

CASE

NUMBER:

99.046

Filing 6.8.99

1. Please provide Delta's FERC Form No. 2 for the years 1997 and 1998.

RESPONSE:

See attached.

WITNESS: John Hall

Check appropriate box:

- Original signed form
- Conformed copy

Form Approved
OMB No. 1902-0028
(Expires 7/31/96)



FERC FORM NO. 2: ANNUAL REPORT OF MAJOR NATURAL GAS COMPANIES

This report is mandatory under the Natural Gas Act, Sections 10(a) and 16, and 18 CFR 260.1. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company) DELTA NATURAL GAS COMPANY, INC.	Year of Report Dec. 31, 19 <u>97</u>
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PUBLIC SERVICE COMMISSION OF KENTUCKY
PRINCIPAL PAYMENT AND INTEREST INFORMATION
FOR THE YEAR ENDING DECEMBER 31, 1997

1. Amount of Principal Payment during calendar year \$813,321
2. Is Principal current? (Yes) X (No) _____
3. Is Interest current? (Yes) X (No) _____

SERVICES PERFORMED BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

Are your financial statements examined by a Certified Public Accountant? YES X NO _____

If yes, which service is performed?

Audit X
Compilation _____
Review _____

Please enclose a copy of the accountant's report with annual report.

ADDITIONAL INFORMATION TO BE FURNISHED WITH
ANNUAL REPORT

GAS PURCHASES

(Accounts 800, 801, 802, 803, 804, 804.1, 805, 805.1, 805.2)

<u>Name of Seller and Acct. No.</u>	<u>Gas Purchased - Mcf</u>	<u>Cost of Gas</u>
Columbia Gas Transmission	(1)	965,406
El Paso Energy Marketing	(1)	1,789,863
Somerset Gas	(1)	20,892
Wiser Oil	1,669,602	5,427,231
Natural Gas Clearinghouse	908,833	3,045,359
El Paso Energy Marketing	1,805,715	5,384,951
Enpro	197,627	464,423
Delta Resources	900,657	2,687,136
Equitable Resources	240	542
Deltran	(2)	1,374,225
SUB TOTALS	5,482,674	21,160,028
Storage-Kettle Island	49,713	145,227
Storage-CM	(895,186)	(2,163,145)
TOTAL	4,637,201	19,142,110

(1) Transportation
(2) Reservation Charge

CHECKLIST FOR THE ANNUAL REPORT
OF A AND B GAS COMPANIES

To Be Completed and Returned With Annual Report

<u>Page No.</u>	<u>Line No.</u>	<u>Page No.</u>	<u>Line No.</u>	Yes	No	If No, Explain Why
<u>BALANCE SHEET</u>						
110	2	200	13 less 11	X		
110	3	200	11	X		
110	5	200	14 & 33	X		
110	6	200	15	X		
110	11	122-123	-	X		
110	12	220	5b	X		
110	14	221	Acct. 121 (d)	X		
110	15	221	Acct. 122 15	X		
110	16	222-223	-	X		
110	17	225	42(g)	X		
110	19	222-223, 229	-	X		
110	26 27	222-223	-	X		
110	41 44	220	5c	X		
110	42	220	5d	X		
110	43	220	5e	X		
110	44 46	230	Acct. 165 Line 7(b)	X		
110	45	229	- (f)	X		

**CHECKLIST FOR THE ANNUAL REPORT
OF A AND B GAS COMPANIES**

To Be Completed and Returned With Annual Report

Line No.	Page No.	Line No.	Yes	No	If No, Explain Why
<u>110</u>	46 47	agrees with 229	X		
<u>111</u>	53 54	agrees with 259	X		
<u>111</u>	54 55	agrees with 230	X		
<u>111</u>	55 56	agrees with 230	X		
<u>111</u>	57 59	agrees with 231	X		
<u>111</u>	60 62	agrees with 233	X		
<u>111</u>	62 64	agrees with 352-353	X		
<u>111</u>	63 65	agrees with 260	X		
<u>111</u>	64 66	agrees with 234-235	X		
<u>112</u>	2	agrees with 251	X		
<u>112</u>	3	agrees with 251	X		
<u>112</u>	4	agrees with 252	X		
<u>112</u>	5	agrees with 252	X		
<u>112</u>	6	agrees with 252	X		
<u>112</u>	7	agrees with 253	X		
<u>112</u>	8	agrees with 252	X		
<u>112</u>	9	agrees with 254	X		
<u>112</u>	10	agrees with 254	X		
<u>112</u>	11	agrees with 119	X		

BALANCE SHEET

229 ~~-(g)~~
 259 ~~-(1)~~ Acct. 182.1
 230 9(f)
 230 Acct. 182.2
 231 44(f)
 233 49(f)
 352-353 -
 260 ~~-(f)~~
 234-235 18(k)
 251 ~~-(f)~~
 251 ~~-(f)~~
 252 -
 252 -
 252 -
 253 40(b)
 252 ~~-(c)~~
 254 Acct. 213
 254 21(b)
 254 Acct. 214
 254 21(b)
 119 48

CHECKLIST FOR THE ANNUAL REPORT
OF A AND B GAS COMPANIES

To Be Completed and Returned With Annual Report

<u>Line No.</u>	<u>Page No.</u>	<u>Line No.</u>	Yes	No	If No, Explain Why
<u>BALANCE SHEET</u>					
112	12	agrees with 119 53	X		
112	13	agrees with 251 Acct. 217 -(h)	X		
112	16	agrees with 256 -(d)	X		
112	17	agrees with 257 Acct. 222 -(g)	X		
112	18	agrees with 256 Acct. 223 -(d)	X		
112	19	agrees with 256 Acct. 224 -(d)	X		
112	20	agrees with 259 Acct. 225 -	X		
112	37	agrees with 263 18(g)	X		
112	43	agrees with 268 43(b)	X		
113	48	agrees with 267 -(h)	X		
113	50	agrees with 269 47(f)	X		
113	51-52	agrees with 260 -(f)	X		
113	52-53	agrees with 272-277 -	X		

