	1	0	24%
Williamsburg	11	11	1	3	0	0	0	0	9%
Barbourville	47	47	5	13	7	0	2	0	11%
Middlesboro	8	5	3	1	1	3	1	0	38%
Corbin	133	124	35	15	1	15	0	0	26%
Manchester	25	23	4	4	0	3	0	0	16%
TOTALS	715	674	291	78	22	155	5	7	41%

69. What is Delta's fiscal year?

RESPONSE:

June 30 year end.

WITNESS: John Hall

**Delta Natural Gas Company, Inc.**  
**Explanation of Major Variances**  
**for the years 1998 and 1997**

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**September 30, 1996**

**Revenues**

The increase in operating revenues is due primarily to the expansion of our customer base. Revenues for industrial and commercial customers were 168% and 24% respectively. Since the first quarter of the fiscal year is during the summer months the weather does not influence usage.

**Expenses**

As revenues increase so will the operating expenses. As more gas is consumed the cost of purchased gas will increase, thus raising operating costs. In addition to operating expenses, interest expense on long-term debt was higher than budgeted. This is due to increased borrowings during this time frame.

**December 31, 1996**

**Revenues**

During the six months ended December 31, 1996, operating revenues were slightly higher than the budgeted amounts. The increase is a result of a higher cost of gas, so the rates billed to Delta's customers reflect the higher cost of gas.

**Expenses**

Gas cost was 25% higher than the budgeted amount. This is due to an increase in the cost of purchasing gas. Federal income taxes were 82% higher than budgeted. This variation is explained by a slightly higher income than budgeted. Also, interest on long-term debt was higher than budgeted because of additional borrowings.

**March, 31, 1997**

**Revenues**

Operating revenue was 19% higher than originally budgeted. This is due in part to an increase in the cost of gas that is recaptured through billings to Delta's customers. The increase of revenues was partially offset by a warmer winter. For the nine months ended March 31, 1997, degree days were only 87% of the thirty year average which Delta's budgets are based upon.

**Expenses**

Purchased gas expense was 43% higher than the budgeted amount. As stated above, the cost of gas was higher than originally budgeted. This increase in the cost of gas was partially offset by purchasing less gas than originally budgeted due to the warmer winter weather.

Federal income taxes were only 69% of the budgeted amount. This is caused by a lower net income than what was budgeted.

### **June 30, 1997**

#### **Revenues**

Operating revenues were 28% higher than budgeted. This is due in part to a higher cost of gas, which is recaptured through the rates Delta bills its customers. Additionally, on-system transportation volumes were higher than budgeted causing a 19% increase over the amount budgeted.

#### **Expenses**

As discussed above the cost to purchase gas was higher in 1997. Although purchased gas expense was 64% higher than budgeted, warmer winter weather curbed consumption.

Operation and maintenance expenses were 2% and 26% higher due to increases in payroll and related benefits.

Depreciation Expense was 2% higher than budgeted due to extra additions of depreciable plant.

Income taxes were 86% higher than budgeted. This is due to increased income.

### **September 30, 1997**

#### **Revenues**

Operating revenues for the three months ended September 30, 1997 were 16% higher than budgeted. This is due to an increase in volume of on-system sales.

#### **Expenses**

Purchased gas expense was 22% higher than budgeted. This is due to an increase in customer usage, especially by Resource customers.

Maintenance expense was 44% higher than budgeted. The variation can be explained by increases in payroll and related benefits.

Taxes other than income were 15% higher than budgeted. This is due to higher property taxes because of increased plant and property valuations and increased payroll taxes because of increased wages.

### **December 31, 1997**

#### **Revenues**

The six months ended December 31, 1997 were warmer than the thirty-year average. Billed degree days were only 84% of the average, which Delta based its budget on. This accounts for the actual results being lower than budgeted. Part of the decrease due to residential usage was offset by an increase in on-system usage.



### Expenses

Because of lower sales, due to warmer weather, gas cost was only 88% of the amount originally budgeted.

Taxes other than income were 15% higher than budgeted. This is due to higher property taxes because of increased plant and property valuations and increased payroll taxes because of increased wages.

## March 31, 1998

### Revenues

With degree days only being 85.2% of the thirty-year average, operating revenues were lower than expected.

### Expenses

Purchased gas expense was only 87.4% of the budgeted amount. This decrease in expense is due to the warmer weather, which caused lower volumes of sales.

Maintenance expense was 19% higher than budgeted. The variation can be explained by increases in payroll and related benefits.

Taxes other than income were 15% higher than budgeted. This is due to higher property taxes because of increased plant and property valuations and increased payroll taxes because of increased wages.

## June 30, 1998

### Revenues

For the fiscal year ended June 30, 1998, Delta Natural Gas Company reported net earnings of \$2,451,539. This amount was 71% higher than the budgeted amount of \$1,431,300. One of the major reasons for the difference is due to a rate change effective in 1998 not reflected in the budgeted amount.

The increase in operating revenue reflects both a rate change, as well as an increase in usage. On system and off system customer usage was 25% and 21% higher than budget, respectively. The increase in usage is due to expanding our current customer base, contrasted with what was originally budgeted. The increase in operating revenue includes \$200,000 of additional revenue caused by a non-recurring change.

### Expenses

Budgeted degree days are based upon the thirty year norm. Due to a warmer winter, actual degree days were only 93% of the norm. This decreased per customer usage, but gas cost increased due to rising gas prices.

The increase on interest on long-term debt during 1998 was due primarily to the issuance of \$25 million of 7.15% Debentures in March, 1998.

Income taxes for 1998 were higher due to the higher net income as discussed above.

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement - Partial  
 July 01, 1996 - September 30, 1996

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
<b>OPERATING REVENUES</b>			
General Service Rate Billed	1,226,915.04CR	1,195,800.00CR	31,115.04 103%
Residential		.00	.00 100%
Small Commercial	.00		
Other Commercial	925,805.12CR	748,000.00CR	177,805.12 124%
Industrial	156,527.77CR	58,500.00CR	98,027.77 268%
Unmetered Gas Light	.00	.00	.00 100%
Total General Service Rate	2,309,247.93CR	2,002,300.00CR	306,947.93 115%
<b>Interruptible Rate Billed</b>			
Commercial	17,561.22CR	9,900.00CR	7,661.22 177%
Industrial	64,695.41CR	52,200.00CR	12,495.41 124%
Total Interruptible Rate	82,256.63CR	62,100.00CR	20,156.63 132%
Total Gas Revenue	2,391,504.56CR	2,064,400.00CR	327,104.56 116%
<b>Miscellaneous Operating Revenue</b>			
Off System Transportation Revenue	24,710.00CR	22,800.00CR	1,910.00 108%
On System Transportation Revenue	97,942.35CR	118,500.00CR	20,557.65CR82.6%
Miscellaneous	624,940.12CR	636,400.00CR	11,459.88CR98.1%
<b>TOTAL OPERATING REVENUE</b>	<b>3,139,097.03CR</b>	<b>2,842,100.00CR</b>	<b>296,997.03 110%</b>
<b>OPERATING EXPENSES</b>			
Purchased Gas	1,012,924.06	691,500.00	321,424.06CR 146%
Recovery of Canada Mountain	180,095.00CR	.00	180,095.00
Purchased Gas, net	832,829.06	691,500.00	141,329.06CR 120%
Operation Expense	2,306	2,151	
Labor	1,224,282.29	1,229,400.00	5,117.71 100%
Transportation	120,770.45	122,100.00	1,329.55 98.9%
General Operations	95,125.19	93,400.00	1,725.19CR 102%
Customer Billing	38,867.14	49,500.00	10,632.86 78.5%
Uncollectible Accounts	36,000.00	36,000.00	.00 100%
Administrative	119,752.10	126,425.00	6,672.90 94.7%

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement - Dollars  
July 01, 1996 - September 30, 1996

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
Outside Services	89,612.52	124,100.00	34,487.48 72.2%
Insurance	122,690.15	109,500.00	13,190.15CR 112%
Employee Benefits	326,814.31	353,550.00	26,735.69 92.4%
General Administration	114,975.37	134,900.00	19,924.63 85.2%
Expenses Transferred	487,313.19CR	444,000.00CR	43,313.19 110%
Other	61,537.98	49,200.00	12,337.98CR 125%
<b>Total Operation Expense</b>	<b>1,863,114.31</b>	<b>1,984,075.00</b>	<b>120,960.69 93.9%</b>
Maintenance Expense	41,067.38	.00	41,067.38CR
Labor	13,674.84	10,800.00	2,874.84CR 127%
Transportation	26,166.04	15,300.00	10,866.04CR 171%
Mains	10,551.79	10,500.00	51.79CR 100%
Meter & Regulators	49,895.21	69,500.00	19,604.79 71.7%
Other	141,355.26	106,100.00	35,255.26CR 133%
<b>Total Maintenance Expense</b>	<b>717,600.00</b>	<b>713,100.00</b>	<b>4,500.00CR 101%</b>
Depreciation Expense	134,932.50	133,200.00	1,732.50CR 101%
Taxes Other Than Income Taxes	111,190.75	110,500.00	690.75CR 101%
Property Taxes	246,123.25	243,700.00	2,423.25CR 101%
Payroll Taxes	539,800.00CR	634,600.00CR	94,800.00CR85.0%
Other	.00	.00	.00 100%
Deferred Federal & State	.00	.00	.00 100%
Investment Tax Credit-Net	.00	.00	.00 100%
<b>Total Income Taxes</b>	<b>539,800.00CR</b>	<b>634,600.00CR</b>	<b>94,800.00CR85.0%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>3,261,221.88</b>	<b>3,103,875.00</b>	<b>157,346.88CR 105%</b>

DELTA NATURAL GAS CO., INC. SUBSIDIARIES  
 Income Statement - Delta  
 July 01, 1996 - September 30, 1996

Current	Current Year	Y-T-D Budget
Y-T-D Amount	Y-T-D Budget	(-) Y-T-D Amount
.....	.....	.....
122,124.85	261,775.00	139,650.15 46.6¢

OPERATING INCOME  
 .....

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement - December 31, 1996

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
<b>OPERATING REVENUES</b>			
General Service Rate Billed	5,772,995.44CR	5,985,300.00CR	212,304.56CR 96.4%
Residential	.00	.00	.00 100%
Small Commercial	3,603,943.42CR	3,224,900.00CR	379,043.42 112%
Other Commercial	413,198.90CR	299,400.00CR	113,798.90 138%
Industrial	.00	.00	.00 100%
Unmetered Gas Light			
Total General Service Rate	9,790,137.76CR	9,509,600.00CR	280,537.76 103%
<b>Interruptible Rate Billed</b>			
Commercial	46,985.09CR	33,800.00CR	13,185.09 139%
Industrial	188,255.52CR	157,500.00CR	30,755.52 120%
Total Interruptible Rate	235,240.61CR	191,300.00CR	43,940.61 123%
Total Gas Revenue	10,025,378.37CR	9,700,900.00CR	324,478.37 103%
<b>Miscellaneous Operating Revenue</b>			
Off System Transportation Revenue	46,085.00CR	45,600.00CR	485.00 101%
On System Transportation Revenue	184,007.48CR	212,700.00CR	28,692.52CR 86.5%
Total Miscellaneous Revenue	1,512,059.16CR	1,328,700.00CR	183,359.16 114%
<b>TOTAL OPERATING REVENUE</b>	<b>11,767,530.01CR</b>	<b>11,287,900.00CR</b>	<b>479,630.01 104%</b>
<b>OPERATING EXPENSES</b>			
Purchased Gas	5,409,580.41	4,327,600.00	1,081,980.41CR 125%
Recovery of Canada Mountain	372,748.00CR	.00	372,748.00
Purchased Gas, net	5,036,832.41	4,327,600.00	709,232.41CR 116%
<b>Operation Expense</b>			
Labor	2,528,177.55	2,477,400.00	50,777.55CR 102%
Transportation	245,438.18	244,200.00	1,238.18CR 101%
General Operations	194,538.38	179,800.00	14,738.38CR 108%
Customer Billing	78,043.65	99,000.00	20,956.35 78.8%
Uncollectible Accounts	72,000.00	72,000.00	.00 100%
Administrative	256,817.54	251,550.00	5,267.54CR 102%

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement - Dollars  
July 01, 1996 - December 31, 1996

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
Outside Services	219,035.92	206,900.00	12,135.92CR 106%
Insurance	213,672.79	219,000.00	5,327.21 97.5%
Employee Benefits	648,758.56	713,100.00	64,341.44 90.9%
General Administration	261,934.37	296,900.00	34,965.63 88.2%
Expenses Transferred	972,170.24CR	888,000.00CR	84,170.24 109%
Other	130,615.32	83,400.00	47,215.32CR 157%
Total Operation Expense	3,876,862.02	3,955,250.00	78,387.98 98.0%
Maintenance Expense	67,730.67	.00	67,730.67CR
Labor	22,399.98	21,600.00	799.98CR 104%
Transportation	42,478.27	30,600.00	11,878.27CR 139%
Mains	15,771.80	21,000.00	5,228.20 75.1%
Meter & Regulators	99,860.64	148,000.00	48,139.36 67.4%
Other	248,241.36	221,200.00	27,041.36CR 112%
Total Maintenance Expense	1,407,453.49	1,426,200.00	18,746.51 98.6%
Depreciation Expense	269,712.37	271,200.00	1,487.63 99.4%
Taxes Other Than Income Taxes	222,938.12	221,100.00	1,838.12CR 101%
Property Taxes			
Payroll Taxes			
Total Other Taxes	492,650.49	492,300.00	350.49CR 100%
Income Taxes	639,280.00CR	350,500.00CR	288,780.00 182%
Current Federal	159,820.00CR	.00	159,820.00
Current State	460,200.00	.00	460,200.00CR
Deferred Federal & State	35,500.00CR	.00	35,500.00
Investment Tax Credit-Net	374,400.00CR	350,500.00CR	23,900.00 107%
Total Income Taxes	10,687,639.77	10,072,050.00	615,589.77CR 106%
TOTAL OPERATING EXPENSES			

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement - Delta  
 July 01, 1996 - December 31, 1996

Current	Current Year	Y-T-D Budget
Y-T-D Amount	Y-T-D Budget	(-) Y-T-D Amount
.....	.....	.....
1,079,890.24CR	1,215,850.00CR	135,959.76CR88.8¢

OPERATING INCOME  
 .....

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement -  
July 01, 1996 - March 31, 1997

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
<b>OPERATING REVENUES</b>			
General Service Rate Billed			
Residential	15,380,602.86CR	13,601,700.00CR	1,778,902.86 113%
Small Commercial	.00	.00	.00 100%
Other Commercial	9,292,404.22CR	7,319,600.00CR	1,972,804.22 127%
Industrial	1,049,397.39CR	637,100.00CR	412,297.39 165%
Unmetered Gas Light	.00	.00	.00 100%
Total General Service Rate	25,722,404.47CR	21,558,400.00CR	4,164,004.47 119%
Interruptible Rate Billed			
Commercial	108,641.20CR	72,000.00CR	36,641.20 151%
Industrial	391,003.44CR	348,200.00CR	42,803.44 112%
Total Interruptible Rate	499,644.64CR	420,200.00CR	79,444.64 119%
Total Gas Revenue	26,222,049.11CR	21,978,600.00CR	4,243,449.11 119%
Miscellaneous Operating Revenue	61,706.00CR	68,400.00CR	6,694.00CR 90.2%
Off System Transportation Revenue	279,722.62CR	306,900.00CR	27,177.38CR 91.1%
On System Transportation Revenue	2,434,989.02CR	2,075,000.00CR	359,989.02 117%
<b>TOTAL OPERATING REVENUE</b>	<b>28,998,466.75CR</b>	<b>24,428,900.00CR</b>	<b>4,569,566.75 119%</b>
<b>OPERATING EXPENSES</b>			
Purchased Gas	15,565,315.74	10,422,600.00	5,142,715.74CR 149%
Recovery of Canada Mountain	635,692.00CR	.00	635,692.00
Purchased Gas, net	14,929,623.74	10,422,600.00	4,507,023.74CR 143%
Operation Expense			
Labor	3,871,666.16	3,706,800.00	164,866.16CR 104%
Transportation	387,230.85	366,300.00	20,930.85CR 106%
General Operations	282,606.76	269,200.00	13,406.76CR 105%
Customer Billing	122,375.14	148,500.00	26,124.86 82.4%
Uncollectible Accounts	108,000.00	108,000.00	.00 100%
Administrative	376,738.46	376,975.00	236.54 100%



DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement - Dollars  
 July 01, 1996 - March 31, 1997

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
Outside Services	327,337.19	323,200.00	4,137.19CR 101%
Insurance	337,882.57	330,500.00	7,382.57CR 102%
Employee Benefits	974,077.71	1,066,650.00	92,572.29 91.3%
General Administration	405,215.86	422,300.00	17,084.14 95.9%
Expenses Transferred	1,427,343.41CR	1,332,000.00CR	95,343.41 107%
Other	186,781.86	102,600.00	84,181.86CR 182%
Total Operation Expense	5,952,569.15	5,889,025.00	63,544.15CR 101%
Maintenance Expense			
Labor	89,607.29	.00	89,607.29CR
Transportation	29,708.28	32,400.00	2,691.72 91.6%
Mains	52,460.81	45,900.00	6,560.81CR 114%
Meter & Regulators	26,983.01	31,500.00	4,516.99 85.6%
Other	163,932.69	217,500.00	53,567.31 75.3%
Total Maintenance Expense	362,692.08	327,300.00	35,392.08CR 111%
Depreciation Expense	2,149,253.49	2,139,300.00	9,953.49CR 100%
Taxes Other Than Income Taxes			
Property Taxes	405,693.17	434,100.00	28,406.83 93.4%
Payroll Taxes	354,568.17	331,600.00	22,968.17CR 107%
Total Other Taxes	760,261.34	765,700.00	5,438.66 99.2%
Income Taxes			
Current Federal	518,920.00	751,900.00	232,980.00 69.0%
Current State	159,820.00CR	.00	159,820.00
Deferred Federal & State	460,200.00	.00	460,200.00CR
Investment Tax Credit-Net	35,500.00CR	.00	35,500.00
Total Income Taxes	783,800.00	751,900.00	31,900.00CR 104%
TOTAL OPERATING EXPENSES	24,938,199.80	20,295,835.00	4,642,374.80CR 123%

DELTA NATURAL GAS CO., INC. SUBSIDIARIES  
 Income Statement - Delta  
 July 01, 1996 - March 31, 1997

Current	Current Year	Y-T-D Budget
Y-T-D Amount	Y-T-D Budget	(-) Y-T-D Amount
.....	.....	.....
4,060,266.95CR	4,133,075.00CR	72,808.05CR98.24

OPERATING INCOME  
 .....

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement -

July 01, 1996 - June 30, 1997

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
<b>OPERATING REVENUES</b>			
General Service Rate Billed	19,693,293.44CR	16,005,900.00CR	3,687,393.44 123%
Residential	.00	.00	.00 100%
Small Commercial	11,830,889.88CR	8,665,600.00CR	3,165,289.88 137%
Other Commercial	1,354,821.66CR	794,200.00CR	560,621.66 171%
Industrial	.00	.00	.00 100%
Unmetered Gas Light			
Total General Service Rate	32,879,004.98CR	25,465,700.00CR	7,413,304.98 129%
Interruptible Rate Billed			
Commercial	146,495.84CR	88,800.00CR	57,695.84 165%
Industrial	535,509.71CR	414,700.00CR	120,809.71 129%
Total Interruptible Rate	682,005.55CR	503,500.00CR	178,505.55 135%
Total Gas Revenue	33,561,010.53CR	25,969,200.00CR	7,591,810.53 129%
Miscellaneous Operating Revenue	108,319.00CR	91,200.00CR	17,119.00 119%
Off System Transportation Revenue	382,158.30CR	401,100.00CR	18,941.70CR 95.2%
On System Transportation Revenue	3,213,950.76CR	2,711,600.00CR	502,350.76 119%
TOTAL OPERATING REVENUE	37,265,438.59CR	29,173,100.00CR	8,092,338.59 128%
<b>OPERATING EXPENSES</b>			
Purchased Gas	19,878,907.99	12,111,700.00	7,767,207.99CR 164%
Recovery of Canada Mountain	902,582.00CR	.00	902,582.00
Purchased Gas, net	18,976,325.99	12,111,700.00	6,864,625.99CR 157%
Operation Expense			
Labor	5,173,377.80	4,936,000.00	237,377.80CR 105%
Transportation	566,746.32	488,400.00	78,346.32CR 116%
General Operations	388,467.13	347,100.00	41,367.13CR 112%
Customer Billing	179,485.47	198,000.00	18,514.53 90.6%
Uncollectible Accounts	220,000.00	144,000.00	76,000.00CR 153%
Administrative	508,814.29	502,050.00	6,764.29CR 101%

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement - Dollars  
 July 01, 1996 - June 30, 1996

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
Outside Services	394,035.20	407,300.00	13,264.80 96.7%
Insurance	442,477.80	446,000.00	3,522.20 99.2%
Employee Benefits	1,302,784.64	1,420,200.00	117,415.36 91.7%
General Administration	527,748.38	561,300.00	33,551.62 94.0%
Expenses Transferred	1,992,502.41CR	1,776,000.00CR	206,502.41 112%
Other	244,557.30	121,800.00	122,757.30CR 201%
<b>Total Operation Expense</b>	<b>7,965,991.92</b>	<b>7,796,150.00</b>	<b>169,841.92CR 102%</b>
Maintenance Expense			
Labor	134,569.16	.00	134,569.16CR
Transportation	49,512.56	43,200.00	6,312.66CR 115%
Mains	72,756.71	61,200.00	11,556.71CR 119%
Meter & Regulators	42,849.81	42,000.00	849.81CR 102%
Other	244,553.84	287,000.00	42,446.16 85.2%
<b>Total Maintenance Expense</b>	<b>544,242.18</b>	<b>433,400.00</b>	<b>110,842.18CR 126%</b>
Depreciation Expense	2,896,052.24	2,852,400.00	43,652.24CR 102%
Taxes Other Than Income Taxes			
Property Taxes	576,468.44	592,200.00	15,731.56 97.3%
Payroll Taxes	472,613.83	442,200.00	30,413.83CR 107%
<b>Total Other Taxes</b>	<b>1,049,082.27</b>	<b>1,034,400.00</b>	<b>14,682.27CR 101%</b>
Income Taxes			
Current Federal	376,200.00	414,000.00	37,800.00 90.8%
Current State	61,100.00CR	.00	61,100.00
Deferred Federal & State	527,700.00	.00	527,700.00CR
Investment Tax Credit-Net	71,000.00CR	.00	71,000.00
<b>Total Income Taxes</b>	<b>771,800.00</b>	<b>414,000.00</b>	<b>357,800.00CR 186%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>32,203,494.60</b>	<b>24,642,050.00</b>	<b>7,561,444.60CR 131%</b>

DELTA NATURAL GAS CO., INC. SUBSIDIARIES  
 Income Statement - Delta  
 July 01, 1996 - June 30, 1997

Current	Current Year	Y-T-D Budget
Y-T-D Amount	Y-T-D Budget	(-) Y-T-D Amount
.....	.....	.....
5,061,943.99CR	4,531,050.00CR	530,893.99 112*

OPERATING INCOME  
 .....

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement -  
July 01, 1997 - September 30, 1997

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
<b>OPERATING REVENUES</b>			
General Service Rate Billed			
Residential	1,387,245.10CR	1,274,700.00CR	112,545.10 109%
Small Commercial	.00	.00	.00 100%
Other Commercial	1,056,667.35CR	1,016,700.00CR	39,967.35 104%
Industrial	195,255.55CR	78,900.00CR	116,355.55 247%
Unmetered Gas Light	.00	.00	.00 100%
Total General Service Rate	2,639,168.00CR	2,370,300.00CR	268,868.00 111%
<b>Interruptible Rate Billed</b>			
Commercial	.00	13,800.00CR	13,800.00CR
Industrial	47,740.57CR	70,500.00CR	22,759.43CR67.7%
Total Interruptible Rate	47,740.57CR	84,300.00CR	36,559.43CR56.6%
<b>Total Gas Revenue</b>			
	2,686,908.57CR	2,454,600.00CR	232,308.57 109%
<b>Miscellaneous Operating Revenue</b>			
Off System Transportation Revenue	22,964.00CR	24,700.00CR	1,736.00CR92.9%
On System Transportation Revenue	117,768.52CR	86,100.00CR	31,668.52 137%
Total Miscellaneous Operating Revenue	935,945.34CR	678,400.00CR	257,545.34 138%
<b>TOTAL OPERATING REVENUES</b>	<b>3,763,586.43CR</b>	<b>3,243,800.00CR</b>	<b>519,786.43 116%</b>
<b>OPERATING EXPENSES</b>			
Purchased Gas	1,254,736.68	1,094,000.00	160,736.68CR 115%
Recovery of Canada Mountain	369,752.00CR	365,700.00CR	4,052.00 101%
Purchased Gas, net	884,984.68	728,300.00	156,684.68CR 122%
<b>Operation Expense</b>			
Labor	1,290,670.38	1,390,800.00	100,129.62 92.8%
Transportation	124,097.05	125,700.00	1,602.95 98.7%
General Operations	87,107.78	104,400.00	17,292.22 83.4%
Customer Billing	47,508.98	49,500.00	1,991.02 95.9%
Uncollectible Accounts	96,000.00	45,900.00	50,100.00CR 209%
Administrative	125,991.00	131,000.00	5,009.00 96.1%

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement -  
July 01, 1997 - September, 1997

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
Outside Services	61,527.52	129,200.00	67,672.48 47.6%
Insurance	109,336.98	102,000.00	7,336.98CR 107%
Employee Benefits	419,934.96	357,400.00	62,534.96CR 117%
General Administration	125,110.21	136,900.00	11,789.79 91.3%
Expenses Transferred	540,069.96CR	479,100.00CR	60,969.96 113%
Other	34,866.74	95,900.00	61,033.26 36.3%
<b>Total Operation Expense</b>	<b>1,982,081.64</b>	<b>2,189,600.00</b>	<b>207,518.36 90.5%</b>
Maintenance Expense			
Labor	42,774.31	.00	42,774.31CR
Transportation	14,900.44	10,800.00	4,100.44CR 138%
Mains	30,378.37	16,500.00	13,878.37CR 184%
Meter & Regulators	9,602.09	10,500.00	897.91 91.4%
Other	82,532.53	87,700.00	5,167.47 94.1%
<b>Total Maintenance Expense</b>	<b>180,187.74</b>	<b>125,500.00</b>	<b>54,687.74CR 144%</b>
Depreciation Expense	816,689.91	812,700.00	3,989.91CR 100%
Taxes Other Than Income Taxes			
Property Taxes	203,500.00	156,000.00	47,500.00CR 130%
Payroll Taxes	126,954.27	132,600.00	5,645.73 95.7%
<b>Total Other Taxes</b>	<b>330,454.27</b>	<b>288,600.00</b>	<b>41,854.27CR 115%</b>
Income Taxes			
Current Federal	536,000.00CR	707,900.00CR	171,900.00CR75.7%
Current State	.00	.00	.00 100%
Deferred Federal & State	.00	.00	.00 100%
Investment Tax Credit-Net	.00	.00	.00 100%
<b>Total Income Taxes</b>	<b>536,000.00CR</b>	<b>707,900.00CR</b>	<b>171,900.00CR75.7%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>3,658,398.24</b>	<b>3,436,800.00</b>	<b>221,598.24CR 106%</b>

DELTA NATURAL GAS CO., INC. SUBSIDIARIES  
 Income Statement - Delta

July 01, 1997 - September 30, 1997

Current	Current Year	Y-T-D Budget
Y-T-D Amount	Y-T-D Budget	(-) Y-T-D Amount
.....	.....	.....
105,188.19CR	193,000.00	298,188.19 -554

OPERATING INCOME  
 .....



DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement -  
July 01, 1997 - December 31, 1997

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
<b>OPERATING REVENUES</b>			
General Service Rate Billed	6,605,644.32CR	6,973,800.00CR	368,155.68CR94.7%
Residential	.00	.00	.00 100%
Small Commercial	4,122,452.17CR	4,752,200.00CR	629,747.83CR86.7%
Other Commercial	524,964.49CR	407,100.00CR	117,864.49 129%
Industrial	.00	.00	.00 100%
Unmetered Gas Light			
Total General Service Rate	11,253,060.98CR	12,133,100.00CR	880,039.02CR92.7%
Interruptible Rate Billed	.00	48,000.00CR	48,000.00CR
Commercial	162,579.24CR	217,600.00CR	55,020.76CR74.7%
Industrial			
Total Interruptible Rate	162,579.24CR	265,600.00CR	103,020.76CR61.2%
Total Gas Revenue	11,415,640.22CR	12,398,700.00CR	983,059.78CR92.0%
Miscellaneous Operating Revenue	48,142.00CR	49,500.00CR	1,358.00CR97.2%
Off System Transportation Revenue	240,040.80CR	162,200.00CR	77,840.80 148%
On System Transportation Revenue	1,983,530.37CR	1,468,400.00CR	515,130.37 135%
<b>TOTAL OPERATING REVENUE</b>	<b>13,687,353.39CR</b>	<b>14,078,800.00CR</b>	<b>391,446.61CR97.2%</b>
<b>OPERATING EXPENSES</b>			
Purchased Gas	6,370,237.50	7,080,900.00	710,662.50 89.9%
Recovery of Canada Mountain	794,297.00CR	783,600.00CR	10,697.00 101%
Purchased Gas, net	5,575,940.50	6,297,300.00	721,359.50 88.5%
Operation Expense			
Labor	2,619,212.39	2,781,600.00	162,387.61 94.1%
Transportation	246,527.78	251,400.00	4,872.22 98.0%
General Operations	169,247.39	196,300.00	27,052.61 86.2%
Customer Billing	87,406.85	99,000.00	11,593.15 88.2%
Uncollectible Accounts	162,000.00	91,800.00	70,200.00CR 176%
Administrative	258,515.65	266,800.00	8,284.35 96.8%

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement -  
July 01, 1997 - December 31, 1997

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
Outside Services	134,586.97	232,800.00	98,213.03 57.8%
Insurance	218,298.48	204,000.00	14,298.48CR 107%
Employee Benefits	870,005.49	721,900.00	148,105.49CR 121%
General Administration	248,004.20	303,600.00	55,595.80 81.6%
Expenses Transferred	1,073,524.35CR	958,200.00CR	115,324.35 112%
Other	108,093.15	146,100.00	38,006.85 73.9%
<b>Total Operation Expense</b>	<b>4,048,374.00</b>	<b>4,337,100.00</b>	<b>288,726.00 93.3%</b>
Maintenance Expense			
Labor	57,898.26	.00	57,898.26CR
Transportation	19,430.82	21,600.00	2,169.18 89.9%
Mains	36,931.08	33,000.00	3,931.08CR 112%
Meter & Regulators	25,581.83	21,000.00	4,581.83CR 122%
Other	154,519.13	160,900.00	6,380.87 96.0%
<b>Total Maintenance Expense</b>	<b>294,361.12</b>	<b>236,500.00</b>	<b>57,861.12CR 124%</b>
Depreciation Expense	1,646,789.15	1,625,400.00	21,389.15CR 101%
Taxes Other Than Income Taxes			
Property Taxes	349,763.71	316,800.00	32,963.71CR 110%
Payroll Taxes	245,631.84	265,200.00	19,568.16 92.6%
<b>Total Other Taxes</b>	<b>595,395.55</b>	<b>582,000.00</b>	<b>13,395.55CR 102%</b>
Income Taxes			
Current Federal	523,565.00CR	431,700.00CR	91,865.00 121%
Current State	130,460.00CR	.00	130,460.00
Deferred Federal & State	449,200.00	.00	449,200.00CR
Investment Tax Credit-Net	34,900.00CR	.00	34,900.00
<b>Total Income Taxes</b>	<b>239,725.00CR</b>	<b>431,700.00CR</b>	<b>191,975.00CR55.5%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>11,921,135.32</b>	<b>12,646,600.00</b>	<b>725,464.68 94.2%</b>

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement - Delta

July 01, 1997 - December 31, 1997

Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
..... 1,766,218.07CR	..... 1,432,200.00CR	..... 334,018.07 123*
.....	.....	.....
OPERATING INCOME		
.....		

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement -

July 01, 1997 - March 31, 1998

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
<b>OPERATING REVENUES</b>			
General Service Rate Billed	16,026,239.73CR	16,770,400.00CR	744,160.27CR95.5%
Residential	.00	.00	.00 100%
Small Commercial	9,557,679.77CR	11,003,000.00CR	1,445,320.23CR86.8%
Other Commercial	1,031,058.68CR	868,500.00CR	162,558.68 119%
Industrial	.00	.00	.00 100%
Unmetered Gas Light			
Total General Service Rate	26,614,978.18CR	28,641,900.00CR	2,026,921.82CR92.9%
<b>Interruptible Rate Billed</b>			
Commercial	3,659.37CR	103,200.00CR	99,540.63CR 3.5%
Industrial	287,020.56CR	488,200.00CR	201,179.44CR58.7%
Total Interruptible Rate	290,679.93CR	591,400.00CR	300,720.07CR49.1%
Total Gas Revenue	26,905,658.11CR	29,233,300.00CR	2,327,641.89CR92.0%
<b>Miscellaneous Operating Revenue</b>			
Off System Transportation Revenue	80,400.00CR	74,200.00CR	6,200.00 108%
On System Transportation Revenue	355,106.66CR	246,200.00CR	108,906.66 144%
	3,026,771.93CR	2,333,900.00CR	692,871.93 130%
TOTAL OPERATING REVENUE	30,367,836.70CR	31,887,600.00CR	1,519,663.30CR95.2%
<b>OPERATING EXPENSES</b>			
Purchased Gas	15,569,586.24	17,577,700.00	2,008,113.76 88.5%
Recovery of Canada Mountain	1,289,256.00CR	1,253,700.00CR	35,556.00 103%
Purchased Gas, net	14,280,330.24	16,324,000.00	2,043,669.76 87.4%
<b>Operation Expense</b>			
Labor	3,950,004.64	4,172,100.00	222,095.36 94.6%
Transportation	389,983.38	377,100.00	12,883.38CR 103%
General Operations	237,411.78	286,800.00	49,388.22 82.7%
Customer Billing	138,821.09	148,500.00	9,678.91 93.4%
Uncollectible Accounts	229,000.00	137,700.00	91,300.00CR 166%
Administrative	398,379.81	399,200.00	820.19 100%

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement -  
July 01, 1997 - March 31, 1998

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
Outside Services	205,453.25	322,100.00	116,646.75 63.7%
Insurance	313,960.78	308,200.00	5,760.78CR 102%
Employee Benefits	1,230,665.34	1,079,300.00	151,365.34CR 114%
General Administration	408,126.45	435,200.00	27,073.55 93.7%
Expenses Transferred	1,540,379.77CR	1,437,100.00CR	103,279.77 107%
Other	142,336.96	197,700.00	55,363.04 71.9%
<b>Total Operation Expense</b>	<b>6,103,763.71</b>	<b>6,426,800.00</b>	<b>323,036.29 94.9%</b>
Maintenance Expense	87,928.73	.00	87,928.73CR
Labor	29,034.25	32,400.00	3,365.75 89.6%
Transportation	46,116.15	49,500.00	3,383.85 93.1%
Mains	57,745.56	31,500.00	26,245.56CR 183%
Meter & Regulators	214,764.00	253,200.00	38,436.00 84.8%
Other	435,588.69	366,600.00	68,988.69CR 119%
<b>Total Maintenance Expense</b>	<b>2,493,638.85</b>	<b>2,437,800.00</b>	<b>55,838.85CR 102%</b>
Depreciation Expense	530,953.71	497,400.00	33,553.71CR 107%
Taxes Other Than Income Taxes	373,893.39	397,800.00	23,906.61 93.9%
Property Taxes	904,847.10	895,200.00	9,647.10CR 101%
Payroll Taxes	791,160.00	770,500.00	20,660.00CR 103%
Total Other Taxes	130,460.00CR	.00	130,460.00
Income Taxes	441,100.00	.00	441,100.00CR
Current Federal	34,900.00CR	.00	34,900.00
Current State	1,066,900.00	770,500.00	296,400.00CR 138%
Deferred Federal & State	25,285,068.59	27,220,900.00	1,935,831.41 92.8%
Investment Tax Credit-Net			
<b>TOTAL OPERATING EXPENSES</b>			

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement - Delta

July 01, 1997 - March 31, 1998

Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
..... 5,082,868.11CR	..... 4,666,700.00CR	..... 416,168.11 109¢

OPERATING INCOME  
.....

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Income Statement

July 01, 1997 - June 30, 1998

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
<b>OPERATING REVENUES</b>			
General Service Rate Billed			
Residential	19,968,834.00CR	19,615,600.00CR	353,234.00 102%
Small Commercial	.00	.00	.00 100%
Other Commercial	11,879,524.94CR	12,944,000.00CR	1,064,475.06CR91.7%
Industrial	1,242,237.27CR	1,082,100.00CR	160,137.27 115%
Unmetered Gas Light	.00	.00	.00 100%
Total General Service Rate	33,090,596.21CR	33,641,700.00CR	551,103.79CR98.3%
Interruptible Rate Billed			
Commercial	10,381.97CR	127,000.00CR	116,618.03CR 8.1%
Industrial	333,589.92CR	579,600.00CR	246,010.08CR57.5%
Total Interruptible Rate	343,971.89CR	706,600.00CR	362,628.11CR48.6%
Total Gas Revenue	33,434,568.10CR	34,348,300.00CR	913,731.90CR97.3%
Miscellaneous Operating Revenue	128,232.00CR	99,000.00CR	29,232.00 130%
Off System Transportation Revenue	482,826.72CR	321,000.00CR	161,826.72 150%
On System Transportation Revenue	3,876,657.26CR	3,015,000.00CR	861,657.26 129%
<b>TOTAL OPERATING REVENUE</b>	<b>37,922,284.08CR</b>	<b>37,783,300.00CR</b>	<b>138,984.08 100%</b>
<b>OPERATING EXPENSES</b>			
Purchased Gas	18,935,765.79	20,382,500.00	1,446,734.21 92.9%
Recovery of Canada Mountain	1,813,413.00CR	1,776,200.00CR	37,213.00 102%
Purchased Gas, net	17,122,352.79	18,606,300.00	1,483,947.21 92.0%
Operation Expense			
Labor	5,257,194.25	5,562,300.00	305,105.75 94.5%
Transportation	584,812.58	503,000.00	81,812.58CR 116%
General Operations	312,498.47	373,600.00	61,101.53 83.6%
Customer Billing	195,188.77	198,000.00	2,811.23 98.5%
Uncollectible Accounts	369,870.00	183,600.00	186,270.00CR 201%
Administrative	594,916.73	539,500.00	55,416.73CR 110%

Income Statement  
July 01, 1997 - June 30, 1998

	Current Y-T-D Amount	Current Year Y-T-D Budget	Y-T-D Budget (-) Y-T-D Amount
Outside Services	311,340.59	410,500.00	99,159.41 75.8%
Insurance	426,689.28	416,800.00	9,889.28CR 102%
Employee Benefits	1,478,276.03	1,436,800.00	41,476.03CR 103%
General Administration	505,143.28	580,800.00	75,656.72 86.9%
Expenses Transferred	2,041,501.52CR	1,915,900.00CR	125,601.52 107%
Other	193,651.13	255,400.00	61,748.87 75.8%
<b>Total Operation Expense</b>	<b>8,188,079.59</b>	<b>8,544,400.00</b>	<b>356,320.41 95.8%</b>
Maintenance Expense	126,148.03	.00	126,148.03CR
Labor	45,767.45	43,200.00	2,567.45CR 106%
Transportation	62,003.18	66,000.00	3,996.82 93.9%
Meters & Regulators	64,679.44	42,000.00	22,679.44CR 154%
Other	286,812.94	326,500.00	39,687.06 87.8%
<b>Total Maintenance Expense</b>	<b>585,411.04</b>	<b>477,700.00</b>	<b>107,711.04CR 123%</b>
Depreciation Expense	3,355,241.93	3,250,200.00	105,041.93CR 103%
Taxes Other Than Income Taxes	711,131.38	673,200.00	37,931.38CR 106%
Property Taxes	490,522.71	530,400.00	39,877.29 92.4%
<b>Total Other Taxes</b>	<b>1,201,654.09</b>	<b>1,203,600.00</b>	<b>1,945.91 100%</b>
Income Taxes	945,400.00	463,600.00	481,800.00CR 204%
Current Federal	217,300.00	.00	217,300.00CR
Current State	41,700.00	.00	41,700.00CR
Deferred Federal & State	71,100.00CR	.00	71,100.00
Investment Tax Credit-Net	1,201,654.09	463,600.00	669,700.00CR 244%
<b>Total Income Taxes</b>	<b>1,133,300.00</b>	<b>463,600.00</b>	<b>669,700.00CR 244%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>31,586,039.44</b>	<b>32,545,800.00</b>	<b>959,760.56 97.0%</b>

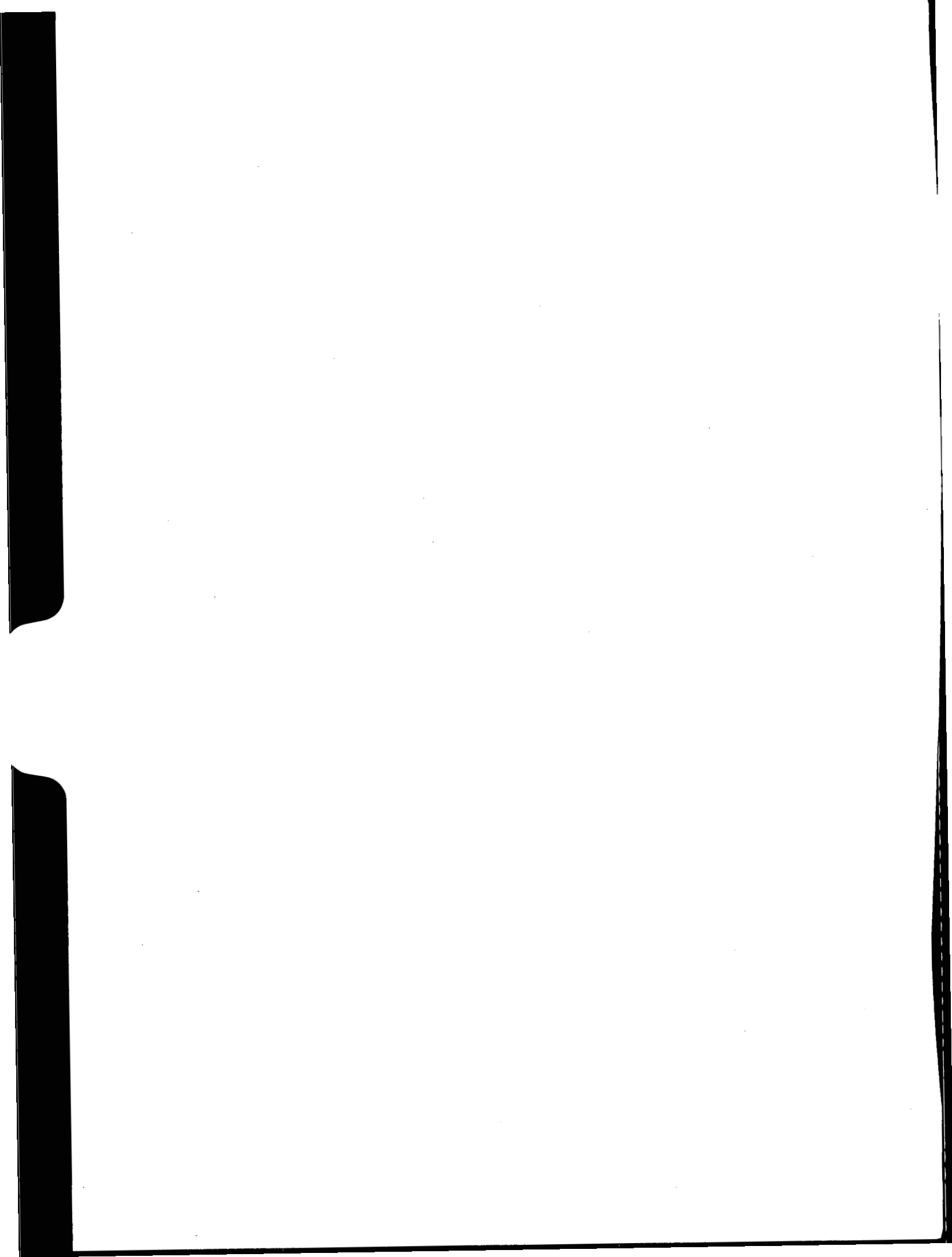


DELTA NATURAL GAS CO., INC. SUBSIDIARIES

Income Statement - Delta

July 01, 1997 - June 30, 1998

Current	Current Year	Y-T-D Budget
Y-T-D Amount	Y-T-D Budget	(-) Y-T-D Amount
6,336,244.64CR	5,237,500.00CR	1,098,744.64
OPERATING INCOME		121#



71. With reference to the cover letter to Ms. Helen C. Helton accompanying Delta's Application at page 3, the first bullet item: If the ARP mechanism ensures that Delta's rate of return falls within the range authorized by the Commission, as claimed, please explain with specificity exactly what events would trigger the filing of a traditional regulatory proceeding initiated by the Company. Please be exhaustive in identifying the requested events.

RESPONSE:

If the alternative regulation plan is approved as filed, we would not anticipate filing a traditional rate case. Events that could precipitate a filing would include: (1) possible litigation, (2) receiving an order in the current proceeding that does not provide a reasonable assurance of earning a fair, just and reasonable rate of return, and (3) a delay in the current proceeding that could result in a further deterioration of Delta's financial condition.

WITNESS: John Hall

72. Referring to the Application cover letter to Ms. Helen C. Helton, page 4, and the second fully completed bullet item alleging cost savings to the utility:
- c. Define and explain in detail exactly what Delta's opinion is regarding what a "likely comprehensive 3-year review" is.
  - d. Would a fair rate of return applicable to Delta be at issue in the 3-year review?
  - e. If the answer to b) is yes, would a change in the Commission-determined fair rate of return be effective only prospectively? If yes, why?
  - f. In a 3-year review, could the Commission find that a fair rate of return for Delta had gone down for the last 2 years of the review period? If not, why not? If yes, are the review period revenues collected subject to refund?
  - g. What Commission rules and procedures would apply to a 3-year review? Who bears the burden of proof? What time schedules apply? What notice requirements apply? Where in Delta's application or testimony are procedures for the likely 3-year review found and discussed?
  - h. In Delta's opinion, should the Commission approve the proposed ARP prior to determining procedures applicable to a likely 3-year review? If yes, what is Delta's proposal for establishing the filing requirements and the Kentucky administrative regulations and the rules and regulations that would be applied to and followed in the 3-year review proceeding?

RESPONSE:

- c. See Delta's response to item 8 of the Commission's data request.
- d. Yes, unless the parties can agree to a rate of return range.
- e. Yes. The mechanism needs to provide an assurance of what the rate of return range will be while the mechanism is in operation. Nothing would preclude the AG, Delta, or any other party with a legitimate interest to propose a change in the rate of return range to operate on a prospective basis.
- f. No. See Response to (e).
- g. The Commission would ultimately make these determinations. However, in our opinion, the same rules and procedures, burden of proof, notice requirements, etc. that currently apply to the GCR and other cost recovery mechanisms would apply to the alternative regulation plan.

- h. The procedures are set forth in the rate schedules describing the mechanism and are similar to procedures currently used in gas supply cost recovery mechanisms and other cost recovery mechanisms.

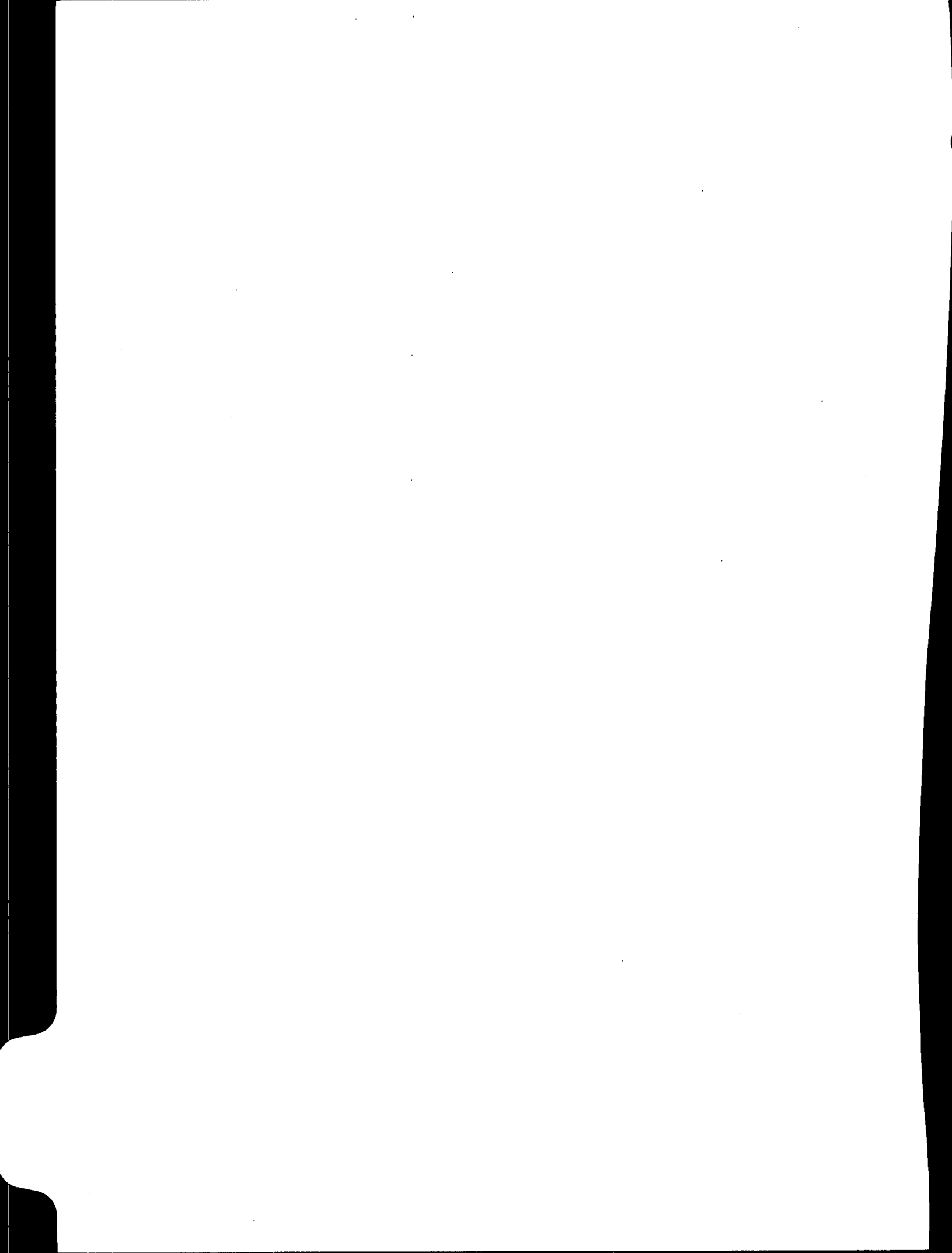
WITNESS: Steve Seelye

73. Please explain what opportunities exist for typical PSC Staff and other intervenors in Delta's traditional rate cases to provide comment on and affect the utility's financial budget submitted to Delta's Board of Directors for approval.

RESPONSE

No such opportunity currently exists under the traditional regulatory framework for the PSC staff or other parties to comment on and affect the utility's proposed financial budget submitted to its Board of Directors for approval.

WITNESS: Steve Seelye



74. Please explain the procedural steps the Commission must go through, in the Company's opinion, to determine the filing requirements and the rules of procedure that will apply to the contemplated 3-year review.

RESPONSE:

We anticipate that rules of procedure applicable to the 3-year review will be established in the current proceeding.

WITNESS: Steve Seelye



75. Referring to the Application cover letter to Ms. Helen C. Helton at page 9; Please provide a copy of the two referenced Alabama PSC court cases.

RESPONSE:

The referenced court cases were reviewed using an on-line legal search service. Delta does not have a copy of these documents. However, as time permits, these orders will be provided.

WITNESS: Steve Seelye

76. Referring to the Application cover letter to Ms. Helen C. Helton at pages 9-10; Please provide a copy of all Alabama Gas Company documents in the Company's possession related to Alagasco's RSE Plan that were utilized by Delta in fashioning its proposed ARP.

RESPONSE:

See Delta's responses to item 20 and item 32 of the Commission's data request.

WITNESS: Steve Seelye

77. Referring to the proposed Experimental Alternative Ratemaking Mechanism tariff: Where, in this tariff, is it stated that the term of the rate schedule is for a three-year period? If there is no such term in the tariff, please explain why not.

RESPONSE:

The rate schedule is designated an "Experimental Alternative Ratemaking Mechanism." We expect the Order to state what the experimental period will be. However, we have no objection to a statement being included in the tariff which specifies that the experiment is for a period of three years beginning with the effective date of the tariff.

WITNESS: Steve Seelye

78. The ULROE and LLROE defined in the proposed tariff create a bandwidth 50 basis points above and 50 basis points below the authorized return. The application notes the Commission determined a 100 basis point reasonable return on equity range. Is the 100 basis point range included in the proposed tariff based on the Commission having defined a 100 basis point range? If the Commission were to find at a later date that say, an 80 basis point range around a new rate of return were reasonable, does Delta propose to retain its 100 basis point ULROE/LLROE definition? Why?

RESPONSE:

The 100 basis point range was based on the fact that the Commission defined a 100 basis point range in Delta's last rate case. If the Commission were to find that a more narrow band is reasonable, Delta would not propose to retain the 100 basis point range.

WITNESS: Steve Seelye

79. Reference Mr. Hall's testimony at page 3, line 6. Please provide whatever numerical calculations the Company has developed which support Mr. Hall's testimony that the ARP benefits Delta's customers. Please provide all supporting workpapers.

RESPONSE:

No such numerical calculations have been performed.

WITNESS: Steve Seelye

AG 80

**SCHEDULE A**

**Derivation of  
Annual Adjustment Component  
AAC**

## DERIVATION OF ANNUAL ADJUSTMENT COMPONENT - (AAC)

The AAC adjusts rates upward or downward to compensate for expected departures from the Company's authorized return on common equity

**AAC Period** - July 1, 1995 through June 30, 1996

**Filing Date** - June 1, 1995

<b>Authorized Return on Common Equity</b>	11.60%
<b>Budget Equity 12 mos. avg.</b> - <i>pages 1 &amp; 6 of Analysis</i>	\$ 20,588,193
<b>Budget Net Income Available for Common</b> - <i>page 1 of Analysis</i>	\$ 1,784,600
<b>Budget Return on Equity</b> - <i>also on page 6 of Analysis</i>	8.67%
<b>Annual Revenue 12 mos. prior to budget year</b> - <i>page 6 of Analysis</i>	\$ 27,912,362
<b>Composite State and Federal Tax Rate</b> - <i>page 5 of Analysis</i>	39.445%

<b>Calculated Return-based Revenue Deficiency or (Excess)</b> - <i>also on page 6 of Analysis</i>	\$ 996,830
<b>AAC Limitation (5% of prior year's revenue)</b> - <i>also on page 6 of Analysis</i>	\$ 1,395,618

<b>AAC Amount to be Charged or (Credited)</b> - <i>also on page 7 of Analysis</i>	<b>\$ 996,830</b>
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**Net Budget Revenue During AAC Period** - *page 2 of Analysis*

Residential	\$ 8,483,735
Commercial	4,524,710
Industrial	2,731,855
Total	\$ 15,740,300

**Amount to be Charged or (Credited)** - *also on page 7 of Analysis*

Residential	\$ 537,273
Commercial	286,549
Industrial	173,008
Total	\$ 996,830

**Budgeted Mcf During AAC Period** - *page 1 of Analysis*

Residential	2,565,800
Commercial	1,441,300
Industrial	1,594,600
Total	5,601,700

**AAC Surcharge or (Credit) per Mcf** - *also on page 7 of Analysis*

Residential	\$ 0.2094
Commercial	\$ 0.1988
Industrial	\$ 0.1085

## DERIVATION OF ANNUAL ADJUSTMENT COMPONENT - (AAC)

The AAC adjusts rates upward or downward to compensate for expected departures from the Company's authorized return on common equity

**AAC Period** - July 1, 1996 through June 30, 1997

**Filing Date** - June 1, 1996

<b>Authorized Return on Common Equity</b>	11.60%
<b>Budget Equity 12 mos. avg.</b> - <i>pages 1 &amp; 6 of Analysis</i>	\$ 24,684,480
<b>Budget Net Income Available for Common</b> - <i>page 1 of Analysis</i>	778,850
<b>Budget Return on Equity</b> - <i>also on page 6 of Analysis</i>	3.16%
<b>Annual Revenue 12 mos. prior to budget year</b> - <i>page 6 of Analysis</i>	\$ 30,711,266
<b>Composite State and Federal Tax Rate</b> - <i>page 5 of Analysis</i>	39.445%

<b>Calculated Return-based Revenue Deficiency or (Excess)</b> - <i>also on page 6 of Analysis</i>	\$ 3,442,407
<b>AAC Limitation (5% of prior year's revenue)</b> - <i>also on page 6 of Analysis</i>	\$ 1,535,563

<b>AAC Amount to be Charged or (Credited)</b> - <i>also on page 7 of Analysis</i>	<b>\$ 1,535,563</b>
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**Net Budget Revenue During AAC Period** - *page 2 of Analysis*

Residential	\$ 8,684,294
Commercial	4,634,108
Industrial	2,962,199
Total	\$ 16,280,600

**Amount to be Charged or (Credited)** - *also on page 7 of Analysis*

Residential	\$ 819,090
Commercial	437,083
Industrial	279,390
Total	\$ 1,535,563

**Budgeted Mcf During AAC Period** - *page 1 of Analysis*

Residential	2,626,700
Commercial	1,478,200
Industrial	1,739,300
Total	5,844,200

**AAC Surcharge or (Credit) per Mcf** - *also on page 7 of Analysis*

Residential	\$ 0.3118
Commercial	\$ 0.2957
Industrial	\$ 0.1606



## DERIVATION OF ANNUAL ADJUSTMENT COMPONENT - (AAC)

The AAC adjusts rates upward or downward to compensate for expected departures from the Company's authorized return on common equity

**AAC Period** - July 1, 1997 through June 30, 1998

**Filing Date** - June 1, 1997

<b>Authorized Return on Common Equity</b>	11.60%
<b>Budget Equity 12 mos. avg.</b> - <i>pages 1 &amp; 6 of Analysis</i>	\$ 22,795,707
<b>Budget Net Income Available for Common</b> - <i>page 1 of Analysis</i>	875,900
<b>Budget Return on Equity</b> - <i>also on page 6 of Analysis</i>	3.84%
<b>Annual Revenue 12 mos. prior to budget year</b> - <i>page 6 of Analysis</i>	\$ 36,116,328
<b>Composite State and Federal Tax Rate</b> - <i>page 5 of Analysis</i>	39.445%

<b>Calculated Return-based Revenue Deficiency or (Excess)</b> - <i>also on page 6 of Analysis</i>	\$ 2,920,324
<b>AAC Limitation (5% of prior year's revenue)</b> - <i>also on page 6 of Analysis</i>	\$ 1,805,816

<b>AAC Amount to be Charged or (Credited)</b> - <i>also on page 7 of Analysis</i>	<b>\$ 1,805,816</b>
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**Net Budget Revenue During AAC Period** - *page 2 of Analysis*

Residential	\$ 8,244,899
Commercial	5,060,025
Industrial	2,634,696
Total	\$ 15,939,620

**Amount to be Charged or (Credited)** - *also on page 7 of Analysis*

Residential	\$ 934,073
Commercial	573,256
Industrial	298,488
Total	\$ 1,805,816

**Budgeted Mcf During AAC Period** - *page 1 of Analysis*

Residential	2,422,700
Commercial	1,679,800
Industrial	1,934,800
Total	6,037,300

**AAC Surcharge or (Credit) per Mcf** - *also on page 7 of Analysis*

Residential	\$ 0.3856
Commercial	\$ 0.3413
Industrial	\$ 0.1543

Calculation of Annual Adjustment Component - (AAC)  
By Rate Class Billing Blocks

The AAC adjusts rates upward or downward to compensate for expected departures from the Company's authorized return on common equity

AAC Period - July 1, 1996 through June 30, 1997  
Filing Date - June 1, 1996

Authorized Return on Common Equity 11.60%  
Budget Equity 12 mos. avg. \$ 24,684,480  
Budget Net Income Available for Common 778,850  
Budget Return on Equity 3.16%  
Annual Revenue 12 mos. prior to budget year \$ 30,711,266  
Composite State and Federal Tax Rate 39.445%

Calculated Return-based Revenue Deficiency or (Excess) \$ 3,442,407  
AAC Limitation (5% of prior year's revenue) \$ 1,535,563

**\$ 1,535,563**

AAC Amount to be Charged or (Credited)

Net Budget Revenue During AAC Period

	Firm Sales and Transportation			Interruptible Sales and Transportation			Total
	Block 1-1000	Block 1001-5000	Block 5001-10000 over 10000	Block 1-1000	Block 1001-5000	Block 5001-10000 over 10000	
Residential	819,090	-	-	-	-	-	819,090
Commercial	422,524	13,069	1,489	-	-	-	437,083
Industrial	78,029	64,982	18,308	36,696	52,033	8,843	279,390
Total	1,319,643	78,051	19,797	389,069	551,675	93,752	2,478,932

Amount to be Charged or (Credited)

Residential	819,090	-	-	-	-	-	819,090
Commercial	422,524	13,069	1,489	-	-	-	437,083
Industrial	78,029	64,982	18,308	36,696	52,033	8,843	279,390
Total	1,319,643	78,051	19,797	389,069	551,675	93,752	2,478,932

Budgeted Mcf During AAC Period

Residential	2,626,700	-	-	-	-	-	2,626,700
Commercial	1,402,074	66,700	9,426	-	-	-	1,478,200
Industrial	331,202	333,886	116,585	227,934	423,792	104,168	1,739,300
Total	4,359,976	999,586	126,011	227,934	423,792	104,168	5,844,200

AAC Surcharge or (Credit) per Mcf

Residential	0.3118	0.1959	0.1580	-	-	-	0.3118
Commercial	0.3014	0.1946	0.1570	0.1610	0.1228	0.0849	0.2957
Industrial	0.2356	0.1946	0.1570	0.1610	0.1228	0.0849	0.1606
Total	0.2828	0.1946	0.1570	0.1610	0.1228	0.0849	0.1606

**This is an example of how the ACC would be calculated for the Rate Class Billing Blocks.**

Inasmuch as revenue and Mcf sales were not budgeted by the Rate Class Billing Blocks, the budgeted revenue and Mcf for each Rate Class Billing Block was estimated based on the bill frequency analysis of actual results for the same 12-month period.