INCOME STATEMENT

114	2	agrees with 300 25	X		
114	4 + 5	agrees with 325 271	X		
114	6	agrees with 336 25(b)	X		

CHECKLIST FOR THE ANNUAL REPORT
OF A AND B GAS COMPANIES

To Be Completed and Returned With Annual Report

Line No.	Page No.	Line No.	Yes	No	If No, Explain Why
114	7	agrees with 336-337 25 (c,d,e,f)	X		
114	13+14+15 11+12+13	agrees with 262-263 - (j) 234 18(c)	X		
114	14 16	agrees with 272-277 17(c) 234 18(c)	X		
114	15 17	agrees with 272-277 17(c)	X		
114	16 18	agrees with 266-267 -	X		
117	38 42	agrees with 340 -	X		
117	39 43	agrees with 340 - Acct. 408.2	X		
117	42 46	agrees with 262 - (1) Acct. 409.2	X		
117	43 47	agrees with 262 - (1) Acct. 409.2	X		
117	44 48	agrees with 262 - (1) 235	X		
117	45 49	agrees with 272-277 - (e) 235	X		
117	46 50	agrees with 272-277 - (f)	X		
117	53 57	agrees with 258-259 -	X		
117	54 58	agrees with 260 -	X		
117	55 59	agrees with 253-259 -	X		
117	56 60	agrees with 260 -	X		
117	57 61	agrees with 340 - (b)	X		

INCOME STATEMENT

CHECKLIST FOR THE ANNUAL REPORT
OF A AND B GAS COMPANIES

To Be Completed and Returned With Annual Report

Page No.	Line No.	Page No.	Line No.	Yes	No	If No, Explain Why
✓ 117	58 62	agrees with	340	X		
						-(b)
✓ 117	66 70	agrees with	263	X		
						-(m)
		<u>OTHER</u>				
✓ 200	8	agrees with	209	X		
						122(g)
✓ 200	10	agrees with	214	X		
						46(d)
200	11	agrees with	216	X		
						43(b)
✓ 200	18	agrees with	219	X		
						17(b)
✓ 118	29	agrees with	121	X		
						80
118	36	agrees with	121	X		
						81
300-301	9	agrees with	310	X		
300	17	agrees with	313	X		
						- 45 (e)
300	18	agrees with	315	X		
						Acct. 490
						Line 17 (d)
✓ 325	262	agrees with	350-351	X		
						-

CHECKLIST FOR THE ANNUAL REPORT
FOR A AND B GAS COMPANIES

To Be Completed and Returned With Annual Report

<u>Page No.</u>	<u>Line No.</u>	<u>Page No.</u>	<u>Line No.</u>	<u>Yes</u>	<u>No</u>	<u>If No, Explain Why</u>
✓ 327	21(c) 05 agrees with	321	77	X		
✓ 335	49 agrees with	325	265	X		
✓ 336	25(b) agrees with	219	3(b)	X		
✓ 516	Line 40 (c) + (d) agrees with	320	3	X		

OTHER

INSTRUCTIONS FOR FILING THE
FERC FORM NO. 2

GENERAL INFORMATION

I. Purpose

This form is a Regulatory Support Requirement (18 CFR 260.1). It is designed to collect financial and operational information from major interstate natural gas companies subject to the jurisdiction of the Federal Energy Regulatory Commission. This report is also secondarily considered to be a non-confidential public use form supporting a statistical publication (Financial Statistics of Interstate Natural Gas Pipeline Companies), published by the Energy Information Administration.

II. Who Must Submit

Each Major natural gas company, as classified in the Commission's Uniform System of Accounts Prescribed for Natural Gas Companies Subject To The Provisions of The Natural Gas Act (18 CFR 201), must submit this form.

Note: Major means having combined gas sold for resale and gas transported or stored for a fee exceeding 50 million Mcf at 14.73 psia (60°F) in each of the three previous calendar years.

III. What and Where to Submit

(a) Submit an original and four (4) copies of this form to:

Office of the Secretary
Federal Energy Regulatory Commission
825 North Capitol Street, NE.
Room 3110
Washington, DC 20426

Retain one copy of this report for your files.

(b) Submit immediately upon publication, four (4) copies of the latest annual report to stockholders and any *annual* financial or statistical report regularly prepared and distributed to bondholders, security analysts, or industry associations. (Do not include monthly and quarterly reports. Indicate by checking the appropriate box on Page 4, List of Schedules, if the reports to stockholders will be submitted or if no annual report to stockholders is prepared.) Mail these reports to:

Chief Accountant
Federal Energy Regulatory Commission
825 N. Capitol St., NE.
Room 946
Washington, DC 20426

(c) For the CPA certification, submit with the original submission, or within 30 days after the filing date for this form, a letter or report (not applicable to respondents classified as Class C or Class D prior to January 1, 1984):

- (i) Attesting to the conformity, in all material aspects, of the below listed (schedules and) pages with the Commission's applicable Uniform Systems of Accounts (including applicable notes relating thereto and the chief accountant's published accounting releases), and
- (ii) Signed by independent certified public accountants or an independent licensed public accountant, certified or licensed by a regulatory authority of a State or other political subdivision of the U.S. (See 18 CFR 158.10-158.12 for specific qualifications.)