The same AAC period as shown on Schedule A, page 2.

**SCHEDULE B**

**Derivation of  
Actual Adjustment Factor  
AAF**

## DERIVATION OF ACTUAL ADJUSTMENT FACTOR - (AAF)

The AAF adjusts rates upward or downward to reconcile any departures in the earned ROE outside the allowable bandwidth of plus or minus 0.5% from the Commission authorized ROE upon completion of the the previous AAC period.

**AAF Period** - October 1, 1996 through September 30, 1997

**Filing Date** - September 1, 1996

<b>AAC Surcharges or (Credits) for 12 mos. ended 6/30/96</b> - <i>(Schedule B-1 and page 7 of Analysis)</i>	\$ 1,111,017
<b>Composite State and Federal Tax Rate</b> - <i>page 5 of Analysis</i>	39.445%
<b>AAC impact on NIAC</b>	\$ 672,776
<b>Actual NIAC</b> - <i>page 3 of Analysis</i>	2,066,998
<b>NIAC as adjusted after application of AAC</b>	\$ 2,739,774
<b>12-Mos. Avg. Common Equity during AAC period</b> - <i>page 3 of Analysis</i>	\$ 20,611,726
<b>ROE as adjusted after application of AAC</b> - <i>also on page 7 of Analysis</i>	<b>13.29%</b>
<b><u>Return on Common Equity (ROE) Bandwidth</u></b> - <i>page 6 of Analysis</i>	
Lower Limits of ROE Bandwidth	11.10%
Commission Authorized ROE	11.60%
Upper Limits of ROE Bandwidth	12.10%
<b>AAF Amount to be Charged or (Credited)</b> - <i>also on page 8 of Analysis</i>	<b>\$ (405,838)</b>
<b><u>Net Budget Revenue During AAF Period</u></b> - <i>page 2 of Analysis</i>	
Residential	\$ 8,635,637
Commercial	4,657,992
Industrial	2,923,379
Total	\$ 16,217,008
<b><u>Amount to be Charged or (Credited)</u></b> - <i>also on page 8 of Analysis</i>	
Residential	\$ (216,111)
Commercial	(116,569)
Industrial	(73,159)
Total	\$ (405,838)
<b><u>Budgeted Mcf During AAF Period</u></b> - <i>page 1 of Analysis</i>	
Residential	2,602,300
Commercial	1,487,600
Industrial	1,772,300
Total	5,862,200
<b><u>AAF Surcharge or (Credit) per Mcf</u></b> - <i>also on page 8 of Analysis</i>	
Residential	\$ (0.0830)
Commercial	\$ (0.0784)
Industrial	\$ (0.0413)

## DERIVATION OF ACTUAL ADJUSTMENT FACTOR - (AAF)

The AAF adjusts rates upward or downward to reconcile any departures in the earned ROE outside the allowable bandwidth of plus or minus 0.5% from the Commission authorized ROE upon completion of the the previous AAC period.

**AAF Period** - October 1, 1997 through September 30, 1998  
**Filing Date** - September 1, 1997

<b>AAC Surcharges or (Credits) for 12 mos. ended 6/30/97</b> - (Schedule B-1 and page 7 of Analysis)	\$ 1,540,778
<b>Composite State and Federal Tax Rate</b> - page 5 of Analysis	39.445%
<b>AAC impact on NIAC</b>	\$ 933,018
<b>Actual NIAC</b> - page 3 of Analysis	1,407,939
<b>NIAC as adjusted after application of AAC</b>	\$ 2,340,957
<b>12-Mos. Avg. Common Equity during AAC period</b> - page 3 of Analysis	\$ 24,736,904

**ROE as adjusted after application of AAC** - also on page 7 of Analysis 9.46%

**Return on Common Equity (ROE) Bandwidth** - page 6 of Analysis

Lower Limits of ROE Bandwidth	11.10%
Commission Authorized ROE	11.60%
Upper Limits of ROE Bandwidth	12.10%

**AAF Amount to be Charged or (Credited)** - also on page 8 of Analysis

**\$ 668,548**

**Net Budget Revenue During AAF Period** - page 2 of Analysis

Residential	\$ 8,646,161
Commercial	5,207,235
Industrial	2,928,053
Total	\$ 16,781,448

**Amount to be Charged or (Credited)** - also on page 8 of Analysis

Residential	\$ 344,450
Commercial	207,448
Industrial	116,649
Total	\$ 668,548

**Budgeted Mcf During AAF Period** - page 1 of Analysis

Residential	2,479,300
Commercial	1,713,900
Industrial	2,139,800
Total	6,333,000

**AAF Surcharge or (Credit) per Mcf** - also on page 8 of Analysis

Residential	\$ 0.1389
Commercial	\$ 0.1210
Industrial	\$ 0.0545

## DERIVATION OF ACTUAL ADJUSTMENT FACTOR - (AAF)

The AAF adjusts rates upward or downward to reconcile any departures in the earned ROE outside the allowable bandwidth of plus or minus 0.5% from the Commission authorized ROE upon completion of the the previous AAC period.

**AAF Period** - October 1, 1998 through September 30, 1999

**Filing Date** - September 1, 1998

<b>AAC Surcharges or (Credits) for 12 mos. ended 6/30/97</b> - <i>(Schedule B-1 and page 7 of Analysis)</i>	\$ 1,799,288
<b>Composite State and Federal Tax Rate</b> - <i>page 5 of Analysis</i>	39.445%
<b>AAC impact on NIAC</b>	\$ 1,089,559
<b>Actual NIAC</b> - <i>page 3 of Analysis</i>	2,025,723
<b>NIAC as adjusted after application of AAC</b>	\$ 3,115,282
<b>12-Mos. Avg. Common Equity during AAC period</b> - <i>page 3 of Analysis</i>	\$ 22,891,526

**ROE as adjusted after application of AAC** - *also on page 7 of Analysis* **13.61%**

**Return on Common Equity (ROE) Bandwidth** - *page 6 of Analysis*

Lower Limits of ROE Bandwidth	11.10%
Commission Authorized ROE	11.60%
Upper Limits of ROE Bandwidth	12.10%

**AAF Amount to be Charged or (Credited)** - *also on page 8 of Analysis*

**\$ (570,402)**

**Net Budget Revenue During AAF Period** - *page 2 of Analysis*

Residential	<i>Will require a forecast of revenues 3 months beyond the end of the budget year</i>
Commercial	
Industrial	
Total	

**Amount to be Charged or (Credited)** - *also on page 8 of Analysis*

Residential	#REF!
Commercial	#REF!
Industrial	#REF!
Total	#REF!

**Budgeted Mcf During AAF Period** - *page 1 of Analysis*

Residential	<i>Will require a forecast of Mcfs 3 months beyond the end of the budget year</i>
Commercial	
Industrial	
Total	

**AAF Surcharge or (Credit) per Mcf** - *also on page 8 of Analysis*

Residential	#REF!
Commercial	#REF!
Industrial	#REF!

# APPLICATION OF ANNUAL ADJUSTMENT COMPONENT - (AAC)

## Monthly and Annual Amounts Charged or (Credited)

Charge or (Credit) / Mcf	Mcf Sales & Transportation Tariff End-Users			AAC - Year 1 12 Month Period (July 1, 1995 - June 30, 1996)			AAC - Year 2 12 Month Period (July 1, 1996 - June 30, 1997)			AAC - Year 3 12 Month Period (July 1, 1997 - June 30, 1998)					
				Residential	Commercial	Industrial	Total	Residential	Commercial	Industrial	Total	Residential	Commercial	Industrial	Total
				\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Jul-95	43,480	40,980	126,333	9,105	8,147	13,707	30,959	12,970	12,193	20,413	45,575	19,807	15,925	27,705	63,437
Aug-95	30,727	98,953	30,282	6,434	6,020	10,736	23,191	10,683	9,929	18,845	39,456	13,534	12,283	37,032	62,848
Sep-95	31,051	29,656	108,693	6,502	5,896	11,793	24,191	10,135	10,280	17,875	38,280	12,564	11,156	25,582	49,302
Oct-95	74,973	53,064	159,517	15,699	10,550	17,307	43,556	24,778	20,731	7,505	53,014	24,297	18,678	32,656	75,631
Nov-95	198,212	112,132	158,808	41,505	22,293	17,230	81,029	55,674	28,625	30,635	114,934	84,095	42,949	31,215	158,169
Dec-95	345,708	201,940	187,230	72,391	40,148	20,314	132,853	100,335	56,736	34,236	191,307	135,721	70,701	40,017	246,439
Jan-96	571,368	339,231	244,558	119,643	67,443	26,534	213,620	154,960	92,733	39,782	287,476	177,902	95,058	35,287	308,248
Feb-96	489,263	288,738	189,692	102,451	57,405	20,581	180,436	138,982	81,078	36,049	256,109	149,299	79,153	32,295	260,746
Mar-96	387,990	233,075	168,631	81,244	46,338	18,296	145,878	97,368	53,162	26,300	176,829	124,173	65,981	32,748	222,902
Apr-96	382,023	224,179	195,973	79,995	44,570	21,262	145,827	86,079	49,171	31,126	166,375	111,555	60,696	30,310	202,561
May-96	131,717	77,607	127,180	27,581	15,429	13,799	56,809	50,464	28,896	24,916	104,276	46,733	20,296	25,853	92,882
Jun-96	54,298	42,122	119,127	11,370	8,374	12,925	32,669	25,934	16,676	24,527	67,137	16,888	14,732	24,501	56,122
Jul-96	41,592	41,236	127,076												
Aug-96	34,259	33,578	117,314												
Sep-96	32,500	34,768	111,280												
Oct-96	79,458	70,113	46,721												
Nov-96	178,539	96,808	190,714												
Dec-96	321,758	191,879	213,133												
Jan-97	498,935	313,619	247,659												
Feb-97	445,694	274,202	224,419												
Mar-97	312,244	179,791	163,724												
Apr-97	276,042	166,294	193,768												
May-97	161,829	97,726	155,112												
Jun-97	83,168	56,397	152,687												
Jul-97	51,372	46,666	179,587												
Aug-97	35,102	35,992	240,039												
Sep-97	32,586	32,691	165,826												
Oct-97	63,018	54,732	211,677												
Nov-97	217,882	125,853	202,338												
Dec-97	352,019	207,173	259,389												
Jan-98	461,424	276,548	228,731												
Feb-98	387,235	231,941	209,334												
Mar-98	322,067	193,343	212,275												
Apr-98	289,340	177,856	196,468												
May-98	121,212	59,472	167,582												
Jun-98	43,803	43,170	158,817												
Jul-98	42,384	45,693	150,982												
Aug-98	30,117	34,157	158,124												
Sep-98	31,261	34,760	160,335												
Oct-98	50,697	52,748	215,088												
Nov-98	114,441	81,517	237,450												
Dec-98	<b>323,100</b>	<b>193,300</b>	<b>252,200 (Est)</b>												

Amount Charged or (Credited) During 12 Month Period **\$ 1,111,017**

Total **\$ 1,540,778**

Total **\$ 1,799,288**

**SCHEDULE C**

**Derivation of  
Balancing Adjustment Factor  
BAF**



DERIVATION OF BALANCING ADJUSTMENT FACTOR - (BAF)

The BAF adjusts rates upward or downward to compensate for any differences between the amounts targeted and the amounts actually charged or credited during application of the AAF and BAF

BAF Period - January 1, 1998 through December 31, 1998

Filing Date - December 1, 1997

Amount Remaining from Application of previous AAF - Schedule C-1 and page 9 of Analysis \$ 11,806

Amount Remaining from Application of 2nd previous BAF - Schedule C-2 and page 9 of Analysis  
(unknown until 3rd BAF)

Total Amount to be Charged or (Credited) - also on page 9 of Analysis \$ 11,806

Budgeted Mcf During BAF Period - page 1 of Analysis 6,349,800

BAF Surcharge or (Credit) per Mcf - also on page 9 of Analysis \$ 0.0019

DERIVATION OF BALANCING ADJUSTMENT FACTOR - (BAF)

The BAF adjusts rates upward or downward to compensate for any differences between the amounts targeted and the amounts actually charged or credited during application of the AAF and BAF

**BAF Period** - January 1, 1999 through December 31, 1999  
**Filing Date** - December 1, 1998

**Amount Remaining from Application of previous AAF** - Schedule C-1 and page 9 of Analysis \$ 34,222

**Amount Remaining from Application of 2nd previous BAF** - Schedule C-2 and page 9 of Analysis  
(unknown until 3rd BAF)

**Total Amount to be Charged or (Credited)** - also on page 9 of Analysis \$ 34,222

**Budgeted Mcf During BAF Period** - page 1 of Analysis (SEE NOTE)

**BAF Surcharge or (Credit) per Mcf** - also on page 9 of Analysis unknown  
(SEE NOTE)

**NOTE:** The application of the **BAF** will require the Mcf's to be forecasted for an additional 6 months beyond the budget-year. The **AAF** requires net revenues to be forecasted for an additional 3 months beyond the budget-year.

DERIVATION OF BALANCING ADJUSTMENT FACTOR - (BAF)

The BAF adjusts rates upward or downward to compensate for any differences between the amounts targeted and the amounts actually charged or credited during application of the AAF and BAF

BAF Period - January 1, 2000 through December 31, 2000

Filing Date - December 1, 1999

Amount Remaining from Application of previous AAF - Schedule C-1 and page 9 of Analysis (unknown until 4th BAF)	\$	-
Amount Remaining from Application of 2nd previous BAF - Schedule C-2 and page 9 of Analysis	\$	667
Total Amount to be Charged or (Credited) - also on page 9 of Analysis		<input type="text"/>
Budgeted Mcf During BAF Period - page 1 of Analysis	(SEE NOTE)	
BAF Surcharge or (Credit) per Mcf - also on page 9 of Analysis		unknown (beyond analysis period)

**NOTE:** The application of the BAF will require the Mcf's to be forecasted for an additional 6 months beyond the budget-year. The AAF requires net revenues to be forecasted for an additional 3 months beyond the budget-year.

# APPLICATION OF ACTUAL ADJUSTMENT FACTOR - (AAF)

## Monthly and Annual Amounts Charged or (Credited)

	AAF - Year 1 12 Month Period (Oct. 1, 1996 - Sep. 30, 1997)			AAF - Year 2 12 Month Period (Oct. 1, 1997 - Sep. 30, 1998)			AAF - Year 3 12 Month Period (Oct. 1, 1998 - Sep. 30, 1999)			
	Residential	Commercial	Industrial	Residential	Commercial	Industrial	Residential	Commercial	Industrial	Total
Charge or (Credit) / Mcf				\$ (0.0830)	\$ (0.0784)	\$ (0.0413)	\$ 0.1389	\$ 0.1210	\$ 0.0545	

Mcf Sales & Transportation Tariff End-Users	AAF - Year 1 12 Month Period (Oct. 1, 1996 - Sep. 30, 1997)			AAF - Year 2 12 Month Period (Oct. 1, 1997 - Sep. 30, 1998)			AAF - Year 3 12 Month Period (Oct. 1, 1998 - Sep. 30, 1999)			
	Residential	Commercial	Industrial	Residential	Commercial	Industrial	Residential	Commercial	Industrial	Total
Jul-95	43,480	40,980	126,333	\$ (6,599)	\$ (5,494)	\$ (1,929)	\$ 8,755	\$ 6,625	\$ 11,539	\$ 26,919
Aug-95	30,727	30,282	98,953	(14,827)	(7,586)	(7,873)	30,270	15,233	11,030	56,534
Sep-95	31,051	28,656	108,693	(26,721)	(15,036)	(6,796)	48,906	25,076	14,140	86,122
Oct-95	74,973	53,064	159,517	(41,269)	(24,575)	(10,223)	64,106	33,715	12,469	110,290
Nov-95	198,212	112,132	158,808	(37,013)	(21,486)	(9,264)	53,799	28,074	11,412	93,284
Dec-95	345,708	201,940	187,230	(25,931)	(14,086)	(6,758)	44,745	23,402	11,572	79,719
Jan-96	571,368	339,231	244,558	(22,924)	(13,031)	(7,999)	40,198	21,527	10,710	72,436
Feb-96	489,263	288,738	189,692	(13,439)	(7,658)	(6,403)	16,840	7,198	9,136	33,174
Mar-96	387,990	233,075	168,631	(6,907)	(4,419)	(6,303)	6,086	5,225	8,658	19,969
Apr-96	382,023	224,179	195,973	(4,266)	(3,657)	(7,413)	5,888	5,531	8,231	19,650
May-96	131,717	77,607	127,180	(2,915)	(2,820)	(9,909)	4,184	4,134	8,620	16,938
Jun-96	54,298	42,122	119,127	(2,706)	(2,562)	(6,845)	4,343	4,207	8,741	17,291
Jul-96	41,592	41,236	127,076							
Aug-96	34,259	33,578	117,314							
Sep-96	32,500	34,768	111,280							
Oct-96	79,458	70,113	46,721							
Nov-96	178,539	96,808	190,714							
Dec-96	321,758	191,879	213,133							
Jan-97	496,935	313,619	247,659							
Feb-97	445,694	274,202	224,419							
Mar-97	312,244	179,791	163,724							
Apr-97	276,042	166,294	193,768							
May-97	161,829	97,726	155,112							
Jun-97	83,168	56,397	152,687							
Jul-97	51,372	48,666	179,587							
Aug-97	35,102	35,992	240,039							
Sep-97	32,586	32,691	165,826							
Oct-97	63,018	54,732	211,677							
Nov-97	217,882	125,853	202,338							
Dec-97	352,019	207,173	259,389							
Jan-98	461,424	278,548	228,731							
Feb-98	387,235	231,941	209,334							
Mar-98	322,067	193,343	212,275							
Apr-98	289,340	177,856	196,468							
May-98	121,212	59,472	167,582							
Jun-98	43,803	43,170	158,817							
Jul-98	42,384	45,693	150,982							
Aug-98	30,117	34,157	158,124							
Sep-98	31,261	34,760	160,335							
Oct-98	50,697	52,748	215,088							
Nov-98	114,441	81,517	237,450							
Dec-98	323,100	193,300	252,200 (Est)							

Amount Charged or (Credited) During 12 Month Period	\$ (417,845)	\$ 634,326	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Target Amount to be Charged or (Credited) During 12 Month Period	\$ (405,838)	\$ 668,548	\$ (570,402)	#VALUE!	#VALUE!	#VALUE!
Remaining Amount to be Charged or (Credited) through BAF	\$ 11,806	\$ 34,222	#VALUE!	#VALUE!	#VALUE!	#VALUE!

**APPLICATION OF BALANCING ADJUSTMENT - (BAF)**  
**Monthly and Annual Amounts Charged or (Credited)**

Mcf Sales and Transportation Tariff End-Users	Charge or (Credit) / Mcf			unknown beyond analysis period of AAF
	BAF - Year 1 12 Month Period (Jan. 1 - Dec. 31, 1998)	BAF - Year 2 12 Month Period (Jan. 1 - Dec. 31, 1999)	BAF - Year 3 12 Month Period (Jan. 1 - Dec. 31, 2000)	
Jul-95	210,793			
Aug-95	159,962			
Sep-95	169,400			
Oct-95	287,554			
Nov-95	469,152			
Dec-95	734,878			
Jan-96	1,155,157			
Feb-96	967,693			
Mar-96	789,696			
Apr-96	802,175			
May-96	336,504			
Jun-96	215,547			
Jul-96	209,904			
Aug-96	185,151			
Sep-96	178,548			
Oct-96	196,292			
Nov-96	466,061			
Dec-96	726,770			
Jan-97	1,058,213			
Feb-97	944,315			
Mar-97	655,759			
Apr-97	636,104			
May-97	414,667			
Jun-97	292,252			
Jul-97	277,625			
Aug-97	311,133			
Sep-97	231,103			
Oct-97	329,427			
Nov-97	546,073			
Dec-97	818,581			
Jan-98	988,703			
Feb-98	828,510			
Mar-98	727,685			
Apr-98	663,664			
May-98	348,266			
Jun-98	245,790			
Jul-98	239,059			
Aug-98	222,398			
Sep-98	226,356			
Oct-98	318,533			
Nov-98	433,408			
Dec-98	<u>768,600</u>			
		\$ 0.0019		
			unknown would have required budget numbers through December 1999	
				unknown beyond analysis period of AAF
		\$ 11,139	\$ -	\$ -
		\$ 11,806	\$ 34,222	\$ -
		\$ 667		

Amount Charged or (Credited) During 12 Month Period

Target Amount to be Charged or (Credited) During 12 Month Period

Remaining Amount to be Charged or (Credited) through BAF

(from second previous BAF)  
(beyond analysis period)

**ANALYSIS**

of

**Proposed Alternative  
Ratemaking Methodology**











PROPOSED ALTERNATIVE ROCK MAKING METHODOLOGY

Month	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Net Revenue		Net Revenue		Actual	Actual
									Residential	Commercial	Residential	Commercial		
Jun-95	2.910	280,812	176,415	208,491	665,718	665,718	208,491	665,718	665,718	665,718	665,718	665,718	0.39445	0.39445
Jul-95	4.042	245,102	147,821	168,817	561,539	561,539	168,817	561,539	561,539	561,539	561,539	561,539	0.39445	0.39445
Aug-95	4.042	246,057	145,949	185,839	577,846	577,846	185,839	577,846	577,846	577,846	577,846	577,846	0.39445	0.39445
Sep-95	3.923	364,353	207,984	256,412	828,749	828,749	256,412	828,749	828,749	828,749	828,749	828,749	0.39445	0.39445
Oct-95	2.480	668,826	357,849	274,583	1,301,258	1,301,258	274,583	1,301,258	1,301,258	1,301,258	1,301,258	1,301,258	0.39445	0.39445
Nov-95	2.480	1,036,417	580,985	328,974	1,946,376	1,946,376	328,974	1,946,376	1,946,376	1,946,376	1,946,376	1,946,376	0.39445	0.39445
Dec-95	2.480	1,593,207	910,052	420,510	2,923,769	2,923,769	420,510	2,923,769	2,923,769	2,923,769	2,923,769	2,923,769	0.39445	0.39445
Jan-96	2.787	1,393,519	794,006	332,000	2,519,525	2,519,525	332,000	2,519,525	2,519,525	2,519,525	2,519,525	2,519,525	0.39445	0.39445
Feb-96	2.787	1,140,329	655,320	300,056	2,095,705	2,095,705	300,056	2,095,705	2,095,705	2,095,705	2,095,705	2,095,705	0.39445	0.39445
Mar-96	2.787	1,130,217	641,607	343,047	2,114,871	2,114,871	343,047	2,114,871	2,114,871	2,114,871	2,114,871	2,114,871	0.39445	0.39445
Apr-96	3.621	502,646	276,514	223,963	1,005,123	1,005,123	223,963	1,005,123	1,005,123	1,005,123	1,005,123	1,005,123	0.39445	0.39445
May-96	4.128	289,548	166,771	199,130	655,449	655,449	199,130	655,449	655,449	655,449	655,449	655,449	0.39445	0.39445
Jun-96	3.167	303,031	201,869	222,722	727,622	727,622	222,722	727,622	727,622	727,622	727,622	727,622	0.39445	0.39445
Jul-96	4.280	250,708	155,135	200,801	606,644	606,644	200,801	606,644	606,644	606,644	606,644	606,644	0.39445	0.39445
Aug-96	4.280	255,724	163,246	195,062	614,032	614,032	195,062	614,032	614,032	614,032	614,032	614,032	0.39445	0.39445
Sep-96	4.280	375,784	238,908	285,305	899,995	899,995	285,305	899,995	899,995	899,995	899,995	899,995	0.39445	0.39445
Oct-96	4.442	625,687	326,120	309,041	1,260,847	1,260,847	309,041	1,260,847	1,260,847	1,260,847	1,260,847	1,260,847	0.39445	0.39445
Nov-96	4.442	982,226	560,117	351,708	1,894,051	1,894,051	351,708	1,894,051	1,894,051	1,894,051	1,894,051	1,894,051	0.39445	0.39445
Dec-96	4.442	1,411,740	851,017	421,217	2,683,974	2,683,974	421,217	2,683,974	2,683,974	2,683,974	2,683,974	2,683,974	0.39445	0.39445
Jan-97	4.934	1,300,043	753,695	390,964	2,444,702	2,444,702	390,964	2,444,702	2,444,702	2,444,702	2,444,702	2,444,702	0.39445	0.39445
Feb-97	4.934	948,625	512,218	286,737	1,747,580	1,747,580	286,737	1,747,580	1,747,580	1,747,580	1,747,580	1,747,580	0.39445	0.39445
Mar-97	4.827	871,918	501,005	329,417	1,702,340	1,702,340	329,417	1,702,340	1,702,340	1,702,340	1,702,340	1,702,340	0.39445	0.39445
Apr-97	4.693	569,445	328,324	263,767	1,161,536	1,161,536	263,767	1,161,536	1,161,536	1,161,536	1,161,536	1,161,536	0.39445	0.39445
May-97	4.693	388,880	220,874	250,870	860,624	860,624	250,870	860,624	860,624	860,624	860,624	860,624	0.39445	0.39445
Jun-97	4.693	309,791	198,148	270,838	778,776	778,776	270,838	778,776	778,776	778,776	778,776	778,776	0.39445	0.39445
Jul-97	4.508	271,487	168,355	348,598	788,439	788,439	348,598	788,439	788,439	788,439	788,439	788,439	0.39445	0.39445
Aug-97	4.508	259,729	161,527	261,669	682,925	682,925	261,669	682,925	682,925	682,925	682,925	682,925	0.39445	0.39445
Sep-97	4.508	339,421	217,441	301,560	858,422	858,422	301,560	858,422	858,422	858,422	858,422	858,422	0.39445	0.39445
Oct-97	4.747	1,161,729	620,998	342,496	1,469,821	1,469,821	342,496	1,469,821	1,469,821	1,469,821	1,469,821	1,469,821	0.39445	0.39445
Nov-97	4.747	1,502,833	825,267	397,778	2,725,878	2,725,878	397,778	2,725,878	2,725,878	2,725,878	2,725,878	2,725,878	0.39445	0.39445
Dec-97	4.747	1,303,197	709,234	367,789	2,380,221	2,380,221	367,789	2,380,221	2,380,221	2,380,221	2,380,221	2,380,221	0.39445	0.39445
Jan-98	4.723	1,131,243	607,697	361,504	2,100,443	2,100,443	361,504	2,100,443	2,100,443	2,100,443	2,100,443	2,100,443	0.39445	0.39445
Feb-98	4.723	1,037,360	566,396	321,314	1,925,070	1,925,070	321,314	1,925,070	1,925,070	1,925,070	1,925,070	1,925,070	0.39445	0.39445
Mar-98	3.515	371,680	206,028	253,080	830,788	830,788	253,080	830,788	830,788	830,788	830,788	830,788	0.39445	0.39445
Apr-98	3.515	366,893	209,870	240,512	817,275	817,275	240,512	817,275	817,275	817,275	817,275	817,275	0.39445	0.39445
May-98	4.376	329,535	179,384	253,173	762,092	762,092	253,173	762,092	762,092	762,092	762,092	762,092	0.39445	0.39445
Jun-98	4.376	334,626	182,083	255,119	771,829	771,829	255,119	771,829	771,829	771,829	771,829	771,829	0.39445	0.39445
Jul-98	4.376	389,405	227,647	327,769	944,822	944,822	327,769	944,822	944,822	944,822	944,822	944,822	0.39445	0.39445
Aug-98	4.287	701,975	271,589	370,116	1,343,681	1,343,681	370,116	1,343,681	1,343,681	1,343,681	1,343,681	1,343,681	0.39445	0.39445
Sep-98														
Oct-98														
Nov-98														
Dec-98														

PROPOSED ALTERNATIVE FILING MAKING METHODOLOGY

Derivation of  
ANNUAL ADJUSTMENT  
COMPONENT  
(AAC)

ANNUAL FILING - Year 1  
(File June 1; Effective July 1; Based on 12 mos budget)

Lower Limit of Return Range	Authorized Equity Return	Upper Limit of Return Range	Budget	Budget	Actual	Budget	Calculated Equity Return	Common Equity 12-mos average	Annual Revenue 12 mos prior to budget year (2 mos lag)	Applicable Mif expected during following 12-month period	Calculated Return-Based Revenue deficiency or (excess)	5% Limitation
11.10%	11.60%	12.10%	8.67%	20,588,193	27,912,362	5,601,700	8.67%	20,588,193	27,912,362	5,601,700	996,830	1,395,618
				20,986,406		5,613,700		20,986,406		5,613,700		
				21,364,129		5,625,800		21,364,129		5,625,800		
				21,716,910		5,638,300		21,716,910		5,638,300		
				22,057,307		5,651,900		22,057,307		5,651,900		
				22,455,768		5,680,700		22,455,768		5,680,700		
				22,840,762		5,717,500		22,840,762		5,717,500		
				23,211,329		5,743,800		23,211,329		5,743,800		
				23,568,481		5,773,500		23,568,481		5,773,500		
				23,911,903		5,795,800		23,911,903		5,795,800		
				24,224,651		5,811,000		24,224,651		5,811,000		
11.10%	11.60%	12.10%	3.16%	24,493,341	30,711,266	5,830,700	3.16%	24,493,341	30,711,266	5,830,700	3,442,407	1,535,563
11.10%	11.60%	12.10%		24,684,480		5,844,200		24,684,480		5,844,200		
				24,421,382		5,852,600		24,421,382		5,852,600		
				24,138,457		5,857,300		24,138,457		5,857,300		
				23,873,107		5,862,200		23,873,107		5,862,200		
				23,602,725		5,894,200		23,602,725		5,894,200		
				23,430,223		5,934,000		23,430,223		5,934,000		
				23,271,793		5,886,400		23,271,793		5,886,400		
				23,147,607		6,020,300		23,147,607		6,020,300		
				23,022,221		6,009,500		23,022,221		6,009,500		
				22,890,377		6,025,100		22,890,377		6,025,100		
				22,802,994		6,051,000		22,802,994		6,051,000		
11.10%	11.60%	12.10%	3.84%	22,759,529	36,116,328	6,040,400	3.84%	22,759,529	36,116,328	6,040,400	2,920,324	1,805,816
11.10%	11.60%	12.10%		22,795,707		6,037,300		22,795,707		6,037,300		

ANNUAL FILING - Year 2  
(File June 1; Effective July 1; Based on 12 mos budget)

ANNUAL FILING - Year 3  
(File June 1; Effective July 1; Based on 12 mos budget)





PROPOSED ALTERNATIVE REMAKING METHODOLOGY

Application of  
BALANCING ADJUSTMENT  
FACTOR  
(BAF)

Jul-95  
Aug-95  
Sep-95  
Oct-95  
Nov-95  
Dec-95  
Jan-96  
Feb-96  
Mar-96  
Apr-96  
May-96  
Jun-96  
Jul-96  
Aug-96  
Sep-96  
Oct-96  
Nov-96  
Dec-96  
Jan-97  
Feb-97  
Mar-97  
Apr-97  
May-97  
Jun-97  
Jul-97  
Aug-97  
Sep-97  
Oct-97  
Nov-97  
Dec-97  
Jan-98  
Feb-98  
Mar-98  
Apr-98  
May-98  
Jun-98  
Jul-98  
Aug-98  
Sep-98  
Oct-98  
Nov-98  
Dec-98

BAF Amt. (Over)/under Recovery from prev. AAF period	BAF Balancing Adjustment Factor per Mcf	BAF Monthly Amount	Total Amount Recovered or (given back)	BAF (over) or under Recovery
11,806	0.0019	1,801		
	0.0019	1,540		
	0.0019	1,353		
	0.0019	1,234		
	0.0019	648		
	0.0019	457		
	0.0019	444		
	0.0019	414		
	0.0019	421		
	0.0019	592		
	0.0019	806		
	0.0019	1,429	11,139	667

ANNUAL BAF FILING - Year 1  
(File Dec 1; Effective Jan 1; based on prev. AAF period)

ANNUAL BAF FILING - Year 2  
(File Dec 1; Effective Jan 1; based on prev. AAF period)

81. Please provide a complete set of Delta rate schedules.

RESPONSE:

See attached.

WITNESS: John Hall



PSC No. 8

Cancelling PSC No. 7

DELTA NATURAL GAS COMPANY, INC.

3617 Lexington Road

Winchester, Kentucky

Rates, Rules and Regulations for Furnishing

NATURAL GAS SERVICE

in

Entire Service Area of the Company

Filed with the

PUBLIC SERVICE COMMISSION OF KENTUCKY

Issued  
December 18, 1997

Effective  
November 30, 1997

Issued by

GLENN R. JENNINGS, PRESIDENT

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

NOV 30 1997

PURSUANT TO 807 KAR 5.011,  
SECTION 9(1)

BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 1  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 1

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PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

NOV 30 1997

PURSUANT TO 807 KAR 5:011,  
SECTION 9(1)  
BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE President  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in

DELTA NATURAL GAS COMPANY, INC.

Name of Issuing Corporation

FOR All Service Areas

P.S.C. NO. 8

Eighth Revised SHEET NO. 2

CANCELLING P.S.C. NO. 7

Seventh Revised SHEET NO. 2

CLASSIFICATION OF SERVICE

RATE SCHEDULES

GENERAL SERVICE AND INTERRUPTIBLE RATES

APPLICABILITY

Applicable within all areas served by Delta. See Tariff Sheet No. 14.

AVAILABILITY

Available for general use by residential, commercial and industrial customers.

CHARACTER OF SERVICE

Firm - within the reasonable limits of the Company's capability to provide such service.

RATES

	Base Rate +	Gas Cost Recovery Rate (GCR) *	=	Total Rate	
<b>General Service</b>					
Customer Charge				\$ 8.0000	
Residential	\$ 8.0000			\$ 8.0000	
Small Commercial with a meter no larger than an AL425	\$ 18.3600			\$18.3600	
All Others	\$ 25.0000			\$25.0000	
.1 - 200 Mcf	\$ 2.7212	\$3.7706		\$6.4918/Mcf	(I)
200.1 - 1000 Mcf	\$ 2.5000	\$3.7706		\$6.2706/Mcf	(I)
1000.1 - 5000 Mcf	\$ 2.1000	\$3.7706		\$5.8706/Mcf	(I)
5000.1 - 10000 Mcf	\$ 1.5000	\$3.7706		\$5.2706/Mcf	(I)
Over 10000 Mcf	\$ 1.1000	\$3.7706		\$4.8706/Mcf	(I)
<b>Interruptible</b>					
Customer Charge	\$200.0000			\$200.0000	
.1 - 1000 Mcf	\$ 1.7000	\$3.7706		\$5.4706/Mcf	(I)
1000.1 - 5000 Mcf	\$ 1.3000	\$3.7706		\$5.0706/Mcf	(I)
5000.1 - 10000 Mcf	\$ .9000	\$3.7706		\$4.6706/Mcf	(I)
Over 10000 Mcf	\$ .5000	\$3.7706		\$4.2706/Mcf	(I)

\* The "Gas Cost Recovery Rate (GCR)" as shown above, is an adjustment per Mcf determined in accordance with the "Gas Cost Adjustment Clause" as set forth on Sheets No. 10 and 11 of this tariff.

MAY 01 1999

PURSUANT TO KY STATUTE

DATE OF ISSUE May 4, 1999 DATE EFFECTIVE May 1, 1999

ISSUED BY Glenn R. Jennings TITLE President

Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in

CASE NO. 97-066F

DATED April 30, 1999

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 3  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 3

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

CLASSIFICATION OF SERVICE  
RATE SCHEDULES

GENERAL SERVICE AND INTERRUPTIBLE RATES

Special Conditions - All customers having a connected load in excess of 2,500,000 Btu input per hour may be required to enter into an Interruptible Sales Agreement. Determinations of those customers so required shall be based on peak day use as well as annual volume and shall be at the sole discretion of the Company.

Any customer required to enter into an Interruptible Sales Agreement shall be permitted to purchase gas under the Interruptible Rate Schedule as set forth on Sheet No. 2. Gas requirements, minimum charges and other specific information shall be set forth in the Agreement.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

NOV 30 1997

PURSUANT TO 807 KAR 5.011,  
SECTION 9(1)  
BY: Stephen D. Bell  
SECRETARY OF THE COMMISSION

DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE President  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 4  
CANCELLING P.S.C. NO. 7  
Twentieth Revised SHEET NO. 4

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

CLASSIFICATION OF SERVICE  
RATE SCHEDULES

NOV 30 1997

TRANSPORTATION OF GAS FOR OTHERS  
ON SYSTEM UTILIZATION

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (i)

BY: Stephan D. Bue  
SECRETARY OF THE COMMISSION

APPLICABILITY

Applicable within all areas served by Delta. See Tariff Sheet No. 14.

AVAILABILITY

Available to commercial and industrial customers who have purchased natural gas elsewhere, obtained all requisite authority to transport such gas to Delta's facilities and request Delta to utilize its facilities to transport such customer-owned gas to place of utilization. Any such transportation service shall be subject to the terms and conditions set forth herein and to the reserved right of Delta to decline to initiate such service whenever, in Delta's sole judgment, the performance of the service would be contrary to good operating practice or would have a detrimental impact on other customers of Delta.

RATE

A transportation charge comprised of the following components will be applied to each Mcf, or in the case of measurement based on heating value, each dekatherm (Dth) of gas transported hereunder:

- (1) Delta's Base Rate for gas sold as set forth in Delta's General Service and Interruptible Rate Schedules; plus
- (2) Where the pipeline suppliers transportation, compression or other similar charges are billed to Delta, the cost per Mcf or Dth, as applicable, of such charges; plus
- (3) A take-or-pay recovery component of \$(0.0000)

GAS SOLD TO CUSTOMER

Monthly gas deliveries to customer in excess of scheduled transportation volumes will be billed by Delta and paid by customer in accordance with Delta's Standby Service Rate Schedule.

DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE President  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 5  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 5

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

CLASSIFICATION OF SERVICE

RATE SCHEDULES

NOV 30 1997

TRANSPORTATION OF GAS FOR OTHERS  
ON SYSTEM UTILIZATION

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

TERMS AND CONDITIONS

Service hereunder shall be performed under a written contract between customer and Delta setting forth specific arrangements as to volumes to be transported, points of delivery, methods of metering, timing of receipts and deliveries of gas by Delta, the availability of discounts in special situations and any other matters relating to individual customer circumstances.

At least ten (10) days prior to the beginning of each month, customer shall provide Delta with a schedule setting forth daily volumes of gas to be delivered into Delta's facilities for customer's account. Customer shall give Delta at least twenty-four (24) hours prior notice of any subsequent changes to scheduled deliveries. Delivery of gas transported hereunder will be effected as nearly as practicable on the same day as the receipt thereof. Delta will not be obligated to utilize underground storage capacity in performance of the service provided herein.

All gas volumes delivered hereunder shall shrink by 2% to cover line loss and measurement differences when no compression is being used in the transportation. When compression is required in the transportation, all gas volumes delivered hereunder shall shrink an additional amount equivalent to fuel usage.

It shall be the customer's responsibility to make all necessary arrangements, including regulatory approvals, required to deliver gas transported under this tariff.

Delta reserves the right to refuse to accept gas that does not meet Delta's quality specifications.

Volumes of gas transported hereunder will be determined in accordance with Delta's measurement base.

Customer owned gas transported hereunder for an interruptible customer will be subject to interruption in accordance with normal interruption procedures applicable to such rate schedule. Such customers must agree in writing to cause deliveries of customer-owned gas into Delta's facilities to cease upon notification by Delta of the necessity to interrupt or curtail the use of gas.

DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE President  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 6  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 6

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

CLASSIFICATION OF SERVICE  
RATE SCHEDULES

TRANSPORTATION OF GAS FOR OTHERS  
ON SYSTEM UTILIZATION

- (T) Delta shall have the right at any time to curtail or interrupt the transportation or delivery of gas to interruptible customers hereunder when, in Delta's sole judgment, such curtailment or interruption is necessary to enable Delta to maintain deliveries to customers of higher priority or to respond to any emergency. During such periods, Delta shall have the right to purchase any transportation gas delivered into Delta's system for the account of the customer at the actual cost the customer paid for such gas.
- (T)
- (T)

Delta may execute special transportation contracts with anyone subject to approval of said contract by the Public Service Commission.

This transportation is available to any customer with a daily nominated volume (the level of daily volume in Mcf as requested by the customer to be transported and delivered by the Company) which averages a minimum of 25 Mcf of gas per day for the billing period on an individual service at the same premise who has purchased their own supply of natural gas and require transportation by the Company to the point of utilization subject to suitable service being available from existing facilities.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

NOV 30 1997

PURSUANT TO 807 KAR 5:011,  
SECTION 9(1)

BY: Stephen D. Bue  
SECRETARY OF THE COMMISSION

DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE President  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in  
DATED December 8, 1997

DELTA NATURAL GAS COMPANY, INC.

Name of Issuing Corporation

FOR All Service Areas

P.S.C. NO. 8

Original SHEET NO. 7

CANCELLING P.S.C. NO. 7

Original SHEET NO. 7

PUBLIC SERVICE COMMISSION  
OF KENTUCKY

CLASSIFICATION OF SERVICE

EFFECTIVE

RATE SCHEDULES

NOV 30 1997

TRANSPORTATION OF GAS FOR OTHERS

OFF SYSTEM UTILIZATION

PURSUANT TO 807 KAR 5:011,  
SECTION 9(1)

BY: Stephen D. Bell  
SECRETARY OF THE COMMISSION

APPLICABILITY

Applicable within all areas served by Delta. See Tariff Sheet No. 14.

AVAILABILITY

Available to any person whose facilities connect or can be made to connect with Delta's facilities or who can cause their natural gas to be delivered to Delta's facilities and who desires gas to be transported by Delta to a place of utilization not connected to Delta's facilities. Further, the person or persons desiring such transportation shall have executed a contract with Delta as set forth under the terms and conditions of this tariff.

RATE

The charge for service under this tariff shall be twenty-six cents (\$0.26) per 1000 cu. ft. of gas transported, or, in the case of measurement based upon heating value, shall be twenty-six cents (\$0.26) per dekatherm. Any additions or modifications of the facilities required to perform this service shall be at the sole expense of the customer.

TERMS AND CONDITIONS

Specific details relating to volumes, delivery points and other matters shall be covered by a separate contract.

(T) Delta shall reserve the right to purchase all or part of the gas to be transported at the same price the transporter would have received at the delivery point less Delta's applicable transportation charges, shrinkage and compressor fuel costs.

Delivery of gas transported hereunder will be effected as nearly as practicable on the same day as the receipt thereof. Delta will not be obligated to utilize underground storage capacity in performance of the service provided herein.

All gas volumes delivered hereunder shall shrink by 2% to cover line loss and measurement differences when no compression is being used in the transportation.

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Name of Officer

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December 9, 1997



DELTA NATURAL GAS COMPANY, INC.

Name of Issuing Corporation

FOR All Service Areas  
 P.S.C. NO. 8  
Original SHEET NO. 8  
 CANCELLING P.S.C. NO. 7  
Original SHEET NO. 8

CLASSIFICATION OF SERVICE  
RATE SCHEDULES

TRANSPORTATION OF GAS FOR OTHERS  
OFF SYSTEM UTILIZATION

When compression is required in the transportation, all gas volumes delivered hereunder shall shrink an additional amount equivalent to fuel usage.

It shall be the customer's responsibility to make all necessary arrangements, including regulatory approvals, required to deliver gas transported under this tariff.

Delta reserves the right to refuse to accept gas that does not meet Delta's quality specifications.

Volumes of gas transported hereunder will be determined in accordance with Delta's measurement base.

Delta shall have the right at any time to curtail or interrupt the transportation or delivery of gas hereunder when, in Delta's sole judgment, such curtailment or interruption is necessary to enable Delta to maintain deliveries to retail customers of higher priority or to respond to any emergency.

Delta may execute special transportation contracts with anyone after approval of said contract has been granted by the Public Service Commission.

This transportation is available to any customer with a daily nominated volume (the level of daily volume in Mcf as requested by the customer to be transported and delivered by the Company) which averages a minimum of 25 Mcf of gas per day for the billing period.

PUBLIC SERVICE COMMISSION  
 OF KENTUCKY  
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PURSUANT TO 807 KAR 5:011,  
 SECTION 9 (1)

BY: Stephan D. Bell  
 SECRETARY OF THE COMMISSION

DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
 ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE President  
 Name of Officer

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DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 9  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 9

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

CLASSIFICATION OF SERVICE

RATE SCHEDULES

NOV 30 1997

STANDBY SERVICE RATE SCHEDULE

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (i)

BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

APPLICABILITY

Applicable within all areas served by Delta. See Tariff Sheet No. 14.

AVAILABILITY

Available for use by commercial and industrial customers who:

- (1) purchase all or part of their natural gas requirements from sources other than Delta and who request Delta to be available to supply natural gas at that place of utilization; or
- (2) request Delta to provide a standby energy source at their place of utilization.

CHARACTER OF SERVICE

Firm - within the reasonable limits of Delta's capability to provide such service unless otherwise specified in a contract between Delta and the customer.

RATES

Customer shall pay Delta a standby charge to be set forth in a contract between Delta and the customer that has been approved by the Public Service Commission. In addition, monthly natural gas usage will be billed by Delta and paid by the customer in accordance with the charges set forth in Delta's General Service or Interruptible Rate Schedule under which it sells gas to the customer.

SPECIAL TERMS AND CONDITIONS

Service under this rate schedule shall be performed under a written contract between Delta and the customer setting forth specific arrangements as to standby charge, maximum daily volumes of natural gas required by the customer from Delta, points of delivery, methods of metering and other matters relating to individual customer circumstances.

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Name of Officer

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Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 10  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 10

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

CLASSIFICATION OF SERVICE

RATE SCHEDULES

NOV 30 1997

GAS COST ADJUSTMENT CLAUSE

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

DETERMINATION OF GCR

BY: Stephen D. Bell  
SECRETARY OF THE COMMISSION

The Company shall file a Quarterly Report with the Commission which shall contain an updated Gas Cost Recovery Rate (GCR) and shall be filed at least thirty (30) days prior to the beginning of each calendar quarter. The GCR shall become effective for billing with the final meter readings of the first billing cycle of each calendar quarter.

The gas cost recovery rates are comprised of:

- (1) The expected gas cost component (EGC), on a dollar per Mcf basis, which represents the average expected cost of gas supplies.
- (2) The supplier refund adjustment (RA), on a dollar per Mcf basis, which reflects refunds received from suppliers during the reporting period, plus interest at the average 90 day commercial paper rate for the calendar quarter. In the event of any large or unusual refunds, the Company may apply to the Public Service Commission for the right to depart from the refund procedure herein set forth.
- (3) The actual adjustment (AA), on a dollar per Mcf basis, compensates for difference between the previous quarter's expected gas cost and the actual cost of gas during that quarter.
- (4) The balance adjustment (BA), on a dollar per Mcf basis, which compensates for any under or over collections which have occurred as a result of prior adjustments.

BILLING

The gas cost recovery rate to be applied to bills of customers shall equal the sum of the following components:

$$\text{GCR} = \text{EGC} + \text{RA} + \text{AA} + \text{BA}$$

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Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 11  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 11

CLASSIFICATION OF SERVICE  
RATE SCHEDULES

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

GAS COST ADJUSTMENT CLAUSE

NOV 30 1997

DEFINITIONS

For purposes of this tariff:

PURSUANT TO 807 KAR 5.011,  
SECTION 9(1)

BY: Stephan Bue  
SECRETARY OF THE COMMISSION

- (a) "Average Expected Cost" means the cost of gas supplies, including associated transportation and storage charges, and propane which results from the application of suppliers' rates currently in effect, or reasonably expected to be in effect during the calendar quarter, on purchased volumes during the twelve month period ending with the reporting period to which the GCR will apply, divided by the corresponding sales volume. Where the calculations require the use of volumes used during a given period, and those volumes did not exist for a particular source for the entire period, or the Company expects the volumes to change substantially, the Company may make appropriate adjustments in its calculations. Any adjustments of this type shall be described in the quarterly Gas Cost Recovery Report.
- (b) "GCR" means the quarterly updated gas cost recovery rate applicable to the monthly consumption of customers (sum of the expected gas cost component plus the supplier refund adjustment plus the actual adjustment plus the balancing adjustment;  
i.e.,  $GCR = EGC + RA + AA + BA$ ).
- (c) "Calendar Quarters" means each of the four three-month periods of (1) August, September and October; (2) November, December and January; (3) February, March and April; and (4) May, June and July.
- (d) "Reporting Period" means the three (3) month accounting period that ended approximately sixty (60) days prior to the filing date of the updated gas recovery rates; i.e., the calendar quarter preceding that during which the most recent Quarterly Report was filed.

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DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 12  
CANCELLING P.S.C. NO. 7  
Original PUBLIC SERVICE COMMISSION SHEET NO. 12  
OF KENTUCKY  
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CLASSIFICATION OF SERVICE  
RATE SCHEDULES

NOV 30 1997

SPECIAL CHARGES

PURSUANT TO 807 KAR 5:011,  
SECTION 9(1)

BY: Stephen O. Bell  
COMMISSION

The following charges shall be applied under the following conditions:

Collection Charge - A charge of \$15.00 will be levied when a Company representative makes a trip to the premises of a customer for the purpose of terminating service. The charge may be assessed if service is actually terminated or if the customer pays the delinquent bill to avoid termination. The charge may also be assessed if the Company's representative agrees to delay termination based on the customer's agreement to pay the delinquent bill by a specific date. A collection trip may be made only after written notice has been sent to the customer stating that if the bill is not paid by a certain date the service will be disconnected.

(I) Reconnection Charge - A reconnection charge of \$40.00 to be made by the Company and paid by the customer before or at the time the service is reconnected shall be assessed as approved by the Public Service Commission when:

- (1) The customer's service has been disconnected for non-payment of bills or for violation of the Commission's or Company's Rules and Regulations, and the customer has qualified for and requested service to be reconnected. Customers qualifying for service reconnection under 807 KAR 5:006, Section 15 -Winter Hardship- shall be exempt from reconnect charges.
- (2) The customer's service has been disconnected at the customer's request and at any time subsequently within twelve (12) months is reconnected at the same premise.

(I) Bad Check Charge - The Company may charge and collect a fee of \$10.00 to cover the cost of handling an unsecured check; where a customer tenders in payment of an account a check which upon deposit by the Company is returned as unpaid by the customer's financial institution.

Request Test Charge - Pursuant to 807 KAR 5:006, Section 18, the Company shall make a test of any meter upon written request of any customer provided such request is not made more frequently than once each twelve (12) months. The customer shall be given the opportunity of being present at such request tests. If such tests show that the meter was not more than two percent (2%) fast, the

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DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
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Original SHEET NO. 13

CLASSIFICATION OF SERVICE  
RATE SCHEDULES

SPECIAL CHARGES

Company may make a reasonable charge for the test. The test charge is based upon meter size and is as follows:

1,000 cubic feet per hour and under	\$ 4.00
Over 1,000 to 10,000	\$ 8.00
Over 10,000	\$12.00

- (T) Gas Light Charge - Monthly consumption of unmetered gas used for an outdoor gas light, as approved by the Company, will be calculated to be 1,500 cubic feet per month per mantle for upright mantles and for each pair of inverted mantles. On special models of gas lights where gas consumption is greater than those referred to above, the Company shall estimate, based on the manufacturer's suggested usage, the monthly consumption to the closest 100 cubic feet and bill customer that equal amount each month. Such consumption shall be billed under the appropriate rate schedule applicable to the customer.

PUBLIC SERVICE COMMISSION  
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PURSUANT TO 807 KAR 5011,  
SECTION 9(1)

BY: Stephen D. Bell  
SECRETARY OF THE COMMISSION

DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
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Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in  
November 2, 1997

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 14  
CANCELLING P.S.C. NO. 7  
Original PUBLIC SERVICE COMMISSION  
OF KENTUCKY SHEET NO. 14  
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CLASSIFICATION OF SERVICE NOV 30 1997  
RULES AND REGULATIONS

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

BY: Stephan B. Bell

1. APPLICABILITY

Applicable within all service areas served by Delta ~~namely:~~ Owingsville, Sharpshurg, Salt Lick, Midland, Bath County; Estill County; Camargo, Jeffersonville, Montgomery County; Frenchburg, Menifee County; Kingston Terrill, Berea, Madison County; Stanton, Clay City, Powell County; Garrard County; Annville, Jackson County; Beattyville, Lee County; North Middletown, Bourbon County; Nicholasville, Wilmore, Jessamine County; Clearfield, Farmers, Rowan County; Middlesboro, Pineville, Bell County; Barbourville, Knox County; Williamsburg, Corbin, Whitley County; London, Laurel County; Manchester, Burning Springs, Oneida, Clay County; Leslie County; Lexington, Fayette County; Fleming County; and environs of each.

2. COMMISSION'S RULES AND REGULATIONS

All gas service rendered by the Company shall be in accordance with the Administrative Regulations by which gas utilities are governed by the Public Service Commission of Kentucky and all amendments thereto and modifications thereof which may be made by the Commission.

3. COMPANY'S RULES AND REGULATIONS

In addition to the Rules and Regulations prescribed by the Public Service Commission, all gas service rendered shall also be in accordance with the following Rules and Regulations adopted by the Company.

4. FILING OF RATES, RULES AND REGULATIONS

A copy of all schedules of rates, rules and regulations under which gas service is rendered is on file for the public's benefit with the Public Service Commission of Kentucky. A copy of such rates, rules and regulations, together with the law, rules and regulations of the Public Service Commission of Kentucky is available for public inspection in the various offices of the Company.

5. NO EXCEPTIONS TO RULES AND REGULATIONS

No agent, representative or employee of the Company shall make any promise, agreement or representation not incorporated in or provided for by the Rules and Regulations of the Public Service Commission of Kentucky or of this Company and neither has any agent, representative or

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Original SHEET NO. 15  
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Original SHEET NO. 15

DELTA NATURAL GAS COMPANY, INC.  
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CLASSIFICATION OF SERVICE  
RULES AND REGULATIONS

employee of the Company any right or power to amend, modify, alter or waive any of the said Rules and Regulations except as hereinafter provided.

6. RULES AND REGULATIONS MAY BE AMENDED

The Company reserves the right to amend or modify its Rules and Regulations or to adopt such additional Rules and Regulations as the Company deems necessary in the proper conduct of its business, subject to the approval of the Public Service Commission of Kentucky.

7. SUPERSEDE PREVIOUS RULES AND REGULATIONS

These Rules and Regulations replace and supersede all previous Rules and Regulations under which the Company has previously supplied gas service.

8. CUSTOMER CLASSIFICATIONS

Residential: Service to customers which consists of direct natural gas usage in a residential dwelling for space heating, air conditioning, cooking, water heating and other residential uses.

Small Commercial: Service to customers engaged primarily in the sale of goods or services including institutions and local and federal government agencies for uses other than those involving manufacturing or electric power generation with a meter no larger than an AL425.

(T)

(T) Large Commercial: Service to customers engaged primarily in the sale of goods or services including institutions and local and federal government agencies for uses other than those involving manufacturing or electric power generation with a meter larger than an AL425.

PUBLIC SERVICE COMMISSION  
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BY: Stephen D. Bell

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P.S.C. NO. 8  
Original PUBLIC SERVICE COMMISSION NO. 16  
CANCELLING P.S.C. OF KENTUCKY 7  
Original EFFECTIVE SHEET NO. 15 & 16

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CLASSIFICATION OF SERVICE

RULES AND REGULATIONS

PURSUANT TO 807 KAR 5:011,  
SECTION 9(1)

Industrial: Service to customers engaged primarily in a process which creates or changes raw or unfinished materials into another form or product including the generation of electric power.

9. APPLICATION FOR SERVICE

A written application or contract, properly executed, may be required before the Company is obligated to render gas service. The Company shall have the right to reject for valid reasons any such application or contract. All applications for service shall be made in the legal name of the party desiring the service.

Applications for service are not transferable and new occupants of premises will be required to make application for service before commencing the use of gas. Customers who have been receiving gas service shall notify the Company when discontinuance of service is desired and shall pay for all gas until such notice has been given in person, in writing or by telephone and final meter reading is made by the Company.

When a customer moves within the service area of the Company, the customer shall be billed out at the original location and billed in at the new location. Therefore, the customer may receive two bills for the month in which the move occurs.

In case the customer is not the owner of the premises, it shall be the customer's responsibility to obtain from the property owner or owners the necessary consent to install and maintain in, on or over said premises all such piping and other equipment as are required or necessary to install service line for supplying gas service to the customer whether the piping and equipment be the property of the customer or the Company.

10. REFUSAL OF SERVICE

The Company reserves the right to refuse or to defer full service to an applicant where the existing mains are inadequate to serve the applicant's requirements without adversely affecting the service to customers already connected and being served.

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DATED December 8, 1997

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 17  
CANCELLING P.S.C. NO. 7  
Original PUBLIC SERVICE COMMISSION SHEET NO. 16 & 17  
OF KENTUCKY  
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CLASSIFICATION OF SERVICE  
RULES AND REGULATIONS

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PURSUANT TO 807 KAR 5.011,  
SECTION 9(1)

BY: Stephen D. Bell

11. RENEWAL OF CONTRACT

If, upon the expiration of any service agreement or service contract for a specified term, the customer continues to use the service, the service agreement or service contract (unless otherwise provided therein) will be automatically renewed and extended for successive periods of one year each, subject to termination at the end of any year upon written notice by either party in advance of the expiration date in accordance with the terms set forth in the service agreement or service contract.

12. CUSTOMER'S LIABILITY

The customer shall assume all responsibility for the gas service in or on the customer's premises at and from the point of delivery of gas and for all the piping, appliances and equipment used in connection therewith which are not the property of the Company, and will protect and save the Company harmless from all claims for injury or damage to persons or property occurring on the customer's premises or at and from the point of delivery of gas occasioned by such gas or gas service and equipment, except where said injury or damage will be shown to have been caused solely by the negligence of the Company.

13. ACCESS TO PROPERTY

The Company shall at all reasonable hours have access to meters, service connections and other property owned by it and located on customer's premises for purposes of installation, maintenance, meter reading, operation or removal of its property at the time service is to be terminated. Any employee of the Company whose duties require the employee to enter the customer's premises shall wear a distinguishing uniform or other insignia, identifying the employee as an employee of the company, or carry a badge or other identification which will identify the employee as an employee of the Company, the same to be shown by the employee upon request.