<u>Schedules</u>	<u>Reference Pages</u>
Comparative Balance Sheet	110-113
Statement of Income	114-117
Statement of Retained Earnings	118-119
Statement of Cash Flows	120-121
Notes to Financial Statements	122-123

When accompanying this form, insert the letter or report immediately following the cover sheet. When submitting after the filing date for this form, send the letter or report to the Chief Accountant at the address indicated at III (b).

GENERAL INFORMATION (Continued)

III. What and Where to Submit (Continued)
(c) (Continued)

Use the following form for the letter or report unless unusual circumstances or conditions, explained in the letter or report, demand that it be varied. Insert parenthetical phrases only when exceptions are reported.

In connection with our regular examination of the financial statement of _____ we have also reviewed schedules _____ of FERC Form No. 2 for the year filed with the Federal Energy Regulatory Commission, for conformity in all material respects with the requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases. Our review for this purpose included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Based on our review, in our opinion the accompanying schedules identified in the preceding paragraph (except as noted below) conform in all material respects with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

State in the letter or report, which, if any, of the pages above do not conform to the Commission's requirements. Describe the discrepancies that exist.

- (d) Federal, State and Local Governments and other authorized users may obtain additional blank copies to meet their requirements free of charge from:

Legal Reference and Records Management Branch
Federal Energy Regulatory Commission
941 North Capitol Street, NE.
Room 3100 ED-12.1
Washington, DC 20426
(202) 208-2474

IV. When to Submit:

Submit this report form on or before April 30th of the year following the year covered by this report.

V. Where to Send Comments on Public Reporting Burden.

The public reporting burden for this collection of information is estimated to average 2,475 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any aspect of this collection of information, including suggestions for reducing this burden, to the Federal Energy Regulatory Commission, 825 North Capitol Street NE, Washington, DC 20426 (Attention: Michael Miller, ED-12.3); and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, DC 20503 (Attention: Desk Officer for the Federal Energy Regulatory Commission).

GENERAL INSTRUCTIONS

- I. Prepare this report in conformity with the Uniform System of Accounts (18 CFR 201) (U.S. of A.). Interpret all accounting words and phrases in accordance with the U.S. of A.
- II. Enter in whole numbers (dollars or Mcf) only, except where otherwise noted. (Enter cents for averages and figures per unit where cents are important.) The truncating of cents is allowed except on the four basic financial statements where rounding to dollars is required. The amounts shown on all supporting pages must agree with the amounts entered on the statements that they support. When applying thresholds to determine significance for reporting purposes, use for balance sheet accounts the balances at the end of the current reporting year, and use for statement of income accounts the current years amounts.
- III. Complete each question fully and accurately, even if it has been answered in a previous annual report. Enter the word "None" where it truly and completely states the fact.

GENERAL INSTRUCTIONS (Continued)

- IV. For any page(s) that is not applicable to the respondent, either
 - (a) Enter the words "Not Applicable" on the particular page(s), or
 - (b) Omit the page(s) and enter "NA," "NONE," or "Not Applicable" in column (d) on the List of Schedules, pages 2, 3, and 4.
- V. Complete this report by means which result in a permanent record. Complete the original copy in permanent black ink or typewriter print, if practical. The copies, however, may be carbon copies or other similar means of reproduction provided the impressions are clear and readable.
- VI. Enter the month, day, and year for all dates. Use customary abbreviations. The "Date of Report" at the top of each page is applicable only to resubmissions (see VIII. below).
- VII. Indicate negative amounts (such as decreases) by enclosing the figures in parentheses, ().
- VIII. When making revisions, resubmit only those pages that have been changed from the original submission. Submit the same number of copies as required for filing the form. Include with the resubmission the Identification and Attestation page, page 1. Mail dated resubmissions to:

Chief Accountant
Federal Energy Regulatory Commission
825 North Capitol Street, NE.
Room 946
Washington, DC 20426
- IX. Provide a supplemental statement further explaining accounts or pages as necessary. Attach the supplemental statement (8½ by 11 inch size) to the page being supplemented. Provide the appropriate identification information, including the title(s) of the page and the page number supplemented.
- X. Do not make references to reports of previous years or to other reports in lieu of required entries, except as specifically authorized.
- XI. Wherever (schedule) pages refer to figures from a previous year, the figures reported must be based upon those shown by the annual report of the previous year, or an appropriate explanation given as to why the different figures were used.
- XII. Report all gas volumes on a pressure base of 14.73 psia and a temperature base of 60°F.
- XIII. Respondents may submit computer printed schedules (reduced to 8½ x 11) instead of the schedules if they are in substantially the same format.

DEFINITIONS

- I. Btu per cubic foot — The total heating value, expressed in Btu, produced by the combustion, at constant pressure, of the amount of the gas which would occupy a volume of 1 cubic foot at a temperature of 60°F if saturated with water vapor and under a pressure equivalent to that of 30 inches of mercury at 32°F, and under standard gravitational force (980.665 cm. per sec.²) with air of the same temperature and pressure as the gas, when the products of combustion are cooled to the initial temperature of gas and air when the water formed by combustion is condensed to the liquid state. (Sometimes called gross heating value or total heating value.)
- II. Commission Authorization (Comm. Auth.) — The authorization of the Federal Energy Regulatory Commission, or any other Commission. Name the commission whose authorization was obtained and give date of the authorization.
- III. Respondent — The person, corporation, licensee, agency, authority, or other legal entity or instrumentality in whose behalf the report is made.