14. CONTINUOUS OR UNIFORM SERVICE

The Company will endeavor to supply gas continuously and without interruption. However, the Company shall not be responsible for damages or otherwise for failure to supply gas for any interruptions of the

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Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original PUBLIC SERVICE COMMISSION SHEET NO. 18  
OF KENTUCKY  
CANCELLING P.S.C. 7  
Original EFFECTIVE SHEET NO. 17 & 18

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CLASSIFICATION OF SERVICE PURSUANT TO 807 KAR 5.011,  
RULES AND REGULATIONS SECTION 9(1)

BY: Stechand Bell

supply when such failure is without willful fault or neglect on its part.

The Company cannot and does not guarantee either a sufficient supply or an adequate or uniform pressure of the gas supplied and shall not be liable for any damage or loss resulting from inadequate or interrupted supply or from any pressure variations when such conditions are not due to willful fault or neglect on its part.

15. EXCLUSIVE SERVICE

Except in cases where the customer has a special contract with the Company for reserve or auxiliary service, no other fuel service shall be used by the customer on the same installation in conjunction with the Company's service connection, either by means of valves or any other connection.

The customer shall not sell the gas purchased from the Company to any other customer, company or person, and the customer shall not deliver gas purchased from the Company to any connection wherein said gas is to be used on premises not owned or controlled by the customer.

16. DEPOSITS

The Company may require a minimum cash deposit or other guaranty to secure payment of bills except from customers qualifying for service reconnection pursuant to 807 KAR 5:006, Section 15, Winter Hardship Reconnection. Service may be refused or discontinued for failure to pay the requested deposit. Interest, as prescribed by KRS 278.460, will be paid on all sums held on deposit. The interest will be applied as a credit to the customer's bill or will be paid to the customer on an annual basis. If the deposit is refunded or credited to the customer's bill prior to the deposit anniversary date, interest will be paid or credited to the customer's bill on a pro-rated basis. If interest is not paid to the customer or credited to the customer's bill annually, interest will be computed by a method which will result in an amount not less than that obtained by using middle course method between simple and compound interest in compliance with the Commission Order dated October 31, 1989 in Case No. 89-057. Interest on deposits computed in this manner will accrue until paid to the customer or credited to the customer's bill.

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P.S.C. NO. 8  
Original PUBLIC SERVICE COMMISSION 19  
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CLASSIFICATION OF SERVICE

RULES AND REGULATIONS

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

The deposit may be waived upon a customer's <sup>BY: *Stephen D. Bell*</sup> showing of satisfactory credit or payment history. Required deposits will be credited to the customer's bill between twelve and fifteen months after the month of deposit if the customer has established a satisfactory payment record for that period. If a deposit has been waived or returned and the customer fails to maintain a satisfactory payment record, a deposit may then be required. Upon termination of service, the deposit and any interest earned and owing will be credited to the final bill with any remainder refunded to the customer.

In determining whether a deposit will be required or waived, the following criteria may be considered:

- (1) Previous payment history with the Company. If the customer has no previous history with the Company, statements from other regulated public utilities may be presented by the customer as evidence of good credit.
- (2) Length of time the customer has resided or been located in the area.
- (3) Whether the customer owns the property where service is to be rendered.
- (4) Whether another customer with a good payment history is willing to sign as a guarantor for an amount equal to the required deposit.

If a deposit is held longer than eighteen months, the deposit will be recalculated at the customer's request based on the customer's actual usage for the past twelve months. If the deposit on account differs from the recalculated amount by more than \$10.00 for a residential customer or 10 percent for a non-residential customer, the Company may collect any underpayment and refunds, if any, will be credited to the customer's next utility bill. No refund will be made if the customer's bill is delinquent at the time of recalculation.

Once each year, a billing insert will be included with the bill advising the customer of the right to request a deposit recalculation.

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ISSUED BY Glenn R. Jennings *Glenn R. Jennings* TITLE President  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in  
CASE NO. 97-066 DATED December 8, 1997

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 20  
PUBLIC SERVICE COMMISSION  
CANCELLING P.S.C. OF KENTUCKY 7  
Original EFFECTIVE SHEET NO. 19 & 20

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

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CLASSIFICATION OF SERVICE

RULES AND REGULATIONS PURSUANT TO 807 KAR 5:011,

SECTION 9(1)

BY: Steward Bell

- (T) Residential and small commercial customers with meters up through AL425 will pay equal deposits in the amount of \$95.00. This amount does not exceed 2/12ths of the average annual bill.
- (T) Large commercial and industrial customer's deposits shall be based upon actual usage of the customer at the same or similar premises for the most recent twelve month period if such information is available. If usage information is not available, the deposit will be based on the average bills of similar customers and premises in the system. The deposit amount shall not exceed 2/12ths of the customer's actual or estimated annual bill.

17. MONTHLY CUSTOMER CHARGE

A monthly customer charge shall be rendered against every meter installed unless service is discontinued in one customer's name and is not to be re-served at the location.

Special permission may be obtained from the local distribution supervisor for waiving of the monthly customer charge only when initial service is being rendered and no gas except test gas has been passed by the meter.

A full monthly customer charge will be rendered whenever service has been used for more than fifteen (15) days of a billing month, even if the consumption of the customer is zero (0).

If service is used less than fifteen (15) days in a given billing month and any consumption is recorded, the normal billing procedure shall apply.

18. MONTHLY BILLS

Bills for gas service will be rendered monthly unless otherwise specified. The term "month" for billing purposes shall mean the period between any two consecutive readings of the meter by the Company, such reading to be taken as near as practicable every thirty (30) days.

Bills are due upon rendition and payable within a period not exceeding ten (10) days after the date of mailing.

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FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 21  
CANCELLING P.S.C. NO. 7  
Original OF KENTUCKY SHEET NO. 20 & 21  
EFFECTIVE

CLASSIFICATION OF SERVICE  
RULES AND REGULATIONS

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PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

BY: Stevenson Bell

Service shall be subject to being discontinued for non-payment of bills after the customer has been given at least ten (10) days written notice separate from the original bill and not before twenty seven (27) days from the mailing date of the original bill.

The Company may not terminate service to a customer if a medical certificate is presented or if a Certificate of Need from the Cabinet for Human Resources is presented in accordance with 807 KAR 5:006, Section 14 (2)(c) and (3).

Failure to receive a bill does not exempt a customer from these provisions.

When the Company is unable to read the meter after a reasonable effort, or where the meter fails to operate, the customer will be billed on an estimated basis and the billing adjusted as necessary.

(T) The Company's billing form includes dates served; number of days in period; previous and present meter reading; Mcf usage; net amount due for service rendered; taxes, if applicable; adjustments, if any; special charges; total amount due; account number; billing date; due date; and service address.

19. BUDGET PAYMENT PLAN

The Company has a budget payment plan available for its residential and commercial customers whereby a customer may elect to pay a monthly amount for the budget year in lieu of monthly billings for actual usage. The monthly budget payment will be determined by the Company based, under normal circumstances, on a minimum of one-twelfth of the estimated annual usage, subject to review and adjustment during the budget year. The normal budget year is the 12 months from August through July, with July as the settlement month.

The customer's account may be adjusted through a series of levelized adjustments on a monthly basis if usage or changes in rates indicate that the account will not be current upon payment of the last budget amount.

DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE President  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in  
DATE December 8, 1997

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 22  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 21 & 22  
PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
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CLASSIFICATION OF SERVICE

RULES AND REGULATIONS

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

BY: Stephan D. Bell

To be accepted as a budget customer, the account balance must be paid in total before the customer is put on a budget payment plan. It is understood that this budget payment plan will continue until the customer notifies the Company in writing or by telephone to discontinue the plan or if the customer fails to pay bills as rendered under the budget payment plan. The Company reserves the right to revoke the plan and restore the customer to regular billing and require immediate payment of any deficiency.

Failure to receive a bill in no way exempts the customer from the provisions of these terms and conditions.

20. LOCAL FRANCHISE FEE OR TAX

There shall be added to the customer's bill, as a separate item, an amount equal to the proportionate part of any license, occupation, franchise or other similar fee or tax now or hereafter agreed to or imposed upon the Company by local taxing authorities, whether imposed by ordinance, franchise or otherwise, and which fee or tax is based upon a percentage of the gross receipts, net receipts, or revenues of the Company. Such amount shall be added exclusively to bills of customers receiving service within the territorial limits of the authority imposing the fee or tax. Where more than one such fee or tax is imposed, each of the charges or taxes applicable to each customer shall be added to the customer's bill as separately identified items.

21. COMPANY-OWNED SERVICE LINES

The Company will install, own, operate and maintain the service line at the premises of residential and commercial customers, if such premises are not connected to a Company main by a service line. With respect to residential and commercial customers that occupy premises already connected to a Company main by a service line, the Company shall be responsible for operating and maintaining the customer service line and when the Company determines that replacement of such customer service line is necessary the Company shall be responsible for installing the service line and shall thereafter own the service line.

Any customer accepting gas service under this section shall be deemed to have granted the Company an easement across his property for such service. No service line shall be installed across private property

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FOR All Service Areas  
P.S.C. NO. 8  
Original PUBLIC SERVICE COMMISSION  
OF KENTUCKY SHEET NO. 23  
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Original SHEET NO. 22 & 23

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CLASSIFICATION OF SERVICE PURSUANT TO 807 KAR 5011  
RULES AND REGULATIONS SECTION 9(1)

BY: Stephen D. Bell  
PUBLIC SERVICE COMMISSION

other than the premises of the building to be supplied with gas, except after special investigation and approval by the Company.

When the length of the service pipe required between the property line and the meter is 100 feet or less, the Company will assess no charge for the service pipe installation.

When the length of required service pipe exceeds 100 feet, the Company may require the applicant to contribute toward the cost of the service line installation an amount equal to the estimated cost per foot for each lineal foot of service beyond 100 feet. Contributions by customers toward the Company's cost of furnishing and installing service lines in accordance with this section are non-refundable.

In the event that the Company is required to undertake any excavation on a customer's property in connection with the installation, repair, maintenance or replacement of a service line, the Company shall make reasonable efforts to restore the property to its original condition pursuant to generally accepted utility standards for such construction operations.

22. COMPANY'S EQUIPMENT AND INSTALLATION

The Company shall furnish, install and maintain at its expense the necessary service connection. The location of this service connection will be made at the discretion and judgment of the Company.

The Company will furnish, install and maintain at its expense the necessary meter, meter stand (including meter riser), regulator and connections which will be located at or near the main service connection, property line or near the building, at the discretion or judgment of the Company. Suitable site or location for the meter, meter stand, (including meter riser), regulator and connections shall be provided by the customer and the title to this equipment shall remain in the Company with the right to install, operate, maintain and remove same and no charge shall be made by the customer for use of the premises as occupied or used.

23. PROTECTION OF COMPANY'S PROPERTY

All meters, piping and other appliances and equipment furnished by and at the expense of the Company, which may at any time be in or on the

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Name of Officer

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DELTA NATURAL GAS COMPANY, INC.  
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FOR All Service Areas  
P.S.C. NO. 8  
Original PUBLIC SERVICE COMMISSION OF KENTUCKY SHEET NO. 24  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 23 & 24

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CLASSIFICATION OF SERVICE PURSUANT TO 807 KAR 5:011.  
RULES AND REGULATIONS SECTION 9(1)

BY: Stephen D. Bell

customer's premises shall, unless otherwise expressly provided herein, be and remain the property of the Company and the customer shall protect such property from loss or damage and no one who is not an agent of the Company shall be permitted to remove such property or to tamper with or damage same.

24. CUSTOMER'S EQUIPMENT AND INSTALLATION

The customer shall furnish, install and maintain at his expense the necessary housepiping, connections and appliances and same shall be installed in accordance with the requirements and specifications of "INSTALLATION OF GAS PIPING AND GAS EQUIPMENT" as compiled and approved by the American National Standards Institute, the National Board of Fire Underwriters, The American Gas Association and other similar bodies, which is now contained in the National Fuel Gas Code (ANSI Z 223.1-1980) and any revisions thereof which are herewith incorporated by reference as a part of the Company's Rules and Regulations where applicable and when not in conflict with the requirements of the constituted authorities.

No appliances shall be used which are not of a standard design and which have not been approved by the American Gas Association or a similar or equally qualified agency.

Suitable pressure regulators shall be installed by, or at the expense of, the customer on all heating appliances and special equipment which have an hourly input of 50,000 BTU or higher; pressure regulators shall also be installed on all appliances with lower inputs where provided or recommended by the manufacturer or where necessary, at the discretion of the Company, to provide better and safer gas utilization and service.

All of the customer's piping, connections and appliances shall be suitable for the purposes thereof and shall be maintained by the customer at his expense at all times in a good, safe and serviceable condition.

The Company shall inspect the condition of the meter and service connections before making service connections to a new customer pursuant to 807 KAR 5:006, Section 13(3). The Company shall not assume any responsibility and shall not be held liable in any way for the making of any periodic inspection of the customer's piping, connections or

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Name of Officer

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DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original PUBLIC SERVICE COMMISSION 25  
CANCELLING P.S.C. NO. KENTUCKY 7  
Original EFFECTIVE SHEET NO. 24 & 25

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RULES AND REGULATIONS

PURSUANT TO 807 KAR 5:011,  
SECTION 9(1)

appliances or for the customer's failure to properly <sup>by Stephen D. Bell</sup> and safely install, operate and maintain same. <sub>PERMISSION</sub>

25. NOTICE OF ESCAPING GAS OR UNSAFE CONDITIONS

Immediate notice must be given by the customer to the office or employees of the Company if any escaping gas or unsafe conditions are detected or any defects or improper installations are discovered in the piping and equipment of either the Company or the customer which are on the customer's premises.

No flames or lights are to be taken near any escape of gas and the gas must be shut off at the meter cock or valve until hazard is eliminated and the gas service is not to be turned on again except by a Company employee.

The Company will not be responsible or assume any liability for any injury, loss or damage which may arise from the carelessness or negligence of the customer or his agents or representatives.

26. TURNING OFF GAS SERVICE AND RESTORING SAME

The gas service may be turned off at the meter when justified by the customer or his agent or any constituted authorities but no person, unless in the employ of the Company or having permission from the Company, shall turn the gas on or restore service.

27. CHARACTER OF SERVICE

In accordance with 807 KAR 5:022, Section 16, the Company will normally supply natural gas having a heating value of approximately one thousand seventy (1,070) BTU per cubic foot and a specific gravity of approximately sixty-two hundredths (0.62). However, when necessary to supplement the supply of natural gas, the Company reserves the right, at its discretion, to supply an interchangeable mixture of vaporized liquified petroleum gas and air or a combination of same with natural gas.

28. MEASUREMENT BASE

The Company, in accordance with 807 KAR 5:022, Section 8, utilizes an appropriate measurement base in all service areas. The rates of the

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ISSUED BY Glenn R. Jennings <sup>Glenn R. Jennings</sup> TITLE President  
Name of Officer

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DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 26  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 25 & 26

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Company are based upon gas delivered to the customer on a basis of four (4) ounces per square inch above an assumed atmospheric pressure of fourteen and four-tenths (14.4) pounds per square inch or fourteen and sixty-five hundredths (14.56) pounds per square inch absolute pressure at an assumed temperature of sixty (60) degrees Fahrenheit; provided, however, the Company reserves the right to correct as necessary the actual temperatures to sixty (60) degrees Fahrenheit basis in the cases of large volume industrial customers.

All gas measured at pressures higher than standard pressure for low pressure distribution systems shall be corrected to a pressure base of fourteen and sixty-five hundredths (14.65) pounds per square inch absolute.

29. GAS MEASUREMENT

The gas consumed shall be measured by a meter or meters to be installed by the Company upon the customer's premises at a point most accessible or convenient for the Company and all bills shall be calculated upon the registration of said meter or meters except as hereinafter provided. If more than one meter is installed for the same or different classes of service at different locations on the customer's premises, each meter shall be considered separately in calculating the amount of any bills, except in those cases where the Company elects to install dual metering facilities in order to assure accurate measurement of all gas consumed. Meter readings may be combined and one bill rendered under these conditions. Meters include all measuring instruments and equipment.

All residences, commercial buildings or other occupied buildings shall have separate meters even if under the same roof, except in cases of multi-occupants under the same roof with a common entrance or within an enclosure or mobile home park where it is unreasonable or uneconomical to measure each unit separately.

When customers are served from high pressure lines, the meters, regulators and safety devises shall be located as near to the Company's main as is practicable.

PUBLIC SERVICE COMMISSION  
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DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
ISSUED BY Glenn R. Jennings *Glenn R. Jennings* TITLE PURSUANT TO KY KAR 5:011, SECTION 9(1)  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in  
By: *Stephen B. Bell*  
December 2, 1997

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 27  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 26 & 27

CLASSIFICATION OF SERVICE  
RULES AND REGULATIONS

30. METERING

Unless otherwise specified, a domestic, commercial or industrial consumer shall be interpreted to mean a customer served through an individual meter.

A multiple unit dwelling shall be interpreted to mean two or more consumers or dwelling units, such as apartments, trailers or mobile homes within a trailer park.

A master meter shall be interpreted to mean one meter servicing a trailer or mobile home park or a multiple unit dwelling; the Company reserves the right to charge a minimum monthly rate per mobile home or trailer or individual consumer within a multiple unit dwelling served through a master meter.

Any time a master meter is used for rendering services, the Company shall require the execution of a service agreement in writing, which agreement, among other things, shall specify the number of customers served through such master meter.

31. POINT OF DELIVERY OF GAS

The point of delivery of gas supplied by the Company shall be at the point where the gas passes from outlet of the meter to customer's yard line or house piping.

32. MCF

"Mcf" is defined as 1,000 cubic feet at the measurement base.

33. DTH

"Dth" is defined as 1,000,000 BTUs.

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34. CUSTOMER'S DISCONTINUANCE OF SERVICE

Reference 807 KAR 5:006, Section 12.

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35. COMPANY'S DISCONTINUANCE OF SERVICE FOR CAUSE

Reference 807 KAR 5:006, Section 14.

PURSUANT TO 807 KAR 5:011,  
SECTION 9(1)  
BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE President  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in  
DATE December 8, 1997

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
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Original PUBLIC SERVICE COMMISSION SHEET NO. 28  
CANCELLING P.S.C. OF KENTUCKY 7  
Original EFFECTIVE SHEET NO. 27 & 28

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CLASSIFICATION OF SERVICE

RULES AND REGULATIONS PURSUANT TO 807 KAR 5:011.

SECTION 9(1)  
BY: Stephan Bue

36. SPECIAL RULES AND CUSTOMERS SERVED FROM TRANSMISSION MAINS AND GATHERING MAINS

Transmission Mains - In addition to the standard Rules and Regulations as applicable to 807 KAR 5:022, Section 7, the following special Rules and Regulations shall apply to all customers served directly from the high pressure transmission mains.

All meters, regulators, equipment and connections necessary to serve the customer from high pressure transmission line shall be install on the customer's premises at or as near the transmission line as is practicable.

Suitable site or location for the equipment owned by the Company or the owner of the line shall be provided and furnished by the customer without any expense to the Company. The Company shall have the right of ingress, egress and regress to and from this location at any time without any expense or charges from the customer.

The customer's yard line extending from the outlet of the meter shall be installed and maintained by the customer at his expense.

The customer shall notify the Company promptly of any leaks in the transmission line or equipment, also, of any hazards or damages to same.

Gathering Lines - Reference 807 KAR 5:026

37. SPECIAL PROVISIONS - LARGE VOLUME CUSTOMERS

Industrial, commercial or other customers using large volumes of gas on a varying basis shall install and maintain at their expense adequate piping and suitable regulating and control equipment to provide reasonable and practical limitation of intermittence or fluctuation in the pressure, volume or flow of gas and shall so regulate and control their operations and the use of gas hereunder so as not to interfere with gas service being furnished to them or to any other customers or with the proper and accurate metering of gas at their existing location or any other location.

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ISSUED BY Glenn R. Jennings *Glenn R. Jennings* TITLE President  
Name of Officer

Issued by authority of an Order of the Public Service Commission of KY in  
CASE NO. 07-066 *07-066* December 8, 1997

DELTA NATURAL GAS COMPANY, INC.  
Name of Issuing Corporation

FOR All Service Areas  
P.S.C. NO. 8  
Original SHEET NO. 29  
CANCELLING P.S.C. NO. 7  
Original SHEET NO. 28 & 29

CLASSIFICATION OF SERVICE  
RULES AND REGULATIONS

38. MONITORING OF CUSTOMER USAGE

The Company monitors each customer's usage on a monthly basis in order to detect unusual deviations in individual customer consumption. Prior to each monthly billing, the Company compares the customer's current consumption with prior usage. Should an unusual deviation in the customer's consumption be found, the Company makes a reasonable attempt to determine the reason for the unusual deviation including re-reading the meter and testing the meter if required.

If the cause for usage deviation cannot be determined from analysis of the customer's meter reading and billing records the Company will contact the customer by telephone or in writing to determine whether there have been changes such as different number of household members or work staff, additional or different appliances, changes in business volume or known leaks in the customer's service line.

The Company will notify the customer of the investigation, its findings and any refunds or backbilling in accordance with 807 KAR 5:006, Section 10 (4) and (5).

39. DISTRIBUTION MAIN EXTENSIONS

The Company will make extensions from its existing distribution mains in all of its service areas in accordance with 807 KAR 5:022, Section 9.

All extensions will be made dependent on the economic feasibility of the extension. Title to all extensions shall be and remain with the Company. In the event a deposit is placed with the Company, the amount of the refund shall not exceed the original deposit.

Nothing contained herein shall be construed as to prohibit the Company from making at its expense greater extensions to its distribution mains or the granting of more favorable terms than herein prescribed, should its judgment so dictate, provided like extensions are made for other customers or subscribers under similar conditions.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

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DATE OF ISSUE December 18, 1997 DATE EFFECTIVE November 30, 1997  
ISSUED BY Glenn R. Jennings *Glenn R. Jennings* TITLE President  
Name of Officer BY: Stephan Bell  
Issued by authority of an Order of the Public Service Commission of KY in  
CASE NO. 07-066 DATED December 8, 1997

82. If a residential customer is scheduled to commence service on Day=1 of the 12<sup>th</sup> month of your fiscal year:
- i. How much revenue is budgeted for that customer (in dollars, and in months of service)?
  - j. How much net investment is budgeted for that customer for the fiscal year (in dollars and number of months the net investment is presumed to require a return)?
  - k. How much non-gas supply expense is related to the commencement of service to the referenced customer addition (in dollars and in number of months the expense is presumed to be included in the budgeted fiscal year)?

RESPONSE:

- i. Delta's estimates the number of customer it expects to serve during each month of the budget period. Therefore, there would only be one month's revenue in the budget for the additional customers expected to be served in June over the number served in May.
- j. The expected number of customers are taken into account when preparing the capital budget. However, the budgeted increase in net investment is not totally related to the number of customers expected to be added.
- k. While the expected number of new customers impact the budgeted non-gas supply expenses they are only one component entering into the estimates.

WITNESS: Steve Seelye

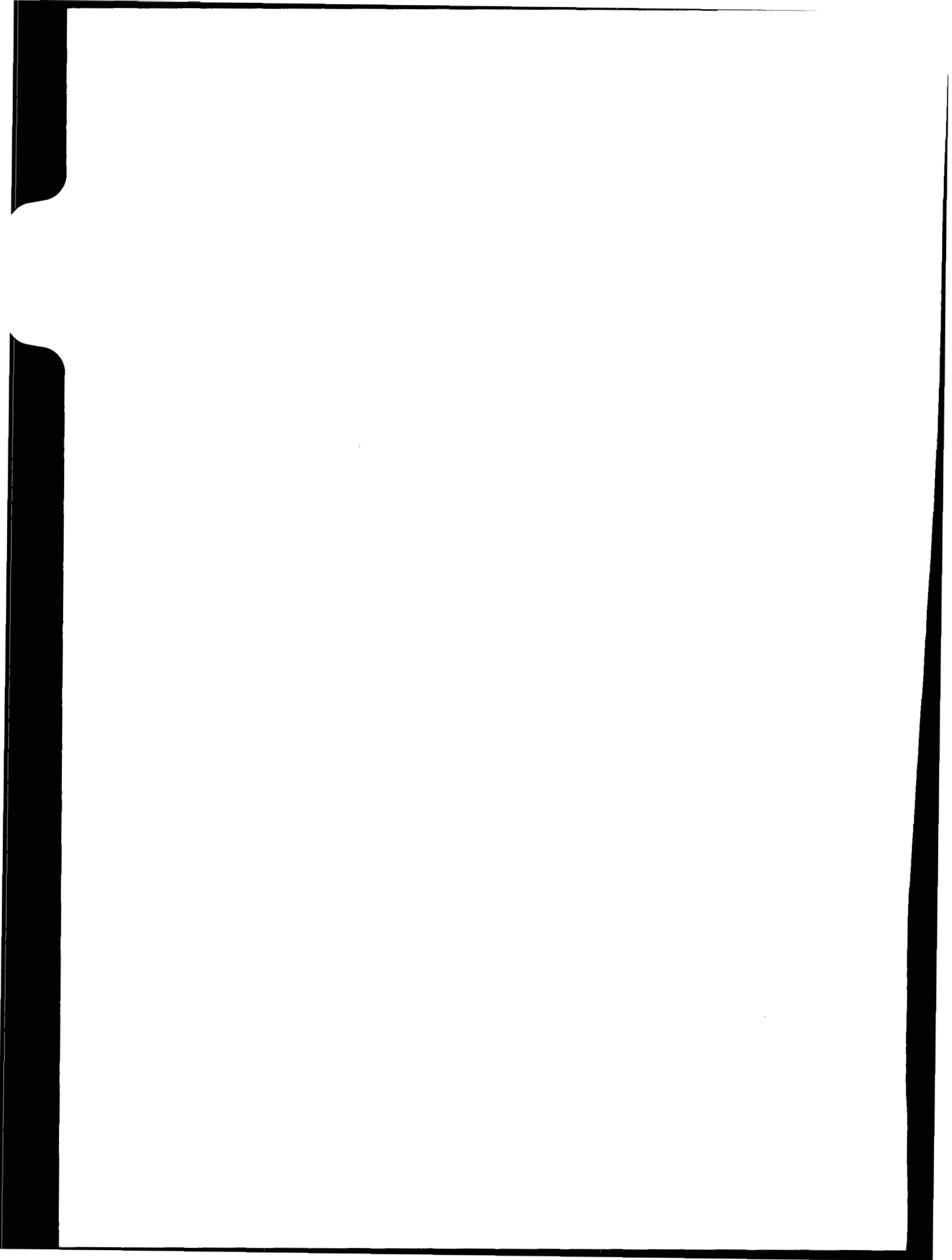
83. Please explain the impact on budget equity related to the existence of declared, but unpaid dividends. Please provide a numerical example of budget equity determination both with and without the existence of periodic budget year declared but unpaid dividends.

RESPONSE:

Delta's budget is prepared making the assumption that all declared dividends are paid concurrently.

WITNESS: Steve Seelye





84. Explain the relationship between "budget equity" and budgeted plant in service.

RESPONSE:

Budgeted equity is a component of the expected Capitalization of the Company for the budget year whereas plant in service is an asset. While there is some connection between budgeted equity and budgeted plant in service due to the need to raise capital to fund expenditures for plant additions, there is no exact relationship as with capitalization.

WITNESS: John Hall

85. In Case No. 97-066, did the Commission determine that rate base equals the amount of investor supplied capital? If yes, please provide the amounts of rate base and individual amounts of investor supplied capital summing to equivalence between rate base and investor supplied capital.

RESPONSE:

No.

WITNESS: John Hall

86. Please provide utility plant in service for each month June 1995 through December 1998. If possible, provide this information on the schedule entitled Proposed Alternative Ratemaking Methodology, page 1, by including another column on that schedule for plant in service.

RESPONSE:

See attached.

WITNESS: John Hall

DELTA NATURAL GAS COMPANY, INC.  
PLANT IN SERVICE  
JUNE 1995 THRU DECEMBER 1998

ITEM 86

<u>MONTH/YR</u>	<u>AMOUNT</u>
Jun-95	81,902,534
Jul-95	81,902,534
Aug-95	81,902,534
Sep-95	84,094,721
Oct-95	84,102,903
Nov-95	84,094,723
Dec-95	90,031,884
Jan-96	90,031,884
Feb-96	90,031,884
Mar-96	91,369,847
Apr-96	91,349,418
May-96	91,349,418
Jun-96	92,660,152
Jul-96	92,660,152
Aug-96	92,660,152
Sep-96	97,583,385
Oct-96	97,586,585
Nov-96	97,587,656
Dec-96	100,214,034
Jan-97	100,211,298
Feb-97	100,222,044
Mar-97	101,779,961
Apr-97	101,779,961
May-97	102,151,506
Jun-97	102,778,069
Jul-97	102,762,239
Aug-97	102,762,002
Sep-97	103,984,634
Oct-97	105,011,006
Nov-97	105,547,327
Dec-97	106,251,873
Jan-98	107,082,638
Feb-98	107,729,186
Mar-98	107,728,789
Apr-98	109,026,775
May-98	109,516,598
Jun-98	114,859,370
Jul-98	114,834,874
Aug-98	116,480,791
Sep-98	116,999,883
Oct-98	117,743,479
Nov-98	118,409,705
Dec-98	119,758,526

87. Confirm that the Information provided by Company, P.S.C. 8, Sheet 35 is information that would be filed by Delta with the Commission annually during the effective period of the Experimental Alternative Ratemaking Mechanism. If this is not so, please explain what this tariff language obligates the Company to do.

RESPONSE:

Yes.

WITNESS: Randall Walker

88. For each year of the sample AAC calculations, please provide the amount of dollars budgeted for contingency use.

RESPONSE:

See attached.

WTNESS: John Hall

**Delta Natrual Gas Company, Inc.**  
**Contingency Budget**  
**A/C 1.399.09**  
**for the years 1995, 1996, and 1997**

AG 88

	<u>Amount</u>
1995	\$ 400,000
1996	\$ 483,300
1997	\$ 514,100



89. Please confirm that the financial budget approved by Delta's Board of Directors is not binding on management as regards:
- l. any requirement that the total dollars budgeted must be spent by the end of the fiscal year;
  - m. no more and no less than the dollars budgeted in each account must be spent; and
  - n. if a. or b. above is denied, please explain what it is that binds management to the Board Approved budget just prior to the beginning of a fiscal year.

RESPONSE:

There is no requirement that management spend the budgeted dollars by the end of the fiscal year. Neither is there a requirement that no more or less than budgeted in each account must be spent.

Delta's budgets reflect the best information available as to expected revenues and expenses for the next fiscal year. Capital expenditures are budgeted based on available information as to capital needs for the next fiscal year.

Actual results reflect what actually occurs. Delta attempts to estimate all budget items realistically, but actual revenues, expenses and capital spending take into account events as they actual occur and thus can vary from the original plan.

That is why Delta proposed an adjustment mechanism in its alternative regulatory tariffs to adjust to actual results after the fact. The utilization of the budgets for the next year is meant to reflect projected results and the approved budgets reflect Delta's best efforts to project the next year. The adjustment to reflect actual results, with appropriate sharing and controls as proposed by Delta, provide for fair and reasonable rates.

WITNESS: John Hall

90. Please explain whatever constraints exist at Delta to prevent managers responsible for various portions of the budget to increase spending significantly above average monthly spending near the end of a fiscal year while still remaining within the annual budgeted amounts under the budget portions each manager is responsible for.

RESPONSE:

Delta's budgets reflect expected spending needs and anticipated revenues. Actual spending is strictly a function of actual monthly needs and is not related to average monthly spending or the impending end of the fiscal year.

Actual results are reviewed for each month and compared to the budget and the previous year. Unexpected variations are reviewed and considered by management as future decisions are made. In some accounts, it is possible that spending is not comparable to the average. Certain areas can require higher or lower spending levels depending upon the weather and the time of the year.

WITNESS: John Hall

91. Confirm that the board-approved budget is based on the sales expected under normal weather conditions.

RESPONSE:

Yes.

WITNESS: John Hall

92. Please list all assumptions underlying the budget presented to the Board just prior to the beginning of a fiscal year.

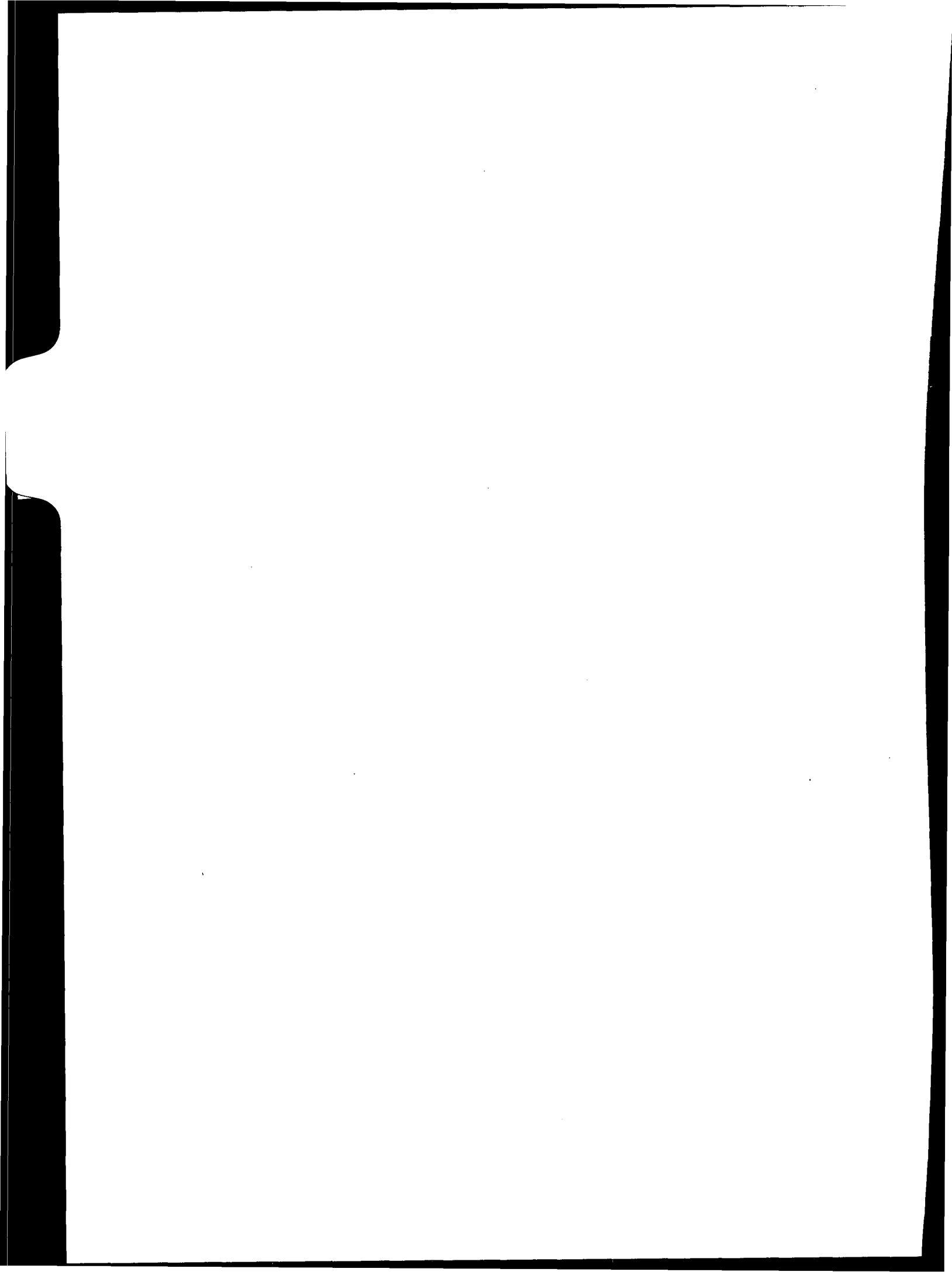
RESPONSE:

The budgets are presented to the Board for approval at the May Board meeting. This is usually 5 to 6 weeks before the start of the next fiscal year.

Management develops the budgets usually during March and April and there are intensive analyses, reviews and discussions as the budgets are put together. All revenue, expense and capital accounts are assigned to one of the Officers of Delta and they are responsible for involving other members of management, as they see fit, in the development of budgets for each of such accounts.

There are few specific instructions provided. The overall objective is to reflect revenues, expenses and capital for the next year as accurately as possible based on information available when the budgets are prepared. Delta budgets based upon normal weather. Pay increases are considered effective with the start of each budget year, and the overall level of pay increase to be included is approved by the president and used by the officers in developing budgets and in developing individual employee pay adjustments. It is assumed that Delta will continue to operate generally for the next year in a similar fashion to current levels, unless specific changes are planned or are taking place. If there are changes, they are taken into account.

WITNESS: John Hall



93. Please present all materials presented to the Board and related to the financial budget most recently approved by the Board. If the Board altered the proposed budget, please so state and provide the Board-authorized changes to the proposed budget.

RESPONSE:

The proposed operating and capital budgets were provided to the Board in advance of the May Board meeting. The materials were then reviewed in detail with the Board at the meeting. Delta's Board approved the operating and capital budgets as submitted by management as an acceptable and accurate plan for the next fiscal year. Delta's operating and capital budgets for the year ending 6/30/2000 are attached.

WITNESS: John Hall

Delta Natural Gas Company, Inc.

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**Fiscal 2000 Budget**  
**Income Statement Summary**  
 by financial statement caption

	<b>2000 Budget Approved</b>	<b>1998 Calendar Actual</b>	<b>1999 Budget Adopted</b>
Operating Revenue	(35,667,800)	(34,857,742)	(42,104,400)
PURCHASED GAS	13,076,200	14,147,177	19,270,300
OPERATION EXPENSE	8,826,500	8,185,735	8,487,700
MAINTENANCE EXPENSE	500,200	542,182	484,100
DEPRECIATION EXPENSE	4,126,000	3,570,354	3,844,800
TAXES OTHER THAN INCOME TAXES	1,330,700	1,223,848	1,262,500
INCOME TAXES	1,037,200	973,775	1,442,000
Operating Expenses	<u>28,896,800</u>	<u>28,643,071</u>	<u>34,791,400</u>
Operating Income	(6,771,000)	(6,214,671)	(7,313,000)

**Fiscal 2000 Income Statement  
 Budget Detail  
 by financial statement caption**

DELTA NATURAL GAS CO, INC.

Layer 2 of 8

	2000 Budget Approved	1998 Calendar Actual	1999 . Adopted Amount
GENERAL SERVICE RATE	-31,163,200	-30,086,179	-37,208,000
RESIDENTIAL	-19,273,600	-18,296,073	-22,540,500
1.480.010 - GS RATE SALES RESIDENTIAL JFH	-19,273,600	-18,295,562	-22,540,500
1.480.050 - UNMETERED GAS LIGHT REVENUE JFH	0	-511	0
COMMERCIAL	-10,889,500	-10,763,818	-13,092,500
1.480.020 - GS RATE SALES OTHER COMMERCIAL JFH	-5,924,100	-9,478,214	-7,102,400
1.480.040 - GS RATE SALES SMALL COMMERCIAL JFH	-4,965,400	-1,285,604	-5,990,100
INDUSTRIAL	-1,000,100	-1,026,288	-1,575,000
1.480.030 - GS RATE SALES INDUSTRIAL JFH	-1,000,100	-1,026,288	-1,575,000
INTERRUPTIBLE RATE	-230,000	-254,214	-528,400
COMMERCIAL	0	-15,728	0
1.481.020 - INTERRUPTIBLE RATE COMMERCIAL JFH	0	-15,728	0
INDUSTRIAL	-230,000	-238,486	-528,400
1.481.030 - INTERRUPTIBLE RATE INDUSTRIAL JFH	-230,000	-238,486	-528,400
MISCELLANEOUS REVENUE	-154,000	-152,009	-162,300
MISCELLANEOUS OPERATING REVENUE	-154,000	-152,009	-162,300
1.488.010 - COLLECTION REVENUE JFH	-80,000	-77,955	-83,300
1.488.020 - RECONNECT REVENUE JFH	-70,000	-66,160	-75,500
1.488.030 - METER TEST REVENUE JFH	0	-44	0
1.488.040 - BAD CHECK REVENUE JFH	-4,000	-7,850	-3,500
TRANSPORTATION REVENUE	-4,120,600	-4,365,340	-4,205,700
OFF SYSTEM TRANSPORTATION REVENUE	-294,000	-451,990	-365,000
1.489.020 - OFF SYSTEM TRANSP REVENUE JFH	-294,000	-451,990	-365,000
ON SYSTEM TRANSPORTATION REVENUE	-3,826,600	-3,913,350	-3,840,700
1.489.040 - ON SYSTEM TRANSP REVENUE JFH	-3,826,600	-3,913,350	-3,840,700
Operating Revenue	-35,667,800	-34,857,742	-42,104,400
CHASED GAS	13,076,200	14,147,177	19,270,300



**Fiscal 2000 Income Statement  
 Budget Detail  
 by financial statement caption**

DELTA NATURAL GAS CO, INC.				Layer 2 of 8
	2000 Budget Approved	1998 Calendar Actual	1999 . Adopted Amount	
PURCHASED GAS	15,356,200	16,260,038	21,430,300	
1.803.000 - PURCHASED GAS JFH	15,356,200	16,260,038	21,430,300	
RECOVERY OF CANADA MOUNTAIN	-2,280,000	-2,112,861	-2,160,000	
1.922.010 - EXPENSES TRANSFERRED (CANADA MOUNTAIN) JFH	-2,280,000	-2,112,861	-2,160,000	
OPERATION EXPENSE	8,826,500	8,185,735	8,487,700	
LABOR	5,793,900	5,261,005	5,492,900	
1.753.010 - WELLS & GATHERING PAYROLL JLC	0	13,903	0	
1.754.010 - COMPRESSOR STATION PAYROLL JLC	0	41,071	0	
1.816.010 - CM WELLS EXPENSES - PAYROLL JLC	0	22,516	0	
1.818.010 - CM COMPRESSOR STATION EXPENSES - PAYROLL JLC	0	17,191	0	
1.900.010 - TRANS & DIST. PAYROLL JLC	3,139,900	2,210,003	2,963,300	
1.903.010 - CASHERING PAYROLL JLC	512,900	495,671	517,500	
1.920.010 - ADMINISTRATIVE PAYROLL JLC	2,141,100	2,006,502	2,012,100	
1.926.010 - TIME OFF PAYROLL JLC	0	454,147	0	
TRANSPORTATION	601,400	628,911	498,000	
1.900.020 - OPR TRANSPORTATION EXPENSES JLC	521,400	538,911	408,000	
1.920.020 - ADM TRANSPORTATION EXPENSES JLC	80,000	90,000	90,000	
GENERAL OPERATIONS	374,500	346,814	355,200	
1.871.000 - TELEMETRY COSTS ALH	35,500	35,141	34,200	
1.880.010 - OPERATIONS OFFICE TELEPHONE JLC	81,600	78,673	81,600	
1.880.020 - OPERATIONS OFFICE UTILITIES JLC	46,800	44,599	45,600	
1.880.030 - OPERATIONS OFFICE MISC. JLC	108,000	99,132	96,000	
1.880.040 - FEES TRAINING SCHOOLS JLC	30,000	14,173	30,000	
1.880.050 - UNIFORMS JLC	48,000	49,153	42,000	
1.880.060 - WELDING SUPPLIES ALH	10,800	7,770	13,200	
1.881.010 - RENT OPERATING OFFICES JLC	1,200	3,654	2,900	
1.881.020 - RENT LAND & LAND RIGHTS ALH	12,600	14,520	9,700	

**Fiscal 2000 Income Statement  
Budget Detail  
by financial statement caption**

DELTA NATURAL GAS CO, INC.			Layer 2 of 8	
	2000 Budget Approved	1998 Calendar Actual	1999 . Adopted Amount	
CUSTOMER BILLING	224,400	214,271	213,600	
1.903.020 - CUSTOMER COLLECTIONS & RECORDS JFH	224,400	214,271	213,600	
UNCOLLECTIBLE ACCOUNTS	276,000	345,870	276,000	
1.904.000 - UNCOLLECTIBLE ACCOUNTS JFH	276,000	345,870	276,000	
ADMINISTRATIVE	612,100	553,713	615,400	
1.921.010 - ADM TELEPHONE JLC	132,000	126,757	138,000	
1.921.030 - BOOKS & SUBSCRIPTIONS JFH	30,000	30,831	28,800	
1.921.040 - COMPANY FORMS JLC	64,800	59,395	60,000	
1.921.050 - SMALL SUPPLY ITEMS JLC	60,000	54,709	60,000	
1.921.060 - MISCELLANEOUS OTHER ITEMS JLC	168,000	174,463	168,000	
1.921.070 - EMPLOYEE MEMBERSHIPS JLC	4,200	3,803	3,600	
1.921.080 - SAFETY LITERATURE & EDUCATION JLC	7,200	6,560	7,200	
1.921.090 - ENGR & DRAFTING SUPPLIES ALH	12,000	11,485	12,000	
1.921.100 - ADM UTILITIES JLC	30,000	29,132	30,000	
1.921.110 - INVENTORY - DIFFERENCE JLC	0	-21,063	0	
1.921.210 - TRAVEL ETC CO BUS PRES & CEO GRJ	20,000	17,070	16,000	
1.921.220 - TRAVEL ETC CO BUS OFFICERS GRJ	12,000	9,975	12,000	
1.921.230 - TRAVEL ETC CO BUS OPER & CONST ALH	18,000	11,561	24,000	
1.921.240 - TRAVEL ETC CO BUS ADM&CUST SER JLC	8,400	3,452	7,200	
1.921.250 - TRAVEL ETC CO BUS PUB AFFAIRS RCH	700	40	1,300	
1.921.260 - TRAVEL ETC CO BUS FINANCE JFH	10,000	4,783	8,900	
1.921.290 - CO. BUS. MEALS & ENTERTAINMENT JFH	34,800	30,758	38,400	
OUTSIDE SERVICES	413,600	343,946	349,500	
1.923.010 - OUTSIDE SERVICES LEGAL GRJ	84,000	73,126	72,000	
1.923.020 - OUTSIDE SERVICES ACCOUNTING JFH	101,700	92,483	93,600	
1.923.030 - OUTSIDE SERVICES JANITORIAL JLC	51,600	50,403	51,600	
1.923.040 - OUTSIDE SERVICES OTHER ALH	114,900	97,053	87,400	

**Fiscal 2000 Income Statement  
 Budget Detail  
 by financial statement caption**

DELTA NATURAL GAS CO, INC.				Layer 2 of 8
	2000 Budget Approved	1998 Calendar Actual	1999 . Adopted Amount	
1.923.050 - OUTSIDE SERVICES COMPUTERS JFH	61,400	30,883	44,900	
INSURANCE	346,800	419,058	404,000	
1.924.000 - INSURANCE JFH	346,800	419,058	404,000	
EMPLOYEE BENEFITS	1,552,300	1,361,086	1,478,800	
1.926.020 - PENSION JLC	300,000	292,818	346,000	
1.926.030 - EMPLOYEE 401K PLAN JLC	170,400	180,370	156,000	
1.926.040 - MEDICAL COVERAGE JLC	900,000	729,269	804,000	
1.926.050 - SALARY CONTINUATION COVERAGE JLC	104,400	96,053	100,800	
1.926.060 - EMPLOYEE STOCK PLAN JLC	63,000	56,220	60,000	
1.926.070 - EMPLOYEE EDUCATION JLC	6,000	1,330	6,000	
1.926.080 - EMPLOYEE RECREATION & SOCIAL JLC	8,500	1,214	6,000	
1.926.090 - HOUSE TRAILERS JLC	0	3,812	0	
GENERAL ADMINISTRATION	568,500	556,173	528,200	
1.913.000 - ADVERTISING JLC	20,000	10,775	20,000	
1.928.000 - REGULATORY COMMISSION EXPENSE JFH	88,800	104,940	80,800	
1.930.010 - DIRECTOR FEES & EXPENSES JFH	88,800	88,800	88,800	
1.930.020 - COMPANY MEMBERSHIPS JLC	50,400	45,776	40,000	
1.930.030 - FEES CONVENTIONS & MEETINGS JLC	7,200	4,930	5,200	
1.930.040 - MARKETING JLC	42,000	37,869	42,000	
1.930.050 - COMPANY RELATIONS JLC	36,000	32,496	32,000	
1.930.060 - TRUSTEE, REGISTRAR, AGENT FEES JFH	50,200	52,233	48,900	
1.930.080 - STOCKHOLDER REPORTS JFH	63,200	57,172	49,700	
1.930.090 - CUSTOMER & PUBLIC INFORMATION RCH	49,100	51,114	48,000	
1.930.100 - PUBLIC & COMMUNITY RELATIONS GRJ	20,000	16,885	20,000	
1.930.110 - CONSERVATION PROGRAM JLC	52,800	48,913	52,800	
1.930.120 - LOBBYING EXPENDITURES GRJ	0	4,269	0	
PENSES TRANSFERRED	-2,168,900	-2,046,578	-1,985,900	

**Fiscal 2000 Income Statement  
Budget Detail  
by financial statement caption**

DELTA NATURAL GAS CO, INC.				Layer 2 of 8
	2000 Budget Approved	1998 Calendar Actual	1999 . Adopted Amount	
1.922.000 - EXPENSES TRANSFERRED JFH	-2,168,900	-2,046,578	-1,985,900	
OTHER	231,900	201,467	262,000	
1.753.020 - WELLS & GATHERING MISC ALH	1,200	-1,399	1,200	
1.754.020 - COMPRESSOR STATION MISC. ALH	36,000	21,773	36,000	
1.816.020 - CM WELLS EXPENSES - MISC ALH	3,600	2,374	4,800	
1.818.020 - CM COMPRESSOR STATION EXPENSES - MISC ALH	10,000	9,485	8,000	
1.821.000 - CM PURIFICATION OF NATURAL GAS ALH	7,500	1,761	7,500	
1.824.020 - CM OTHER UNDERGROUND STORAGE EXPENSES - MI	4,000	5,484	4,000	
1.825.000 - CM STORAGE WELL ROYALTIES/RENTS ALH	56,200	54,064	56,100	
1.856.000 - RIGHT OF WAY CLEARING ALH	51,000	54,869	70,000	
1.900.030 - SMALL TOOLS & WORK EQUIPMENT JLC	62,400	53,056	74,400	
MAINTENANCE EXPENSE	500,200	542,182	484,100	
LABOR	0	118,810	0	
1.764.010 - MNT WELLS & GATHERING PAYROLL JLC	0	1,870	0	
1.765.010 - MNT COMPRESSOR STATION PAYROLL JLC	0	2,533	0	
1.832.010 - CM MAINT OF RESERVOIRS AND WELLS - PAYROLL JL	0	1,501	0	
1.834.010 - CM MAINT OF COMPRESSOR STAT EQUIP - PAYROLL .	0	1,481	0	
1.835.010 - CM MAINT OF MEAS & REG STAT EQUIP - PAYROLL JLC	0	1,870	0	
1.887.010 - MNT TRANS & DIST MAINS PAYROLL JLC	0	74,033	0	
1.893.010 - MNT OF METERS & REG PAYROLL JLC	0	21,123	0	
1.894.010 - MNT OF OTHER EQUIPMENT PAYROLL JLC	0	14,397	0	
TRANSPORTATION	43,200	44,768	43,200	
1.898.010 - MNT - TRANSP EQUIP EXPENSE-PAYROLL JLC	26,400	31,246	26,400	
1.898.020 - MNT - POWER OPR EQUIP EXPENSE-PAYROLL JLC	16,800	13,523	16,800	
MAINS	72,000	68,262	72,000	
1.887.020 - MNT TRANS & DIST MAINS OTHER ALH	72,000	68,262	72,000	
INTER & REGULATORS	45,000	63,874	45,000	

**Fiscal 2000 Income Statement  
 Budget Detail  
 by financial statement caption**

DELTA NATURAL GAS CO, INC.		Layer 2 of 8		
	2000 Budget Approved	1998 Calendar Actual	1999 . Adopted Amount	
1.893.020 - MNT OF METERS & REG OTHER ALH	45,000	63,874	45,000	
OTHER	340,000	246,469	323,900	
1.764.020 - MNT WELLS & GATHERING OTHER ALH	1,200	3,337	1,200	
1.765.020 - MNT COMPRESSOR STATION OTHER ALH	18,000	15,248	18,000	
1.831.020 - CM MAINTENANCE STRUCTURES & IMPROVEMENTS -	10,000	609	10,000	
1.832.020 - CM MAINTENANCE OF RESERVOIRS AND WELLS - MIS	28,000	47	0	
1.833.020 - CM MAINTENANCE OF LINES - MISC ALH	5,000	110	2,000	
1.834.020 - CM MAINTENANCE OF COMPRESSOR STAT EQUIP - MI	6,000	5,725	6,000	
1.835.020 - CM MAINTENANCE OF MEAS & REG STAT EQUIP - MIS	4,000	1,834	4,000	
1.837.020 - CM MAINTENANCE OF OTHER EQUIPMENT - MISC ALH	800	1,052	2,400	
1.886.000 - MNT STRUCTURES TRANS & DIST. ALH	4,200	2,103	4,200	
1.889.000 - MNT REG STATION TRANS & DIST. ALH	6,000	4,222	5,000	
1.894.020 - MNT OF OTHER EQUIPMENT OTHER ALH	72,000	72,217	72,000	
1.932.010 - MNT COMMUNICATION EQUIPMENT JLC	55,200	41,253	66,000	
1.932.020 - MNT OFFICE EQUIPMENT JLC	30,000	22,273	30,000	
1.932.030 - MNT GENERAL STRUCTURES JLC	30,000	21,263	36,000	
1.932.050 - MAINTENANCE COMPUTER EQUIPMENT JFH	69,600	55,176	67,100	
DEPRECIATION EXPENSE	4,126,000	3,570,354	3,844,800	
DEPRECIATION EXPENSE	4,126,000	3,570,354	3,844,800	
1.403.000 - DEPRECIATION EXPENSE JFH	4,126,000	3,570,354	3,844,800	
TAXES OTHER THAN INCOME TAXES	1,330,700	1,223,848	1,262,500	
PROPERTY TAXES	818,600	743,007	777,000	
1.408.010 - LICENSE & PRIVILEGE FEES JFH	2,000	423	12,000	
1.408.020 - PROPERTY TAXES JFH	816,600	742,584	765,000	
PAYROLL TAXES	512,100	480,841	485,500	
1.408.030 - PAYROLL TAXES JFH	512,100	480,841	485,500	
INCOME TAXES	1,037,200	973,775	1,442,000	

**Fiscal 2000 Income Statement**  
**Budget Detail**  
**by financial statement caption**

DELTA NATURAL GAS CO, INC.				Layer 2 of 8
	2000 Budget Approved	1998 Calendar Actual	1999 . Adopted Amount	
CURRENT FEDERAL	1,062,700	875,125	1,467,500	
1.409.010 - CURRENT FED INC TAX JFH	0	875,125	0	
1.409.070 - ESTIMATED INTERIM INCOME TAXES JFH	1,062,700	0	1,467,500	
CURRENT STATE	0	199,300	0	
1.409.020 - CURRENT STATE INC TAX JFH	0	199,300	0	
DEFERRED FEDERAL & STATE	-25,500	-29,700	-25,500	
1.410.000 - DEFERRED INCOME TAXES JFH	0	-2,475	0	
1.410.010 - AMORT OF REGULATORY LIABILITY JFH	-25,500	-27,225	-25,500	
INVESTMENT TAX CREDIT-NET	0	-70,950	0	
1.411.000 - INVESTMENT TAX CREDIT NET JFH	0	-70,950	0	
Operating Expenses	28,896,800	28,643,071	34,791,400	
Operating Income	-6,771,000	-6,214,671	-7,313,000	

## Fiscal 2000 Capital Budget

### Compared with Previous Years

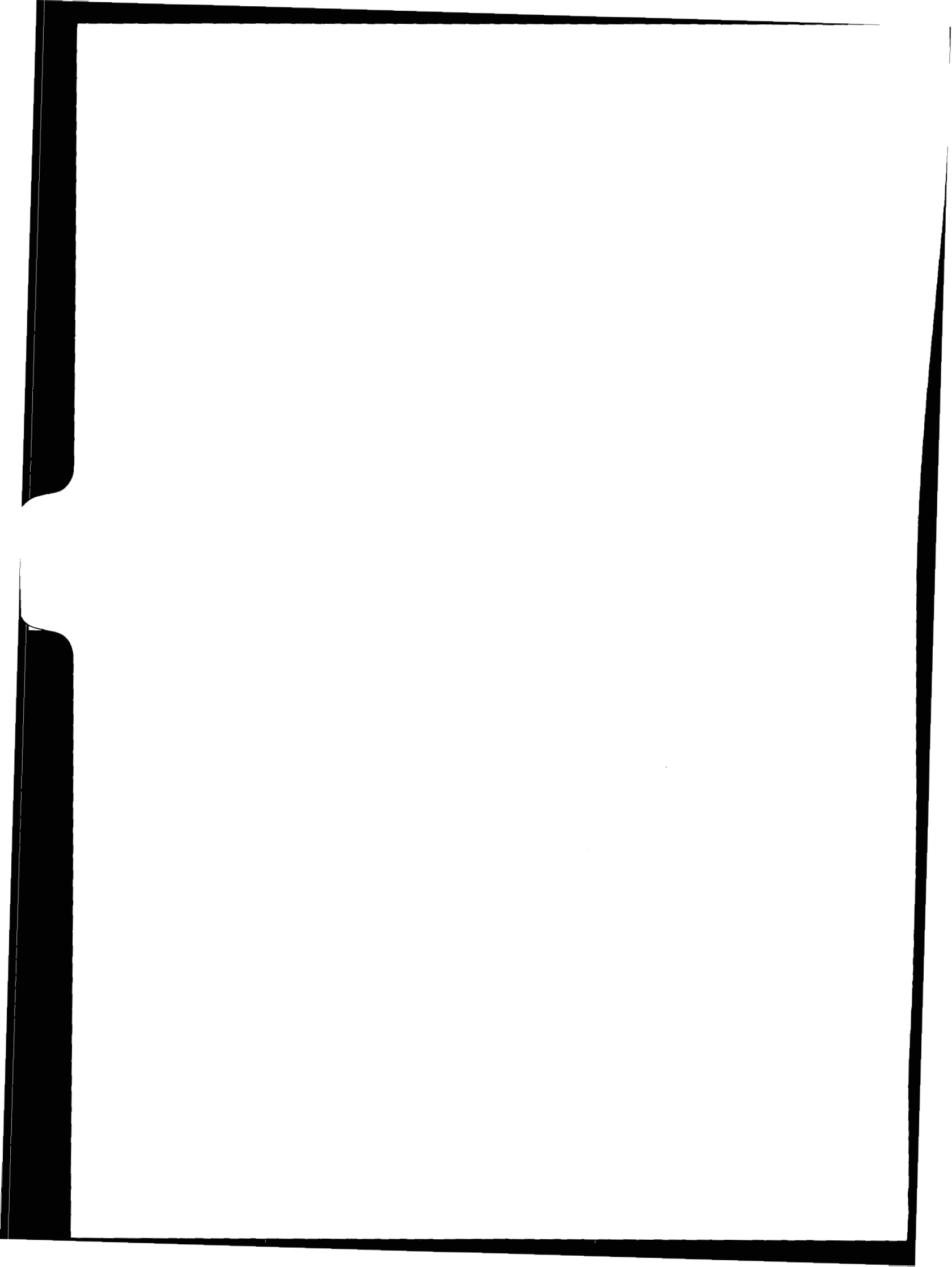
### By Capital Budget Account

	2000 . Approved Budget	Calendar 1998 . Actual	1999 . Adopted Budget			
<b>Grand Total</b>	9,948,300	8,678,857	6,815,800			
<b>ALH</b>	3,325,300	2,944,544	1,121,600			
1332 GATHERING LINES	10,000	22,647	20,000			
1334 GATH MEAS & REG STAT EQUIPMENT	0	-498	0			
135002 STORAGE RIGHT OF WAY	0	5,000	0			
1351 STOR STRUCTURES & IMPROVEMENTS	16,000	25,608	25,000			
1352 STORAGE WELLS	0	63,690	30,000			
135201 STORAGE RIGHTS	0	250,000	0			
1353 STORAGE LINES	10,500	19,466	23,000			
1354 STORAGE COMPRESSOR STAT EQUIP	0	2,569	0			
1355 STORAGE MEASURING & REG EQUIP	0	1,728	20,000			
136501 TRANSM LAND & LAND RIGHTS	5,000	0	1,000			
136502 TRANSM RIGHTS OF WAY	130,000	23,606	71,800			
1366 TRANSM STRUCTURES & IMPROVMNTS	14,500	10,100	11,500			
1367 TRANSMISSION MAINS	2,063,000	625,282	38,000			
1368 TRANSM COMPRESSOR STAT EQUIPMT	10,000	4,411	10,000			
1369 TRANSM MEASURING & REG EQUIPMT	172,500	448,226	156,800			
1371 TRANSMISSION OTHER EQUIPMENT	22,500	11,047	14,600			
1381 DISTRIBUTION METERS	402,000	289,897	363,000			
1383 DISTRIBUTION REGULATORS	228,000	274,247	165,400			
1385 DIST INDUSTRIAL METER SETS	84,000	86,920	84,000			
1395 LABORATORY EQUIPMENT	85,800	25,146	10,500			
139901 MAPPING COST	50,000	82,664	77,000			
6366 TRANSM STRUCTURES & IMPRVMNTS	1,500	0	0			
6367 TRANSMISSION MAINS	0	68,278	0			
6368 TRANSM COMPRESSOR STAT EQUIPMT	20,000	1,579	0			
6369 TRANSM MEAS & REG EQUIPMENT	0	145,142	0			