EXCERPTS FROM THE LAW

(Natural Gas Act, 15 U.S.C. 717-717w)

"Sec. 10(a). Every natural gas (sic) company shall file with the Commission such annual and other periodic or special reports as the Commission may by rules and regulations or order prescribe as necessary or appropriate to assist the Commission in the proper administration of this act. The Commission may prescribe the manner and form in which such reports shall be made, and require from such natural gas companies specific answers to all questions upon which the Commission may need information. The Commission may require that such reports shall include, among other things, full information as to assets and liabilities, capitalization, investment and reduction thereof, gross receipts, interest due and paid, depreciation, amortization, and other reserves, costs of facilities, cost of maintenance and operation of facilities for the production, transportation, or sale of natural-gas (sic), cost of renewal and replacement of such facilities, transportation, delivery, use, and sale of natural-gas (sic)"

"Sec. 16. The Commission shall have power to perform any and all acts, and to prescribe, issue, make, amend, and rescind such orders, rules, and regulations as it may find necessary or appropriate to carry out the provisions of this act. Among other things, such rules and regulations may define accounting, technical, and trade terms used in this act; and may prescribe the form or forms of all statements declarations, applications, and reports to be filed with the Commission, the information which they shall contain, and time within which they shall be filed"

GENERAL PENALTIES

"Sec. 21(b). Any person who willfully and knowingly violates any rule, regulation, restriction, condition, or order made or imposed by the Commission under authority of this act, shall, in addition to any other penalties provided by law, be punished upon conviction thereof by a fine of not exceeding \$500 for each and every day during which such offense occurs."

FERC FORM NO. 2:
ANNUAL REPORT OF MAJOR NATURAL GAS COMPANIES

IDENTIFICATION			
01 Exact Legal Name of Respondent DELTA NATURAL GAS COMPANY, INC.		02 Year of Report Dec. 31, 19 <u>97</u>	
03 Previous Name and Date of Change (If name changed during year)			
04 Address of Principal Office at End of Year (Street, City, State, Zip Code) 3617 LEXINGTON ROAD WINCHESTER, KY 40391			
05 Name of Contact Person JOHN F. HALL		06 Title of Contact Person V.P.-FINANCE, SEC. & TREAS.	
07 Address of Contact Person (Street, City, State, Zip Code) SAME			
08 Telephone of Contact Person, Including Area Code 606-744-6171	09 This Report Is (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		10 Date of Report (Mo, Da, Yr) 03/31/98
ATTESTATION			
The undersigned officer certifies that he/she has examined the accompanying report; that to the best of his/her knowledge, information, and belief, all statements of fact contained in the accompanying report are true and the accompanying report is a correct statement of the business and affairs of the above named respondent in respect to each and every matter set forth therein during the period from and including January 1 to and including December 31 of the year of the report.			
01 Name JOHN F. HALL		02 Title V.P.-FINANCE, SEC. & TREAS.	
03 Signature <i>John F. Hall</i>		04 Date Signed (Mo, Day, Yr) 3/26/98	
Title 18, U.S.C. 1001, makes it a crime for any person knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction.			

Name of Respondent PLATA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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LIST OF SCHEDULES (Natural Gas Company)

Enter in column (d) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the responses are "none," "not applicable," or "NA."

Title of Schedule (a)	Reference Page No. (b)	Date Revised (c)	Remarks (d)
GENERAL CORPORATE INFORMATION AND FINANCIAL STATEMENTS			
General Information	101	Ed. 12-87	
Control Over Respondent	102	Ed. 12-87	
Corporations Controlled by Respondent	103	Ed. 12-87	
Officers	104	Ed. 12-87	
Directors	105	Ed. 12-88	
Security Holders and Voting Powers	106-107	Ed. 12-87	
Important Changes During the Year	108-109	Ed. 12-87	
Comparative Balance Sheet	110-113	Rev. 12-93	
Statement of Income for the Year	114-117	Rev. 12-93	
Statement of Retained Earnings for the Year	118-119	Ed. 12-88	
Statement of Cash Flows	120-121	Rev. 12-93	
Notes to Financial Statements	122-123	Ed. 12-88	
BALANCE SHEET SUPPORTING SCHEDULES (Assets and Other Debits)			
Summary of Utility Plant and Accumulated Provisions for Depreciation, Amortization, and Depletion	200-201	Ed. 12-89	
Gas Plant in Service	204-209	Ed. 12-89	
Gas Plant Leased to Others	213	Ed. 12-88	
Gas Plant Held for Future Use	214	Ed. 12-89	
Production Properties Held for Future Use	215	Ed. 12-89	
Construction Work-in Progress—Gas	216	Ed. 12-87	
Construction Overheads—Gas	217	Ed. 12-87	
General Description of Construction Overhead Procedure	218	Ed. 12-88	
Accumulated Provision for Depreciation of Gas Utility Plant	219	Ed. 12-87	
Gas Stored	220	Ed. 12-87	
Nonutility Property	221	Ed. 12-88	
Accumulated Provision for Depreciation and Amortization of Nonutility Property	221	Ed. 12-87	
Investments	222-223	Ed. 12-86	
Investments in Subsidiary Companies	224-225	Ed. 12-89	
Gas Prepayments Under Purchase Agreements	226-227	Ed. 12-88	
Advances for Gas Prior to Initial Deliveries or Commission Certification Prepayments	229	Ed. 12-87	
Extraordinary Property Losses	230	Ed. 12-88	
Unrecovered Plant and Regulatory Study Costs	230	Ed. 12-88	
Preliminary Survey and Investigation Charges	231	Ed. 12-93	
Other Regulatory Assets	232	New 12-93	
Miscellaneous Deferred Debits	233	Ed. 12-89	
Accumulated Deferred Income Taxes (Account 190)	234-235	Ed. 12-89	
BALANCE SHEET SUPPORTING SCHEDULES (Liabilities and Other Credits)			
Capital Stock	250-251	Ed. 12-89	
Capital Stock Subscribed, Capital Stock Liability for Conversion Premium on Capital Stock, and Installments Received on Capital Stock ..	252	Ed. 12-86	