### Fiscal 2000 Capital Budget Compared with Previous Years By Capital Budget Account

	2000 . Approved Budget	Calendar 1998 . Actual	1999 . Adopted Budget			
6371 OTHER EQUIPMENT TELEMETERING	0	51,772	0			
GRJ	500,000	0	300,000			
139909 CONTINGENCY	500,000	0	300,000			
JFH	337,000	219,992	227,200			
139902 COMPUTER SOFTWARE	53,600	115,201	101,400			
139903 COMPUTER HARDWARE	283,400	104,791	125,800			
JLC	5,786,000	5,514,321	5,167,000			
1374 DISTRIBUTION LAND & ROW	6,000	4,973	6,000			
1375 DIST STRUCTURES & IMPROVEMENTS	5,000	3,102	5,000			
1376 DISTRIBUTION MAINS	3,640,000	3,597,186	3,264,000			
1378 DIST GENERAL REG STATIONS	120,000	98,458	120,000			
1379 DIST CITY GATE REG STATIONS	25,000	0	0			
1380 DISTRIBUTION SERVICES	880,000	732,158	804,400			
1382 DIST METER & REG INSTALLATION	190,000	172,094	174,000			
1389 GEN LAND & LAND RIGHTS	0	25,417	0			
1390 GEN STRUCTURES & IMPROVEMENTS	57,500	298,260	173,100			
1391 OFFICE FURNITURE & EQUIPMENT	57,000	8,927	48,000			
1392 TRANSPORTATION EQUIPMENT	463,500	396,140	353,000			
1393 STORES EQUIPMENT	4,000	1,961	11,500			
1394 TOOLS, SHOP & GARAGE EQUIPMENT	60,000	21,985	64,800			
139401 COMPRESSED NAT GAS STAT & EQUIP	30,000	6,056	37,000			
1396 POWER OPERATED EQUIPMENT	214,000	126,428	76,500			
1397 COMMUNICATION EQUIPMENT	28,000	15,757	21,700			
1398 MISCELLANEOUS EQUIPMENT	6,000	5,420	8,000			





94. Please provide CWIP balances at year-end for 1984 to present.

RESPONSE:

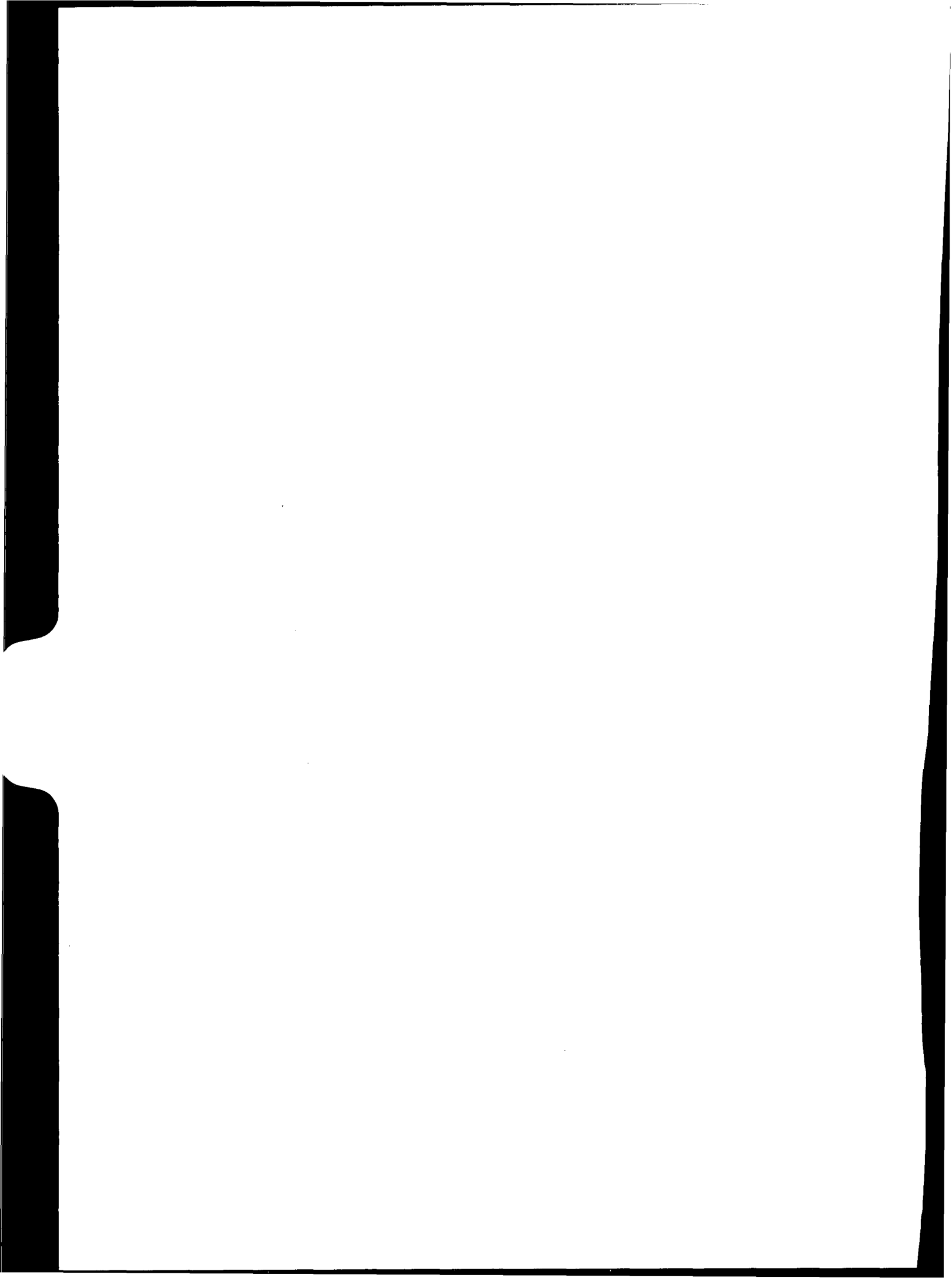
See attached.

WITNESS: John Hall

**Delta Natural Gas Company, Inc.**  
**Construction Work In Progress**  
**Year Ended 1984 to 1998**

AG ITEM 94

<u>Year Ended</u>	<u>Total</u>
1984	488,002
1985	142,105
1986	192,800
1987	237,614
1988	214,936
1989	636,699
1990	1,238,022
1991	198,737
1992	760,590
1993	793,323
1994	1,448,986
1995	472,510
1996	2,533,593
1997	8,127,135
1998	1,382,759



95. Please provide test year AFUDC in Case No. 97-066.

RESPONSE:

There was zero included.

WITNESS: John Hall

96. If not included in your Case No. 97-066 Order, please provide the Commission-approved capital structure, by dollar amount, of type of capital and percentage and cost.

RESPONSE:

The information was included in the Order.

WITNESS: John Hall

97. Please provide whatever documents, measurements, quantifications or statistics are in Delta's possession that indicate customer satisfaction with Delta service. You can interpret the term customer satisfaction as broadly as you want in providing response to this question, since the term is not uniquely defined.

RESPONSE:

See attached.

WITNESS: John Hall

**DELTA NATURAL GAS COMPANY  
1998 CUSTOMER RESPONSES - CUSTOMER SERVICE CARDS**

Customer Responses Received:		Service Requests:			
Owingsville	9	Turn on	576	CO <sub>2</sub> check	5
Berea	48	Reconnect	122	Ck. furnace	4
Nicholasville/Wilmore	710	Set meters	86	Ck. after repairs	2
Stanton	18	1st set/turn on	41	Ck. dryer	2
London	15	Rotation	64	Meter hit by truck	2
Williamsburg	89	New Service	38	Shut off	2
Barbourville	26	Relight	25	Check meter	2
Middlesboro/Pineville	69	Check/leak	23	Misc.	2
Corbin	86	Light pilots	20	Adj. pilots	1
Manchester	4	Reset/turn on	14	Ck. boiler unit	1
		Check piping	6	Broken yd. line	1
		Ck. water heater	5	Billing date inqy.	1
		High bill	5	Not indicated	24
<b>Total</b>	<b>1074</b>	<b>Total</b>		<b>Total</b>	<b>1074</b>

Timely Response To Request	Yes.....1045	No.....8	Not indicated.....21
Service Satisfactory	Yes.....1057	No.....1	Not indicated.....16
Courteous/Professional Service Rendered	Yes.....1058	No.....1	Not indicated.....15

**Comments/Suggestions:**

- Excellent/great/good/courteous/professional/satisfactory/very helpful/prompt service, etc. (96)
- Reduce rates. (6)
- Send bills on the 1st-5th of the month. (5)
- Cut deposit into 2 or 3 monthly payments. (2)
- Pay your people more money. They do a good job.
- Issue requirements for new service installation. Inform customers what must be ready prior to permanent service.
- I believe 48 hours to get service turned on is ridiculous!!
- Manpower seems to be a problem.
- Keep up the good work - a very special thanks to Norma Duncan!!
- The drive-thru is too little. The rates are too high...should be put back on the rent.
- Please give more time or notice before discontinuance...we work too!
- Serve more rural homes. (Corbin)
- I do not get my social security check until 3rd of month, can't pay until 4th.
- Lower prices and higher dividend on stock! Duh!
- Probably just hire a few more people.
- Extend daily hours to 5 p.m. and have Saturday a.m. hours.
- Bobby Spurlock is a very fine, courteous employee.
- Discount for paying bill on time each month would be nice.
- Please change budget requirements. I have been on budget for 8 years. Now that I am moving, I have to wait a year to get back on. Very disappointing.
- Thank you for being so prompt. (Nicholasville)
- It was so good, the only thing I can think of is a month's free gas! (Nicholasville)
- Bill us for reconnect fee instead of making us come to your office to pay first.
- I was very happy with the work done in my yard and on the street. Your men were very professional and treated my property with respect. Everyone was very helpful.
- After 25 years as a customer, I had to pay \$95 security deposit. Working out of town - got hurt on the job.
- I was grateful for the quick response. My problem was with gas logs. They also checked furnace while here! However, they both left muddy boot prints on my parquet/ kitchen and a couple of throw rugs. Whatever happened to taking muddy shoes off at the front door?
- My gas bill has tripled and that's not good.
- More help. (Nicholasville)
- New heaters -- and representative didn't know how to turn them on.
- This service is for heating a church and we pay \$20/month whether gas used or not. I feel that the \$40 reconnect fee is very excessive. (2)
- Free natural gas.



# COMMENTS & COMPLAINTS SUMMARY

DELTA NATURAL GAS COMPANY, INC.

Original/P... A/2yrs.  
PERIOD Annual 1998

BRANCH	NUMBER OF COMPLAINTS	COMMENTS (#7-OTHER)	NATURE OF COMPLAINT (SEE LEGEND BELOW)									
			1	2	3	4	5	6	7			
OWINGSVILLE	91		91									
BEREA	12	1-Dead meter 1-No bill for 3 mo.	9			1						2
NICHOLASVILLE	179	3-Low bill 1-No bill received. 1-Change in bill	174									5
STANTON	152	150-Bill too high, long billing periods & budget revisions.		1			1					150
LONDON	18		18									
WILLIAMSBURG	31	2-Estimated bills 1-Disputed Final bill 3-Dep.refund not rec.	25									6
BARBOURVILLE	72		72									
MIDDLESBORO	53	1-Didn't understand bill 1-Rates & Billing period. 2-Wants dep. refunded 1-Budget changes	45			1	2					5
CORBIN	72	1-Meter rotation 1-Turned off-illegal use	69			1						2
MANCHESTER	-0-											
WINCHESTER	46	See Reverse	9			1	12			1		23
<b>TOTAL</b>	<b>726</b>		<b>512</b>	<b>1</b>	<b>3</b>	<b>16</b>	<b>1</b>	<b>193</b>				

LEGEND: 1 - HIGH BILL 2 - DUE DATE 3 - COLLECTION & RECONNECT FEES 4 - DISCONNECTS 5 - SERVICE

WINCHESTER # 7 First Quarter

- 1-Damage to sewer line
- 1-Construction complaint
- 2-Rate increase & billing period
- 2-Can't understand bill
- 2-Billing cycle
- 1-Auto. Bank draft problem
- 1-Deposit refunded question
- 1-Customer charge question

Second Quarter

- 1-Deposit refund

Third Quarter

- 1-Final Notice & payment crossed in mail
- 1-Problem with Auto Bank draft & I.N.S.
- 1-Final Notice
- 1-Question new budget amount
- 1-No incentive offered
- 1-Question about minimum bill

Fourth Quarter

- 1-Refused turn on (was off under another name for non-payment)
- 2-Wanted turn on today
- 1-Wanted service (old bill outstanding under x-husband's name)
- 1-Wanted service no deposit (has several Final Notices)

98. Is the annual budget approved by the Board adjusted by management during the ensuing year? If so, please describe the process by which the budget is adjusted, including but not limited to:

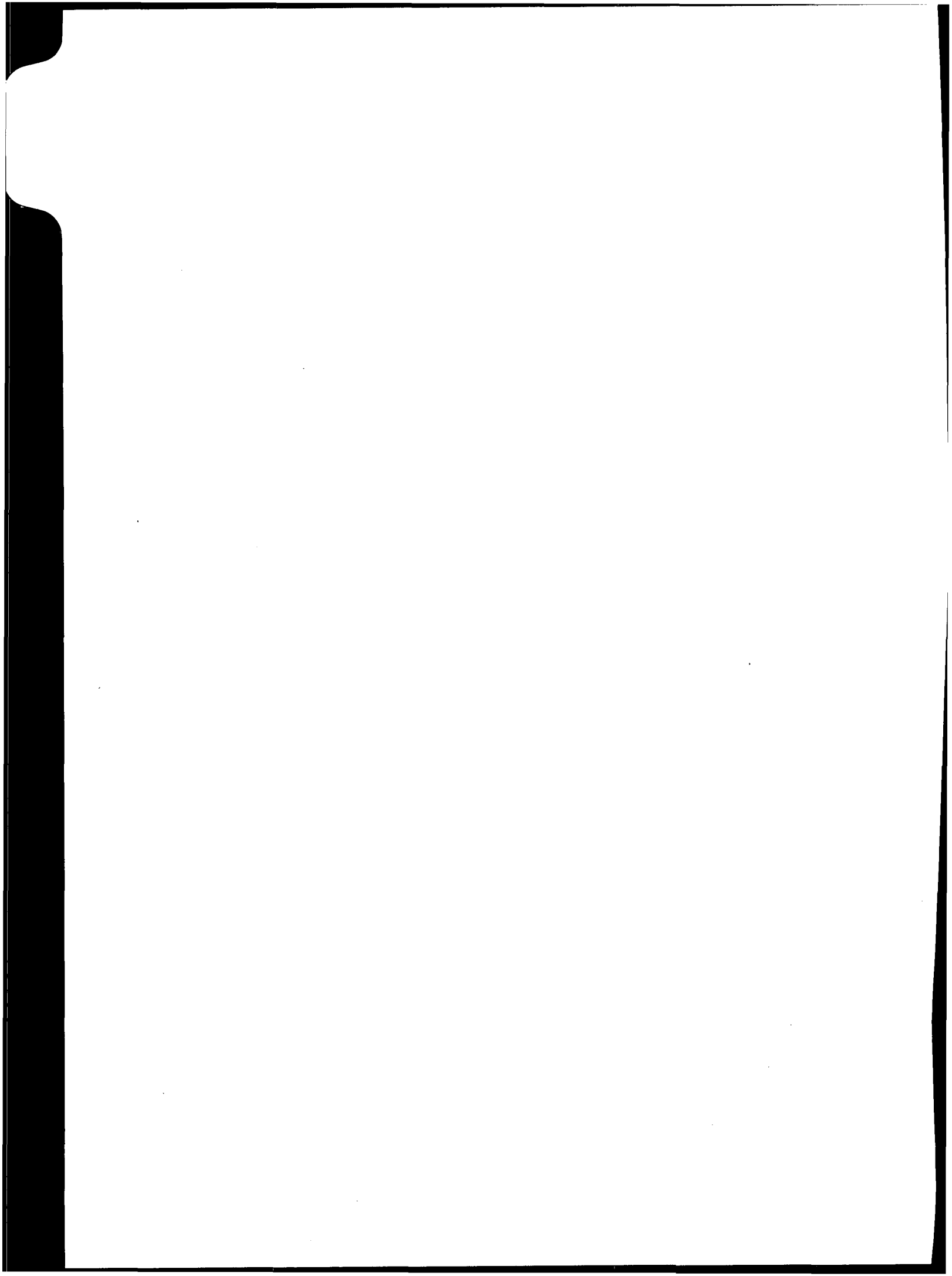
- o. the number of times, and when;
- p. the highest level of management approval required for changes to be authorized; and
- q. the purpose of adjusting the budget.

RESPONSE:

Budgets are not routinely adjusted by management nor by the Board of Directors. If the Delta budget was revised, it would be as a result of a major event, possibly such as implementation of new rates from a rate case or some such event that could materially alter the expected results for the year. Even then, the impact from such events can be reasonably estimated and communicated to Delta's Board and budget revision might be considered unnecessary.

If management were to adjust Delta's budget, it would require approval by the President and CEO of Delta. Such adjustments, if done, would be to more accurately reflect future results in current plans.

WITNESS: John Hall

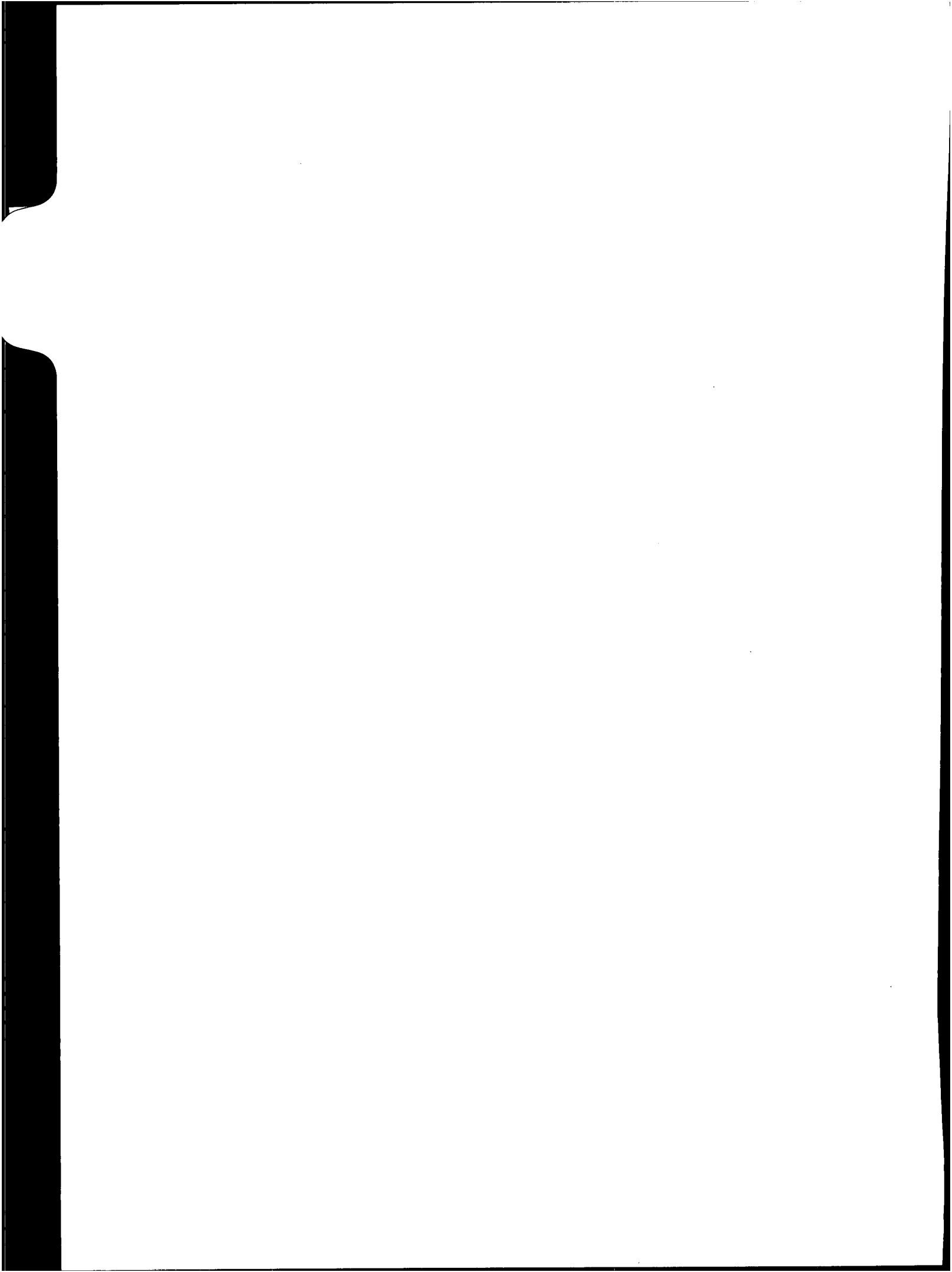


99. Provide Delta's Annual Report to Stockholders for 1996, 1997, 1998.

RESPONSE:

See the response to Item 2 of this data request.

WITNESS: John Hall



100. If Delta is an affiliate of any other company, please provide a schematic illustration of Delta and all of its affiliates. Please also verbally describe the affiliate relations among all affiliates.

RESPONSE:

Delta has four wholly owned subsidiaries. Delta Resources, Inc. (Resources) buys gas and resells it to industrial customers on Delta's system and to Delta for system supply. Delgasco, Inc. buys gas and resells it to Resources and to customers not on Delta's system. Deltran, Inc. operates an underground natural gas storage field that it leases from Delta. Enpro, Inc. owns and operates production properties and undeveloped acreage.

WITNESS: John Hall

101. Reference page 1 of the Analysis of Proposed Alternative Ratemaking Methodology (analysis) accompanying Application.
- (r) Please provide workpapers detailing the derivation of the Common Equity (Utility) column of numbers, from their source data to the reported numbers; and
  - (s) Please provide workpapers detailing the derivation of the Net Income Available for Common (Utility) column of numbers from the source data to the reported numbers.

RESPONSE:

- (r) See response to Question No. 33, part c of this data request.
- (s) See response to Question No. 31 of this data request.

WITNESS: Randall Walker



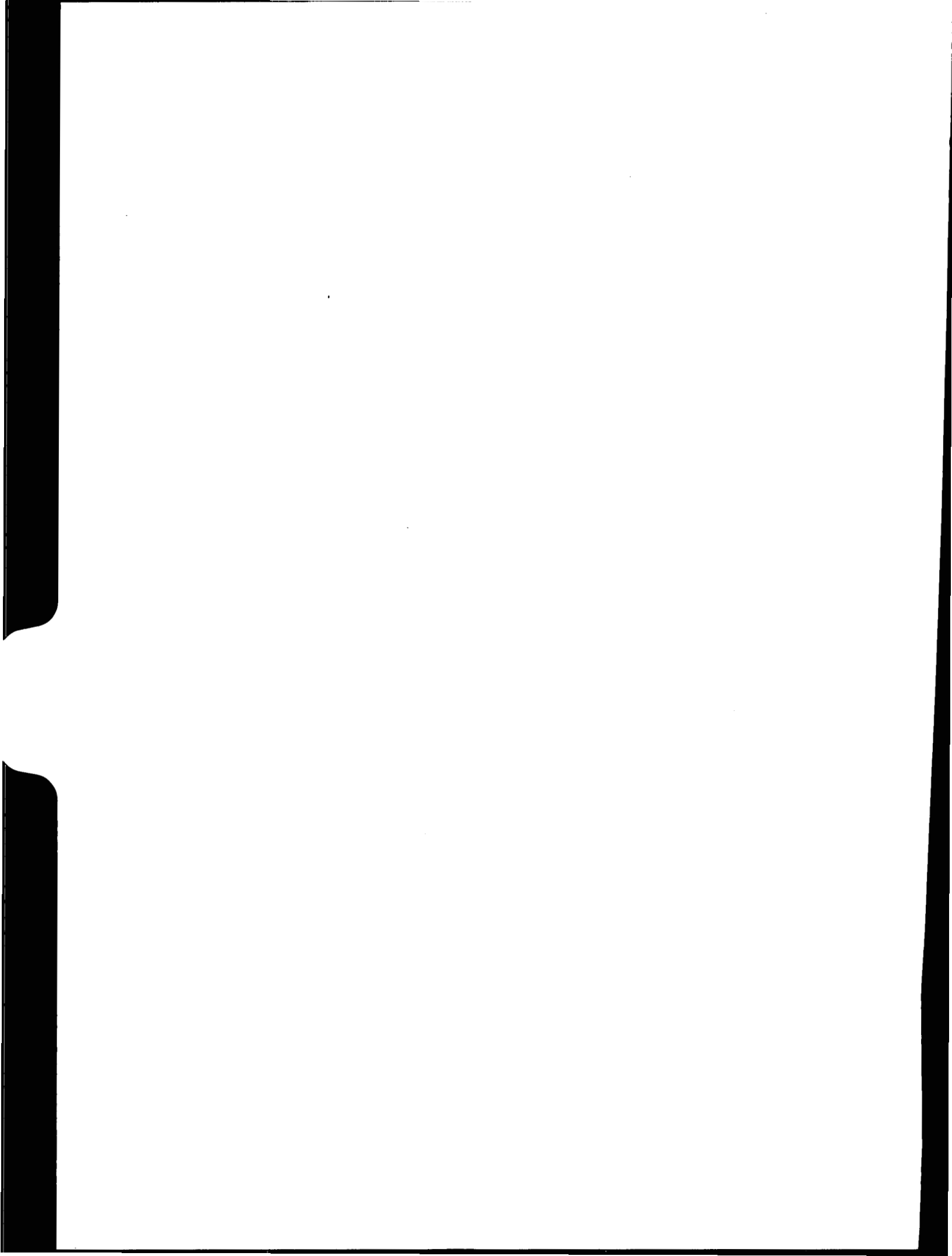
102. Reference Analysis, pages 4-5. In deriving the net revenue by class actuals:

- (t) What "gas cost revenues" are included in revenues (i.e. actual PGA revenues collected? inclusive or exclusive of any true-up component from prior periods? Revenues from weather-normalized sales? Revenues that include any over- or under-collection of that current year's gas costs?, etc?) Please explain as precisely as possible.
- (u) What gas costs are deducted from revenues in deriving net revenues (i.e. actual gas costs expensed each month?, weather-normalized gas costs?, other?) Please explain as precisely as possible.
- (v) Explain how cycle billing impacts reference revenues and gas costs.
- (w) Explain how unbilled revenues impact referenced revenues and gas costs; and
- (x) Finally, whatever gas revenues and costs are reported on the referenced pages 4-5, explain why they provide the "best" determination of net revenues in any determination of whether Delta has the proper amount of revenues, producing the proper amount of net income for its claimed equity income requirement.
- (y) What standards describe the "best" determination of net revenues, and how does Delta's proposed net revenue determinations comport with such standard.

RESPONSE:

- (t) The actual revenues shown on page 4 included the revenues billed through the application of the base rates plus amounts collected through application of the quarterly GCR charges which were determined and billed pursuant to the Company's Gas Cost Adjustment Clause.
- (u) The amounts collected through the application of the quarterly GCR charges.
- (v) The revenues are stated on a cycle billing basis and the booked gas costs correspond with the amounts collected pursuant to application of the GCR.
- (w) It doesn't
- (x&y) The net revenues reflect the amounts that were collected from application of the Company's base rates. The Commission approved base rates were designed, at the time, to recover the Company's non-gas supply related costs of providing service. Therefore, it seems abundantly clear that this would provide the "best" determination of net revenue for this purpose.

WITNESS: Randall Walker



103. In general, why shouldn't the results of the operation of any GCR be totally removed from the Company's ARP proposal, on the assumption that, over time, the GCR operations produce revenues that exactly recover gas costs?

RESPONSE:

The operation of the GCR is removed from the Company's proposed ARP. The monthly GCR revenues correspond with the Company's monthly gas supply costs thus eliminating any impact whatsoever on the Alt Reg. Plan from the operation of the GCR.

WITNESS: Steve Seelye

104. Are GCR revenues and costs included in any calculations leading to the ARMAC? If yes, explain why.

RESPONSE:

No. They are eliminated.

WITNESS: Steve Seelye

105. Reference Analysis, page 3. Are the numbers in the Common Equity (Utility) column based on the same equity ratio utilized by the Commission in deriving the overall rate of return in Case No. 97-066? Other? Explain.

RESPONSE:

No. These are the actual common equity numbers.

WITNESS: Randall Walker

106. If Delta were to lose a major industrial customer, explain the impact on residential, commercial and remaining industrial customers from operation of the proposed ARP.

RESPONSE:

The loss of a major customer would ultimately have a negative impact on the rates of the remaining customers. Conversely, gaining a major customer will have the opposite impact. This would be true regardless of whether the Alt Reg. Plan were in place, or not.

WITNESS: Steve Seelye

107. Reference Application transmittal letter to Ms. Helen C. Helton, page 2. Both the quoted material on that page and Delta's own description of "... guiding principles of rate regulation ..." refer to providing or affording an *opportunity* to earn a fair rate of return. Please explain and provide an illustrative example, for each way Delta is aware, that the proposed ARP could result in anything but an assured rate of return that falls within the rate of return range of reasonableness (11.1 percent to 12.1 percent in Case No. 97-066) found reasonable by the Commission.