Name of Respondent	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19_97
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LIST OF SCHEDULES (Natural Gas Company) (Continued)

Title of Schedule (a)	Reference Page No. (b)	Date Revised (c)	Remarks (d)
BALANCE SHEET SUPPORTING SCHEDULES (Liabilities and Other Credits) (Continued)			
Other Paid-in Capital	253	Ed. 12-86	
Discount on Capital Stock	254	Ed. 12-86	
Capital Stock Expense	254	Ed. 12-86	
Securities Issued or Assumed and Securities Refunded or Retired During the Year	255	Ed. 12-86	
Long-Term Debt	256-257	Ed. 12-89	
Unamortized Debt Exp., Premium and Discount on Long-Term Debt ...	258-259	Ed. 12-88	
Unamortized Loss and Gain on Reacquired Debt	260	Ed. 12-86	
Reconciliation of Reported Net Income with Taxable Income for Federal Income Taxes	261	Ed. 12-88	
Taxes Accrued, Prepaid and Charged During Year	262-263	Ed. 12-88	
Investment Tax Credits Generated and Utilized	264-265	Ed. 12-88	
Accumulated Deferred Investment Tax Credits	266-267	Ed. 12-89	
Miscellaneous Current and Accrued Liabilities	268	Ed. 12-86	
Other Deferred Credits	269	Ed. 12-88	
Undelivered Gas Obligations Under Sales Agreements	270-271	Ed. 12-89	
Accumulated Deferred Income Taxes—Accelerated Amortization Property .	272-273	Ed. 12-89	
Accumulated Deferred Income Taxes—Other Property	274-275	Ed. 12-89	
Accumulated Deferred Income Taxes—Other	276-277	Ed. 12-93	
Other Regulatory Liabilities	278	New 12-93	
INCOME ACCOUNT SUPPORTING SCHEDULES			
Gas Operating Revenues	300-301	Ed. 12-89	
Distribution Type Sales by States	302-303	Ed. 12-88	
Residential and Commercial Space Heating Customers	305	Ed. 12-88	
Interruptible, Off Peak, and Firm Sales to Distribution System Industrial Customers	305	Ed. 12-88	
Field and Main Line Industrial Sales of Natural Gas	306-309	Ed. 12-89	
Sales for Resale—Natural Gas	310-311	Ed. 12-88	
Revenue from Transportation of Gas of Others—Natural Gas	312-313	Rev. 12-88	
Sales of Products Extracted from Natural Gas	315	Ed. 12-86	
Revenues from Natural Gas Processed by Others	315	Ed. 12-86	
Gas Operation and Maintenance Expenses	320-325	Ed. 12-89	
Number of Gas Department Employees	325	Ed. 12-88	
Exploration and Development Expenses	326	Ed. 12-87	
Abandoned Leases	326	Ed. 12-87	
Gas Purchases	327	Ed. 12-89	
Exchange Gas Transactions	328-330	Rev. 12-88	
Gas Used in Utility Operations—Credit	331	Ed. 12-88	
Transmission and Compression of Gas by Others	332-333	Ed. 12-86	
Other Gas Supply Expenses	334	Ed. 12-87	
Miscellaneous General Expenses—Gas	335	Ed. 12-86	
Depreciation, Depletion, and Amortization of Gas Plant	336-338	Ed. 12-88	
Income from Utility Plant Leased to Others	339	Ed. 12-86	
Particulars Concerning Certain Income Deduction and Interest Charges Accounts	340	Ed. 12-86	

Name of Respondent TA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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LIST OF SCHEDULES (Natural Gas Company) Continued

Title of Schedule (a)	Reference Page No. (b)	Date Revised (c)	Remarks (d)
COMMON SECTION			
Regulatory Commission Expenses	350-351	Ed. 12-89	
Research, Development and Demonstration Activities	352-353	Ed. 12-89	
Distribution of Salaries and Wages	354-355	Ed. 12-88	
Charges for Outside Professional and Other Consultative Services	357	Ed. 12-87	
GAS PLANT STATISTICAL DATA			
Natural Gas Reserves and Land Acreage	500-501	Ed. 12-89	
Changes in Estimated Natural Gas Reserves	503	Ed. 12-88	
Changes in Est. Hydrocarbon Reserves and Costs, and Net Realizable Value	504-505	Ed. 12-88	
Natural Gas Production and Gathering Statistics	506	Ed. 12-88	
Products Extraction Operations—Natural Gas	507	Ed. 12-88	
Compressor Stations	508-509	Ed. 12-86	
Gas and Oil Wells	510	Ed. 12-87	
Field and Storage Lines	511	Ed. 12-87	
Gas Storage Projects	512-513	Ed. 12-91	
Transmission Lines	514	Ed. 12-87	
Liquefied Petroleum Gas Operations	516-517	Ed. 12-86	
Transmission System Peak Deliveries	518	Ed. 12-88	
Auxiliary Peaking Facilities	519	Ed. 12-86	
Gas Account—Natural Gas	520-521	Ed. 12-91	
System Map	522	Ed. 12-86	
Footnote Data	551		
Stockholders' Reports (check appropriate box)	—		
<input type="checkbox"/> Four copies will be submitted. <input type="checkbox"/> No annual report to stockholders is prepared.			

Name of Respondent	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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GENERAL INFORMATION

1. Provide name and title of officer having custody of the general corporate books of account and address of office where the general corporate books are kept, and address of office where any other corporate books of account are kept, if different from that where the general corporate books are kept.