RESPONSE:

The purpose of the proposed Alt Reg. Plan is to enable Delta to earn a return that falls within the range found to be fair, just and reasonable by the Commission. The performance based controls proposed by Delta could cause Delta's rate of return to fall outside the range. See response to Question 10 of the AG's data request.

WITNESS: Steve Seelye

108. Please provide the Company's detailed budget for the time period corresponding to the test year in the Company's last rate case. If the test year overlaps two budget years, provide the budgeted amounts from the applicable months of each budget.

RESPONSE:

See attached.

WITNESS: John Hall



# Delta Natural Gas Company, Inc.

## 12 Month Budget

for the Year Ended December 31, 1996  
by Financial Statement Caption

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	1996
GENERAL SERVICE RATE	-4,921,500	-4,438,900	-3,286,300	-2,051,700	-1,221,600	-761,200	-670,900	-666,400	-665,000	-1,249,800	-2,313,400	-3,944,100	-26,190,800
RESIDENTIAL	-3,129,000	-2,811,900	-2,072,800	-1,274,100	-755,600	-450,200	-400,300	-398,100	-397,400	-789,100	-1,492,000	-2,508,400	-16,478,900
1.480.010 - GS RATE SALES RESID	-3,129,000	-2,811,900	-2,072,800	-1,274,100	-755,600	-450,200	-400,300	-398,100	-397,400	-789,100	-1,492,000	-2,508,400	-16,478,900
COMMERCIAL	-1,682,900	-1,522,700	-1,114,500	-697,300	-425,300	-286,100	-251,100	-248,800	-248,100	-407,500	-740,600	-1,328,800	-8,953,700
1.480.020 - GS RATE SALES OTHE	-1,682,900	-1,522,700	-1,114,500	-697,300	-425,300	-286,100	-251,100	-248,800	-248,100	-407,500	-740,600	-1,328,800	-8,953,700
INDUSTRIAL	-109,600	-104,300	-99,000	-80,300	-40,700	-24,900	-19,500	-19,500	-19,500	-53,200	-80,800	-106,900	-758,200
1.480.030 - GS RATE SALES INDUS	-109,600	-104,300	-99,000	-80,300	-40,700	-24,900	-19,500	-19,500	-19,500	-53,200	-80,800	-106,900	-758,200
INTERRUPTIBLE RATE	-124,700	-124,700	-90,600	-63,800	-26,600	-31,000	-20,700	-20,700	-20,700	-32,200	-40,500	-56,500	-652,700
COMMERCIAL	-13,600	-13,600	-11,800	-8,700	-4,600	-4,100	-3,300	-3,300	-3,300	-5,900	-8,400	-9,600	-90,200
1.481.020 - INTERRUPTIBLE RATE	-13,600	-13,600	-11,800	-8,700	-4,600	-4,100	-3,300	-3,300	-3,300	-5,900	-8,400	-9,600	-90,200
INDUSTRIAL	-111,100	-111,100	-78,800	-55,100	-22,000	-26,900	-17,400	-17,400	-17,400	-26,300	-32,100	-46,900	-562,500
1.481.030 - INTERRUPTIBLE RATE	-111,100	-111,100	-78,800	-55,100	-22,000	-26,900	-17,400	-17,400	-17,400	-26,300	-32,100	-46,900	-562,500
MISCELLANEOUS REVENUE	-8,400	-8,400	-8,400	-8,400	-8,400	-8,400	-7,600	-7,600	-7,600	-7,600	-7,600	-7,600	-96,000
MISCELLANEOUS OPERATING REV	-8,400	-8,400	-8,400	-8,400	-8,400	-8,400	-7,600	-7,600	-7,600	-7,600	-7,600	-7,600	-96,000
1.488.010 - COLLECTION REVENU	-5,800	-5,800	-5,800	-5,800	-5,800	-5,800	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-64,800
1.488.020 - RECONNECT REVENUJ	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400	-2,400	-28,800
1.488.040 - BAD CHECK REVENUE	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200	-2,400
TRANSPORTATION REVENUE	-274,700	-264,300	-251,800	-235,100	-237,800	-234,500	-253,800	-249,800	-251,300	-247,100	-261,800	-277,600	-3,039,600
OFF SYSTEM TRANSPORTATION R	-40,600	-40,600	-40,600	-40,600	-40,600	-40,600	-39,500	-39,500	-39,500	-31,400	-31,400	-31,400	-456,300
1.489.020 - OFF SYSTEM TRANSP	-40,600	-40,600	-40,600	-40,600	-40,600	-40,600	-39,500	-39,500	-39,500	-31,400	-31,400	-31,400	-456,300

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# Delta Natural Gas Company, Inc.

## 12 Month Budget

for the Year Ended December 31, 1996  
by Financial Statement Caption

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	1996
ON SYSTEM TRANSPORTATION RE	-234,100	-223,700	-211,200	-194,500	-197,200	-193,900	-214,300	-210,300	-211,800	-215,700	-230,400	-246,200	-2,583,300
1.489.040 - ON SYSTEM TRANSP F	-234,100	-223,700	-211,200	-194,500	-197,200	-193,900	-214,300	-210,300	-211,800	-215,700	-230,400	-246,200	-2,583,300
PURCHASED GAS	2,710,300	2,436,300	1,761,100	1,046,500	555,400	300,900	231,600	230,200	229,700	544,900	1,109,100	1,982,100	13,138,100
PURCHASED GAS	2,710,300	2,436,300	1,761,100	1,046,500	555,400	300,900	231,600	230,200	229,700	544,900	1,109,100	1,982,100	13,138,100
1.803.000 - PURCHASED GAS	2,710,300	2,436,300	1,761,100	1,046,500	555,400	300,900	231,600	230,200	229,700	544,900	1,109,100	1,982,100	13,138,100
OPERATION EXPENSE	627,400	610,700	613,100	621,700	619,500	631,200	648,925	662,425	672,725	684,225	637,725	649,225	7,678,850
LABOR	400,300	400,300	400,300	400,300	400,300	400,300	409,800	409,800	409,800	409,800	409,800	428,400	4,879,200
1.900.010 - TRANS & DIST. PAYRO	218,900	218,900	218,900	218,900	218,900	218,900	224,900	225,000	225,000	225,000	225,000	225,000	2,663,300
1.903.010 - CASHING PAYROLL	39,200	39,200	39,200	39,200	39,200	39,200	41,400	41,400	41,400	41,400	41,400	41,400	483,600
1.920.010 - ADMINISTRATIVE PAYI	142,200	142,200	142,200	142,200	142,200	142,200	143,500	143,400	143,400	143,400	143,400	143,400	1,713,700
1.926.010 - TIME OFF PAYROLL	0	0	0	0	0	0	0	0	0	0	0	18,600	18,600
TRANSPORTATION	39,500	39,500	39,500	39,500	39,500	39,500	40,700	40,700	40,700	40,700	40,700	40,700	481,200
1.900.020 - OPR TRANSPORTATIO	32,000	32,000	32,000	32,000	32,000	32,000	33,200	33,200	33,200	33,200	33,200	33,200	391,200
1.920.020 - ADM TRANSPORTATIO	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	90,000
GENERAL OPERATIONS	37,200	28,700	27,700	27,800	26,800	27,500	38,200	27,700	27,500	27,400	30,700	28,300	355,500
1.871.000 - TELEMETRY COSTS	4,500	4,500	4,500	4,500	4,500	4,500	2,800	2,800	2,800	2,800	2,800	2,800	43,800
1.880.010 - OPERATIONS OFFICE	6,800	6,800	6,800	6,800	6,800	6,800	6,000	6,000	6,000	6,000	6,000	6,000	76,800
1.880.020 - OPERATIONS OFFICE	3,700	3,700	3,700	3,700	3,700	3,700	3,900	3,900	3,900	3,900	3,900	3,900	45,600
1.880.030 - OPERATIONS OFFICE	6,700	6,700	6,700	6,700	6,700	6,700	7,500	7,500	7,500	7,500	7,500	7,500	85,200
1.880.040 - FEES TRAINING SCHO	3,800	3,800	3,800	3,800	3,800	3,800	4,000	4,000	4,000	4,000	4,000	4,000	46,800

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# Delta Natural Gas Company, Inc.

## 12 Month Budget

for the Year Ended December 31, 1996

by Financial Statement Caption

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	1996
1.880.050 - UNIFORMS	10,000	2,000	1,000	1,000	0	0	10,000	2,000	2,000	2,000	2,000	2,000	34,000
1.880.060 - WELDING SUPPLIES	600	600	600	600	600	600	600	600	600	600	600	600	7,200
1.881.010 - RENT OPERATING OFF	600	600	600	600	600	600	600	500	500	500	500	500	6,700
1.881.020 - RENT LAND & LAND RI	500	0	0	100	100	800	2,800	400	200	100	3,400	1,000	9,400
CUSTOMER BILLING	13,700	13,700	13,700	13,700	13,700	13,700	16,500	16,500	16,500	16,500	16,500	16,500	181,200
1.903.020 - CUSTOMER COLLECTI	13,700	13,700	13,700	13,700	13,700	13,700	16,500	16,500	16,500	16,500	16,500	16,500	181,200
UNCOLLECTIBLE ACCOUNTS	13,000	13,000	13,000	13,000	13,000	13,000	12,000	12,000	12,000	12,000	12,000	12,000	150,000
1.904.000 - UNCOLLECTIBLE ACC(	13,000	13,000	13,000	13,000	13,000	13,000	12,000	12,000	12,000	12,000	12,000	12,000	150,000
ADMINISTRATIVE	36,700	37,600	36,800	38,600	36,700	37,100	40,775	40,875	44,775	42,775	41,475	40,875	475,050
1.921.010 - ADM TELEPHONE	8,700	8,700	8,700	8,700	8,700	8,700	11,000	11,000	11,000	11,000	11,000	11,000	118,200
1.921.030 - BOOKS & SUBSCRIPTI	2,300	2,300	2,300	2,300	2,300	2,300	2,500	2,500	5,200	2,500	2,500	2,500	31,500
1.921.040 - COMPANY FORMS	3,800	3,800	3,800	3,800	3,800	3,800	3,900	3,900	3,900	3,900	3,900	3,900	46,200
1.921.050 - SMALL SUPPLY ITEMS	4,200	4,200	4,200	4,200	4,200	4,200	5,000	5,000	5,000	5,000	5,000	5,000	55,200
1.921.060 - MISCELLANEOUS OTH	6,000	6,000	6,000	6,000	6,000	6,000	5,000	5,000	5,000	5,000	5,000	5,000	66,000
1.921.070 - EMPLOYEE MEMBERS	300	200	300	200	300	200	275	275	275	275	275	275	3,150
1.921.080 - SAFETY LITERATURE	1,000	1,000	1,000	1,000	0	0	1,000	1,000	1,000	1,000	1,000	1,000	10,000
1.921.090 - ENGR & DRAFTING SU	800	800	800	800	800	800	800	800	800	800	800	800	9,600
1.921.100 - ADM UTILITIES	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	26,400
1.921.210 - TRAVEL ETC CO BUS F	1,000	2,000	1,000	3,000	2,000	2,500	1,000	1,000	1,000	2,000	2,000	1,000	19,500
1.921.220 - TRAVEL ETC CO BUS C	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,500	1,500	1,500	1,000	13,500

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# Delta Natural Gas Company, Inc.

## 12 Month Budget

for the Year Ended December 31, 1996

by Financial Statement Caption

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	1996
1.921.230 - TRAVEL ETC CO BUS C	2,500	2,500	2,500	2,500	2,500	2,500	3,000	3,000	3,000	3,000	3,000	3,000	33,000
1.921.240 - TRAVEL ETC CO BUS F	700	700	700	700	700	700	700	700	700	700	700	700	8,400
1.921.250 - TRAVEL ETC CO BUS F	0	0	100	0	0	0	100	0	1,000	0	100	0	1,300
1.921.260 - TRAVEL ETC CO BUS F	0	0	0	0	0	0	800	1,000	700	1,400	0	1,000	4,900
1.921.290 - CO. BUS. MEALS & EN	2,200	2,200	2,200	2,200	2,200	2,200	2,500	2,500	2,500	2,500	2,500	2,500	28,200
OUTSIDE SERVICES	30,500	25,200	27,500	38,100	25,900	26,200	39,800	45,100	39,200	28,600	27,100	27,100	380,300
1.923.010 - OUTSIDE SERVICES LI	7,000	7,000	7,000	7,000	7,000	7,000	6,000	6,000	6,000	6,000	6,000	6,000	78,000
1.923.020 - OUTSIDE SERVICES AI	6,500	6,500	6,500	6,500	6,500	6,500	6,700	6,700	6,700	6,700	6,700	6,700	79,200
1.923.030 - OUTSIDE SERVICES JA	3,900	3,900	3,900	3,900	3,900	3,900	4,200	4,200	4,200	4,200	4,200	4,200	48,600
1.923.040 - OUTSIDE SERVICES O	11,100	5,100	7,400	18,000	5,800	6,100	19,400	24,700	18,800	8,200	6,500	6,500	137,600
1.923.050 - OUTSIDE SERVICES C	2,000	2,700	2,700	2,700	2,700	2,700	3,500	3,500	3,500	3,500	3,700	3,700	36,900
INSURANCE	37,800	37,800	40,000	40,000	40,000	40,000	36,500	36,500	36,500	36,500	36,500	36,500	454,600
1.924.000 - INSURANCE	37,800	37,800	40,000	40,000	40,000	40,000	36,500	36,500	36,500	36,500	36,500	36,500	454,600
EMPLOYEE BENEFITS	112,600	110,600	110,600	110,600	110,600	110,600	117,850	117,850	117,850	117,850	117,850	123,850	1,378,700
1.926.020 - PENSION	27,000	27,000	27,000	27,000	27,000	27,000	30,500	30,500	30,500	30,500	30,500	30,500	345,000
1.926.030 - EMPLOYEE 401K PLAN	9,500	9,500	9,500	9,500	9,500	9,500	11,700	11,700	11,700	11,700	11,700	11,700	127,200
1.926.040 - MEDICAL COVERAGE	60,800	60,800	60,800	60,800	60,800	60,800	61,500	61,500	61,500	61,500	61,500	61,500	733,800
1.926.050 - SALARY CONTINUATIC	9,000	9,000	9,000	9,000	9,000	9,000	9,300	9,300	9,300	9,300	9,300	9,300	109,800
1.926.060 - EMPLOYEE STOCK PL	4,300	4,300	4,300	4,300	4,300	4,300	4,350	4,350	4,350	4,350	4,350	4,350	51,900
1.926.070 - EMPLOYEE EDUCATIO	2,000	0	0	0	0	0	500	500	500	500	500	500	5,000

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# Delta Natural Gas Company, Inc.

## 12 Month Budget

for the Year Ended December 31, 1996  
by Financial Statement Caption

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	1996
1.926.080 - EMPLOYEE RECREAT	0	0	0	0	0	0	0	0	0	0	0	6,000	6,000
GENERAL ADMINISTRATION	38,100	36,300	36,000	32,100	45,000	55,300	38,400	42,000	54,500	78,700	46,700	36,600	539,700
1.913.000 - ADVERTISING	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
1.928.000 - REGULATORY COMMIS	4,100	4,100	4,100	4,100	4,100	4,100	3,900	3,900	3,900	27,900	3,900	3,900	72,000
1.930.010 - DIRECTOR FEES & EXI	4,700	8,700	4,700	4,700	8,800	23,800	5,000	13,000	5,000	5,000	9,000	5,000	97,400
1.930.020 - COMPANY MEMBERSH	5,000	5,000	5,000	5,000	5,000	5,000	5,250	5,250	5,250	5,250	5,250	5,250	61,500
1.930.030 - FEES CONVENTIONS &	500	500	500	500	500	500	525	525	525	525	525	525	6,150
1.930.040 - MARKETING	5,400	5,400	5,400	5,400	5,400	5,400	5,000	5,000	5,000	5,000	5,000	5,000	62,400
1.930.050 - COMPANY RELATIONS	2,500	2,500	2,500	2,500	2,500	2,500	2,625	2,625	2,625	2,625	2,625	2,625	30,750
1.930.060 - TRUSTEE, REGISTER,	5,800	0	1,800	0	6,300	0	5,000	500	0	5,000	6,000	0	30,400
1.930.080 - DIVIDEND & STOCKHO	200	200	2,100	0	900	2,100	0	100	20,100	13,300	2,300	2,200	43,500
1.930.090 - CUSTOMER & PUBLIC	3,900	3,900	3,900	3,900	3,900	3,900	3,500	3,500	3,500	3,500	3,500	3,500	44,400
1.930.100 - PUBLIC & COMMUNITY	1,000	1,000	1,000	1,000	1,500	1,500	1,000	1,000	2,000	4,000	2,000	2,000	19,000
1.930.110 - CONSERVATION PROC	3,000	3,000	3,000	3,000	4,100	4,500	4,600	4,600	4,600	4,600	4,600	4,600	48,200
EXPENSES TRANSFERRED	-140,400	-140,400	-140,400	-140,400	-140,400	-140,400	-148,000	-148,000	-148,000	-148,000	-148,000	-148,000	-1,730,400
1.922.000 - EXPENSES TRANSFER	-140,400	-140,400	-140,400	-140,400	-140,400	-140,400	-148,000	-148,000	-148,000	-148,000	-148,000	-148,000	-1,730,400
OTHER	8,400	8,400	8,400	8,400	8,400	8,400	6,400	21,400	21,400	21,400	6,400	6,400	133,800
1.753.020 - WELLS & GATHERING	100	100	100	100	100	100	100	100	100	100	100	100	1,200
1.754.020 - COMPRESSOR STATIC	5,000	5,000	5,000	5,000	5,000	5,000	3,000	3,000	3,000	3,000	3,000	3,000	48,000
1.856.000 - RIGHT OF WAY CLEAR	0	0	0	0	0	0	0	15,000	15,000	15,000	0	0	45,000

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# Delta Natural Gas Company, Inc.

## 12 Month Budget

for the Year Ended December 31, 1996  
by Financial Statement Caption

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	1996
1.900.030 - SMALL TOOLS & WORK	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	3,300	39,600
MAINTENANCE EXPENSE	33,200	33,200	33,200	33,200	33,200	33,200	35,500	35,300	35,300	35,500	44,300	35,300	420,400
TRANSPORTATION	3,000	3,000	3,000	3,000	3,000	3,000	3,600	3,600	3,600	3,600	3,600	3,600	39,600
1.898.010 - MNT - TRANSP EQUIP	2,000	2,000	2,000	2,000	2,000	2,000	2,200	2,200	2,200	2,200	2,200	2,200	25,200
1.898.020 - MNT - POWER OPR EQ	1,000	1,000	1,000	1,000	1,000	1,000	1,400	1,400	1,400	1,400	1,400	1,400	14,400
MAINS	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	61,200
1.887.020 - MNT TRANS & DIST MA	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	5,100	61,200
METER & REGULATORS	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
1.893.020 - MNT OF METERS & RE	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	42,000
OTHER	21,600	21,600	21,600	21,600	21,600	21,600	23,300	23,100	23,100	23,300	32,100	23,100	277,600
1.764.020 - MNT WELLS & GATHEE	200	200	200	200	200	200	200	200	200	200	200	200	2,400
1.765.020 - MNT COMPRESSOR ST	2,500	2,500	2,500	2,500	2,500	2,500	2,000	2,000	2,000	2,000	2,000	2,000	27,000
1.886.000 - MNT STRUCTURES TR	0	0	0	0	0	0	200	0	0	200	0	0	400
1.889.000 - MNT REG STATION TR	500	500	500	500	500	500	500	500	500	500	500	500	6,000
1.894.020 - MNT OF OTHER EQUIP	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	78,000
1.992.010 - MNT COMMUNICATION	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	11,500	2,500	39,000
1.992.020 - MNT OFFICE EQUIPME	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	46,800
1.992.030 - MNT GENERAL STRUC	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
1.992.050 - MAINTENANCE COMPL	3,000	3,000	3,000	3,000	3,000	3,000	5,000	5,000	5,000	5,000	5,000	5,000	48,000
DEPRECIATION EXPENSE	193,500	193,500	193,500	193,500	193,500	193,500	237,700	237,700	237,700	237,700	237,700	237,700	2,587,200

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**Delta Natural Gas Company, Inc.**  
**12 Month Budget**  
**for the Year Ended December 31, 1996**  
**by Financial Statement Caption**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	1996
DEPRECIATION EXPENSE	193,500	193,500	193,500	193,500	193,500	193,500	237,700	237,700	237,700	237,700	237,700	237,700	2,587,200
1.403.000 - DEPRECIATION EXPEN	193,500	193,500	193,500	193,500	193,500	193,500	237,700	237,700	237,700	237,700	237,700	237,700	2,587,200
TAXES OTHER THAN INCOME TAXE:	78,000	78,000	78,400	73,800	73,800	70,000	81,200	81,300	81,200	81,300	81,200	86,100	944,300
PROPERTY TAXES	39,400	39,400	39,400	39,400	39,400	39,400	44,400	44,400	44,400	44,400	44,400	49,200	507,600
1.408.010 - LICENSE & PRIVILEGE	0	0	0	0	0	0	200	200	200	200	200	5,000	6,000
1.408.020 - PROPERTY TAXES	39,400	39,400	39,400	39,400	39,400	39,400	44,200	44,200	44,200	44,200	44,200	44,200	501,600
PAYROLL TAXES	38,600	38,600	39,000	34,400	34,400	30,600	36,800	36,900	36,800	36,900	36,800	36,900	436,700
1.408.030 - PAYROLL TAXES	38,600	38,600	39,000	34,400	34,400	30,600	36,800	36,900	36,800	36,900	36,800	36,900	436,700
INCOME TAXES	540,900	469,400	275,200	63,800	-74,700	-156,000	-202,200	-212,600	-221,800	-131,800	67,700	348,200	768,100
CURRENT FEDERAL	540,900	469,400	275,200	63,800	-74,700	-156,000	-202,200	-212,600	-221,800	-131,800	67,700	348,200	768,100
1.409.070 - ESTIMATED INTERIM II	540,900	469,400	275,200	63,800	-74,700	-156,000	-202,200	-212,600	-221,800	-131,800	67,700	348,200	768,100
NON REGULATED INCOME	-57,000	-58,600	-58,500	-56,900	-51,400	-57,800	-39,950	-48,150	-47,750	-38,650	-47,250	-36,750	-598,700
NET INCOME FROM SUBSIDIARIES	-54,300	-55,900	-55,800	-54,200	-48,700	-45,900	-37,200	-45,400	-45,000	-35,900	-44,500	-34,000	-556,800
1.418.010 - NET EARNINGS OF SU	-54,300	-55,900	-55,800	-54,200	-48,700	-45,900	-37,200	-45,400	-45,000	-35,900	-44,500	-34,000	-556,800
INCOME TAXES NON REGULATED	1,800	1,800	1,800	1,800	1,800	7,600	1,700	1,700	1,700	1,700	1,700	1,700	26,800
1.409.080 - INCOME TAXES NON-F	1,800	1,800	1,800	1,800	1,800	7,600	1,700	1,700	1,700	1,700	1,700	1,700	26,800
OTHER NET INCOME BEFORE INCC	-4,500	-4,500	-4,500	-4,500	-4,500	-19,500	-4,450	-4,450	-4,450	-4,450	-4,450	-4,450	-68,700
1.415.010 - LABOR SERVICE REVE	-400	-400	-400	-400	-400	-400	-500	-500	-500	-500	-500	-500	-5,400
1.415.020 - MERCHANDISING REV	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-4,000	-4,000	-4,000	-4,000	-4,000	-4,000	-54,000
1.415.030 - SALES TAX COMMISSII	-200	-200	-200	-200	-200	-200	-350	-350	-350	-350	-350	-350	-3,300

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**Delta Natural Gas Company, Inc.**  
**12 Month Budget**  
**for the Year Ended December 31, 1996**  
**by Financial Statement Caption**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	1996
1.416.020 - MERCHANDISING EXP	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
1.419.000 - INTEREST & DIVIDEND	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700	-20,400
1.421.000 - MISC NON OPERATING	-200	-200	-200	-200	-200	-200	-900	-900	-900	-900	-900	-900	-6,600
1.426.020 - LIFE INSURANCE CO. I	0	0	0	0	0	-15,000	0	0	0	0	0	0	-15,000
INTEREST ON LONG TERM DEBT	156,400	156,400	156,400	156,400	156,400	156,400	152,800	152,800	152,800	152,800	152,800	152,800	1,855,200
INTEREST ON LONG TERM DEBT	156,400	156,400	156,400	156,400	156,400	156,400	152,800	152,800	152,800	152,800	152,800	152,800	1,855,200
1.427.000 - INTEREST ON LONG TI	156,400	156,400	156,400	156,400	156,400	156,400	152,800	152,800	152,800	152,800	152,800	152,800	1,855,200
OTHER INTEREST	61,100	52,100	50,100	54,100	57,100	64,100	113,950	127,950	143,950	158,950	164,950	167,950	1,216,300
INTEREST ON SHORT TERM DEBT	59,000	50,000	48,000	52,000	55,000	62,000	112,000	126,000	142,000	157,000	163,000	166,000	1,192,000
1.431.020 - INTEREST ON SHORT-	59,000	50,000	48,000	52,000	55,000	62,000	112,000	126,000	142,000	157,000	163,000	166,000	1,192,000
OTHER INTEREST	2,100	2,100	2,100	2,100	2,100	2,100	1,950	1,950	1,950	1,950	1,950	1,950	24,300
1.431.010 - INTEREST ON CUSTOM	2,100	2,100	2,100	2,100	2,100	2,100	1,950	1,950	1,950	1,950	1,950	1,950	24,300
AMORTIZATION OF DEBT EXPENSE	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	88,800
AMORTIZATION OF DEBT EXPENSE	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	88,800
1.428.000 - AMORT OF DEBT EXPE	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	7,400	88,800

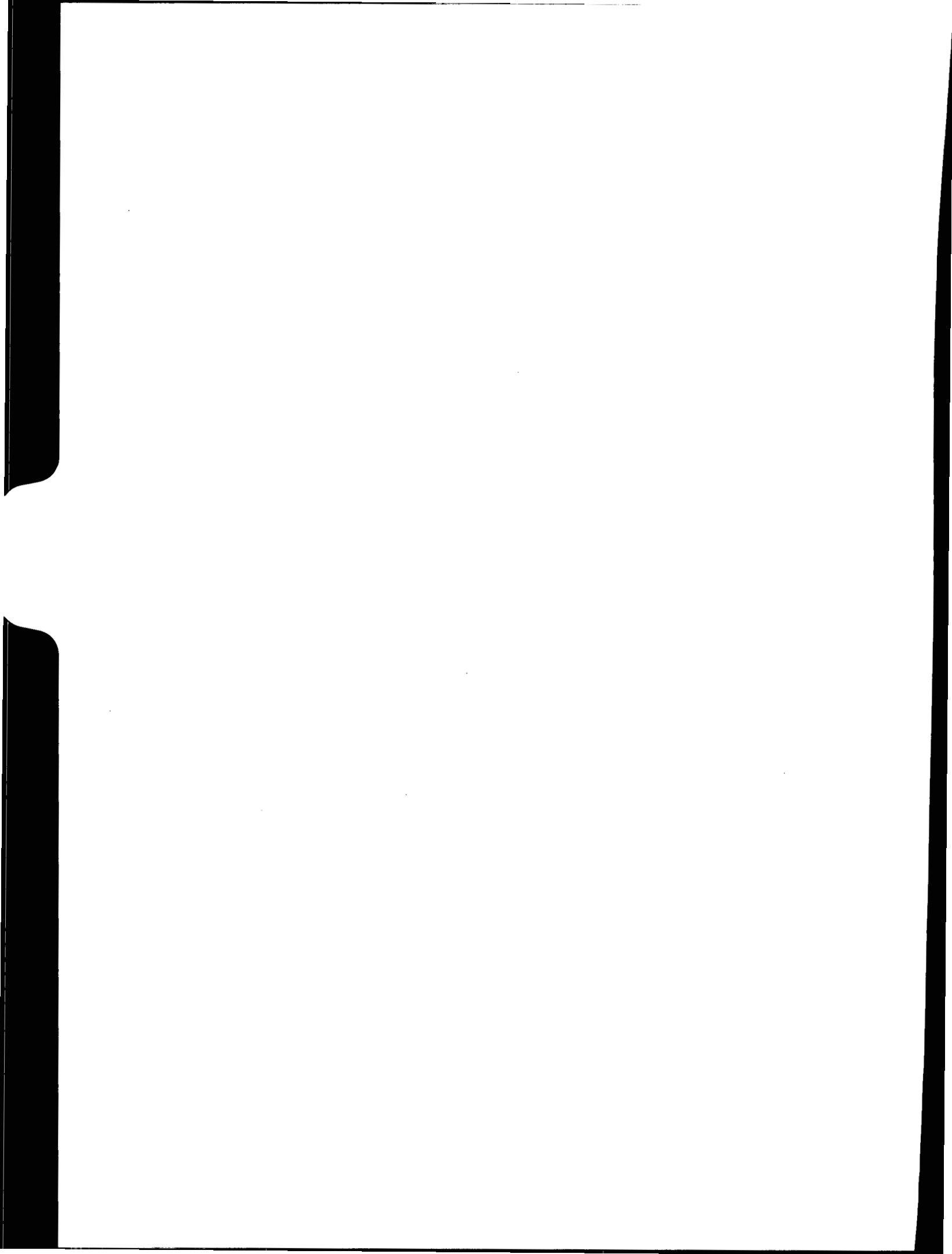


109. Please explain how the Company proposes to account for any Commission disallowances and/or Commission adjustment in determining the revenue deficiency or surplus under the proposed ARP. If the Company does not intend to account for any Commission adjustments which would affect the required revenue, please explain in detail why the Company believes such adjustments should not be made.

RESPONSE:

Commission disallowances and adjustments would be reflected in the determination of revenue deficiencies or surplus under the Alt. Reg. Plan.

WITNESS: Steve Seelye



110. Please state whether there would be any limits on the equity ratio under the Company's proposed ARP. If yes, identify the limits. If not, please explain why the Company believes no limitations are necessary or appropriate.

RESPONSE:

Yes. As shown on Sheet 33 of the revised tariff filed as Seelye Exhibit 2, equity is limited to 60%.

WITNESS: Steve Seelye