John F. Hall
3617 Lexington Road
Winchester, KY 40391

2. Provide the name of the State under the laws of which respondent is incorporated, and date of incorporation. If incorporated under a special law, give reference to such law. If not incorporated, state that fact and give the type of organization and the date organized.

Kentucky

3. If at any time during the year the property of respondent was held by a receiver or trustee, give (a) name of receiver or trustee, (b) date such receiver or trustee took possession, (c) the authority by which the receivership or trusteeship was created, and (d) date when possession by receiver or trustee ceased.

4. State the classes of utility and other services furnished by respondent during the year in each State in which the respondent operated.

Natural Gas Distributor, Storage
& Transporter

5. Have you engaged as the principal accountant to audit your financial statements an accountant who is not the principal accountant for your previous year's certified financial statements?

(1) Yes... Enter the date when such independent accountant was initially engaged: _____
(2) No

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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CONTROL OVER RESPONDENT

1. If any corporation, business trust, or similar organization or combination of such organizations jointly held control over the respondent at end of year, state name of controlling corporation or organization, manner in which control was held, and extent of control. If control was in a holding company organization, show the chain of ownership or control to the main parent company or organization. If control was held by a trustee(s), state

name of trustee(s), name of beneficiary or beneficiaries for whom trust was maintained, and purpose of the trust.

2. If the above required information is available from the SEC 10-K Report Form filing, a specific reference to the report form (i.e. year and company title) may be listed provided the fiscal years for both the 10-K report and this report are compatible.

Name of Respondent	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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CORPORATIONS CONTROLLED BY RESPONDENT

1. Report below the names of all corporations, business trusts, and similar organizations, controlled directly or indirectly by respondent at any time during the year. If control ceased prior to end of year, give particulars (details) in a footnote.

2. If control was by other means than a direct holding of voting rights, state in a footnote the manner in which control was held, naming any intermediaries involved.

3. If control was held jointly with one or more other interests, state the fact in a footnote and name the other interests.

4. If the above required information is available from the SEC 10-K Report Form filing, a specific reference to the report form (i.e. year and company title) may be listed in column (a) provided the fiscal years for both the 10-K report and this report are compatible.

DEFINITIONS

1. See the Uniform System of Accounts for a definition of control.

2. Direct control is that which is exercised without interposition of an intermediary.

3. Indirect control is that which is exercised by the interposition of an intermediary which exercises direct control.

4. Joint control is that in which neither interest can effectively control or direct action without the consent

of the other, as where the voting control is equally divided between two holders, or each party holds a veto power over the other. Joint control may exist by mutual agreement or understanding between two or more parties who together have control within the meaning of the definition of control in the Uniform System of Accounts, regardless of the relative voting rights of each party.

Name of Company Controlled (a)	Kind of Business (b)	Percent Voting Stock Owned (c)	Footnote Ref. (d)
Delta Resources, Inc.	Gas Broker	100%	
Delgasco, Inc.	Gas Broker	100%	
Deltran, Inc.	Transporter	100%	
Enpro, Inc.	Producer	100%	
TranEx Corporation, Inc.	Transporter	100%	

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
DELTA NATURAL GAS COMPANY, INC	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	03/31/98	Dec. 31, 1997

OFFICERS

1. Report below the name, title and salary for each executive officer whose salary is \$50,000 or more. An "executive officer" of a respondent includes its president, secretary, treasurer, and vice president in charge of a principal business unit, division or function (such as sales, administration or finance), and any other person who performs similar policy-making functions.

2. If a change was made during the year in the incumbent of any position, show name and total remuneration of the previous incumbent, and date the change in incumbency was made.

3. Utilities which are required to file the same data with the Securities and Exchange Commission, may substitute a copy of item 4 of Regulation S-K (identified as this page). The substituted page(s) should be the same size as this page.

Line No.	Title (a)	Name of Officer (b)	Salary for Year (c)
1	President & Chief Executive	Glenn R. Jennings	146,500
2			
3	Vice Presidents:		
4			
5	Administrative & Customer Service	Johnny L. Caudill	83,300
6			
7	Finance, Secretary & Treasurer	John F. Hall	82,800
8			
9	Public & Consumer Affairs	Robert C. Hazelrigg	68,350
10			
11	Operations & Engineering	Alan L. Heath	95,450
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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DIRECTORS

1. Report below the information called for concerning each director of the respondent who held office at any time during the year. Include in column (a), abbreviated titles of the directors who are officers of the respondent.

2. Designate members of the Executive Committee by an asterisk and the Chairman of the Executive Committee by a double asterisk.

Name (and Title) of Director (a)	Principal Business Address (b)	No. of Directors Meetings During Yr. (c)	Fees During Year (d)
1) Byron, Roger A.	112 Court Street Owingsville, KY 40360	4	\$4,225
2) Crowe, Donald R.	109 Ravenwood Versailles, KY 40383	4	\$9,025
3) Hall, Billy Joe	P.O. Box 367 Mt. Sterling, KY 40353	4	\$9,025
4) Harrison, John D.	1106 Maple Street Stanton, KY 40380	4	\$9,025
5) Green, Jane Hylton	103 Windridge Drive Winchester, KY 40391	4	\$9,025
6) Jennings, Glenn R. (President & CEO)	3617 Lexington Road Winchester, KY 40391	4	\$1,825
** 7) Peet, Harrison D. (Chairman of the Board)	3617 Lexington Road Winchester, KY 40391	4	\$37,825
8) Scott, V. E.	213 Ivy Lane Winchester, KY 40391	4	\$9,025
9) Thompson, Henry C.	304 Beacon Hill Drive Nicholasville, KY 40356	4	\$9,025
* 10) Walker, Arthur E., Jr.	P.O. Box 308 Mt. Sterling, KY 40353	4	\$9,025

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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SECURITY HOLDERS AND VOTING POWERS

1. Give the names and addresses of the 10 security holders of the respondent who, at the date of the latest closing of the stock book or compilation of list of stockholders of the respondent, prior to the end of the year, had the highest voting powers in the respondent, and state the number of votes which each would have had the right to cast on that date if a meeting were then in order. If any such holder held in trust, give in a footnote the known particulars of the trust (whether voting trust, etc.), duration of trust, and principal holders of beneficiary interests in the trust. If the stock book was not closed or a list of stockholders was not compiled within one year prior to the end of the year, or if since the previous compilation of a list of stockholders, some other class of security has become vested with voting rights, then show such 10 security holders as of the close of the year. Arrange the names of the security holders in the order of voting power, commencing with the highest. Show in column (a) the titles of officers and directors included in such list of 10 security holders.

whereby such security became vested with voting rights and give other important particulars (details) concerning the voting rights of such security. State whether voting rights are actual or contingent; if contingent, describe the contingency.

3. If any class or issue of security has any special privileges in the election of directors, trustees or managers, or in the determination of corporate action by any method, explain briefly in a footnote.

4. Furnish particulars (details) concerning any options, warrants, or rights outstanding at the end of the year for others to purchase securities of the respondent or any securities or other assets owned by the respondent, including prices, expiration dates, and other material information relating to exercise of the options, warrants, or rights. Specify the amount of such securities or assets so entitled to be purchased by any officer, director, associated company, or any of the ten largest security holders. This instruction is inapplicable to convertible securities or to any securities substantially all of which are outstanding in the hands of the general public where the options, warrants, or rights were issued on a prorata basis.

2. If any security other than stock carries voting rights, explain in a supplemental statement the circumstances

1. Give date of the latest closing of the stock book prior to end of year, and state the purpose of such closing: November 20, 1997 - Annual Meeting	2. State the total number of votes cast at the latest general meeting prior to the end of year for election of directors of the respondent and number of such votes cast by proxy Total: 2,049,614 By proxy: 2,049,614	3. Give the date and place of such meeting: Nov. 20, 1997 Delta Natural Gas Co., Inc., 3617 Lexington Rd., Winchester, KY
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Line No.	Name (Title) and Address of Security Holder (a)	VOTING SECURITIES			
		Number of votes as of (date): November 20, 1997			
		Total Votes (b)	Common Stock (c)	Preferred Stock (d)	Other (e)
4	TOTAL votes of all voting securities	2,353,781	2,353,781		
5	TOTAL number of security holders				
6	TOTAL votes of security holders listed below	1,733,213	1,733,213		
7	Cede & Co.	1,641,045	1,641,045		
8	% Depository Trust Co.				
9	Bowling Green Station				
10	P. O. Box 863				
11	New York, NY 10274				
12					
13	Harrison D. Peet	18,556	18,556		
14	(Director)				
15	374 Crescent Ave.				
16	Winchester, KY 40391				
17					
18	William S. Stewart	15,000	15,000		
19	P. O. Box 980				
20	Pineville, KY 40977				
21					
22	Virgil E. Scott	12,542	12,542		
23	(Director)				
24	213 Ivy Lane				
25	Winchester, KY 40391				
26					

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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SECURITY HOLDERS AND VOTING POWERS (Continued)

Line No.	Name (Title) and Address of Security Holder (a)	Total Votes (b)	Common Stock (c)	Preferred Stock (d)	Other (e)
27	Arthur E. Walker, Jr. (Director) P. O. Box 308 Mt. Sterling, KY 40353	12,468	12,468		
28					
29					
30	John D. Harrison (Director) 1106 Maple Street Stanton, KY 40380	11,012	11,012		
31					
32					
33	Jane Hylton Green (Director) 103 Windridge Drive Winchester, KY 40391	6,630	6,630		
34					
35					
36	Glenn R. Jennings (Director) 9 Fairway Drive Berea, KY 40403	6,140	6,140		
37					
38					
39	Roger A. Byron (Director) 112 Court Street Owingsville, KY 40360	5,431	5,431		
40					
41					
42	Henry C. Thompson (Director) 304 Beacon Hill Dr. Nicholasville, KY 40356	4,389	4,389		
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
DELTA NATURAL GAS COMPANY, INC.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	03/31/98	Dec. 31, 1997

IMPORTANT CHANGES DURING THE YEAR

Give particulars (details) concerning the matters indicated below. Make the statements explicit and precise, and number them in accordance with the inquiries. Each inquiry should be answered. Enter "none" or "not applicable" where applicable. If information which answers an inquiry is given elsewhere in the report, make a reference to the schedule in which it appears.

1. Changes in and important additions to franchise rights: Describe the actual consideration given therefor and state from whom the franchise rights were acquired. If acquired without the payment of consideration, state that fact.

2. Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization.

3. Purchase or sale of an operating unit or system: Give a brief description of the property, and of the transactions relating thereto, and reference to Commission authorization, if any was required. Give date journal entries called for by the Uniform System of Accounts were submitted to the Commission.

4. Important leaseholds (other than leaseholds for natural gas lands) that have been acquired or given, assigned or surrendered: Give effective dates, lengths of terms, names of parties, rents, and other conditions. State name of Commission authorizing lease and give reference to such authorization.

5. Important extension or reduction of transmission or distribution system: State territory added or relinquished and date operations began or ceased and give reference to Commission authorization, if any was required. State also the approximate number of customers added or lost and approximate annual revenues of each class of service. Each natural gas company must also state major new continuing sources

of gas made available to it from purchases, development, purchase contract or otherwise, giving location and approximate total gas volumes available, period of contracts, and other parties to any such arrangements etc.

6. Obligations incurred or assumed by respondent as guarantor for the performance by another of any agreement or obligation, including ordinary commercial paper maturing on demand or not later than one year after date of issue: State on behalf of whom the obligation was assumed and amount of the obligation. Give reference to Commission authorization if any was required.

7. Changes in articles of incorporation or amendments to charter: Explain the nature and purpose of such changes or amendments.

8. State the estimated annual effect and nature of any important wage scale changes during the year.

9. State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year.

10. Describe briefly any materially important transactions of the respondent not disclosed elsewhere in this report in which an officer, director, security holder reported on page 106, voting trustee, associated company or known associate of any of these persons was a party or in which any such person had a material interest.

11. Estimated increase or decrease in annual revenues due to important rate changes: State effective date and approximate amount of increase or decrease for each revenue classification. State the number of customers affected.

12. If the important changes during the year relating to the respondent company appearing in the annual report to stockholders are applicable in every respect and furnish the data required by instructions 1 to 11 above, such notes may be attached to this page.

2. Delta acquired Tranex Corporation, Inc. Refer to Case No. 97-140 Public Service Commission of Kentucky.

3. Tranex has a transmission main of approximately 43 miles. The Journal Entry made was submitted to the PSC on 10/21/97.

11. Delta was granted a rate increase effective 11/30/97. The increase granted approximately: Residential Class \$1,310,000; Commercial Class \$289,000; Industrial Class \$28,000. There are approximately 38,000 customers.

Name of Respondent	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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DELTA NATURAL GAS COMPANY, INC.

IMPORTANT CHANGES DURING THE YEAR (Continued)

[Empty reporting area for important changes during the year]

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at Beginning of Year (c)	Balance at End of Year (d)
1	UTILITY PLANT			
		200-201	100,214,034	106,251,873
2	Utility Plant (101-106, 114)	200-201	2,533,593	8,127,135
3	Construction Work in Progress (107)		102,747,627	114,379,008
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)	200-201	27,143,977	30,066,390
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 111, 115)		75,603,650	84,312,618
6	Net Utility Plant (Enter Total of line 4 less 5)			
7	Nuclear Fuel (120.1-120.4, 120.6)			
8	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)			
9	Net Nuclear Fuel (Enter Total of line 7 less 8)		75,603,650	84,312,618
10	Net Utility Plant (Enter Total of lines 6 and 9)	122-123		
11	Utility Plant Adjustments (116)	220	3,364,552	4,046,127
12	Gas Stored Underground-Noncurrent (117)			
13	OTHER PROPERTY AND INVESTMENTS			
14	Nonutility Property (121)	221	18,592	18,592
15	(Less) Accum. Prov. for Depr. and Amort. (122)	221	(18,592)	(18,592)
16	Investments in Associated Companies (123)	222-223		
17	Investments in Subsidiary Companies (123.1)	224-225	935,406	960,351
18	(For Cost of Account 123.1, See Footnote Page 224, line 42)			
19	Noncurrent Portion of Allowances	222-223,229		
20	Other Investments (124)		313,913	330,913
21	Special Funds (125-128)		1,249,319	1,291,264
22	TOTAL Other Property and Investments (Total of lines 14-17, 19-21)			
23	CURRENT AND ACCRUED ASSETS		(12,019)	413,078
24	Cash (131)			
25	Special Deposits (132-134)		30,125	31,325
26	Working Funds (135)	222-223		
27	Temporary Cash Investments (136)		114,000	122,000
28	Notes Receivable (141)		2,273,116	3,419,200
29	Customer Accounts Receivable (142)			
30	Other Accounts Receivable (143)		(82,095)	(83,647)
31	(Less) Accum. Prov. for Uncollectible Acct.-Credit (144)			
32	Notes Receivable from Associated Companies (145)		(1,485,958)	1,207,705
33	Accounts Receivable from Assoc. Companies (146)			
34	Fuel Stock (151)			
35	Fuel Stock Expenses Undistributed (152)			
36	Residuals (Elec) and Extracted Products (Gas) (153)		621,479	689,565
37	Plant Materials and Operating Supplies (154)			
38	Merchandise (155)			
39	Other Materials and Supplies (156)			
40	Nuclear Materials Held for Sale (157)			
41	Allowances (158.1 and 158.2)			
42	(Less) Noncurrent Portion of Allowances			
43	Stores Expense Undistributed (163)	220	411,625	1,855,202
44	Gas Stored Underground - Current (164.1)	220		
45	Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)	230	170,607	384,775
46	Prepayments (165)	229		
47	Advances for Gas (166-167)			
48	Interest and Dividends Receivable (171)			
49	Rents Receivable (172)			
50	Accrued Utility Revenues (173)			
51	Miscellaneous Current and Accrued Assets (174)		2,040,880	8,039,200
52	TOTAL Current and Accrued Assets (Enter Total of lines 24 thru 51)			

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS) (Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at Beginning of Year (c)	Balance at End of Year (d)
53	DEFERRED DEBITS			
54	Unamortized Debt Expense (181)	—	2,708,900	2,597,300
55	Extraordinary Property Losses (182.1)	230		
56	Unrecovered Plant and Regulatory Study Costs (182.2)	230		
57	Other Regulatory Assets (182.3)	232		
58	Prelim. Survey and Investigation Charges (Electric) (183)	—		
59	Prelim. Sur. and Invest. Charges (Gas) (183.1, 183.2)	231		
60	Clearing Accounts (184)	—	23,492	24,468
61	Temporary Facilities (185)	—		
62	Miscellaneous Deferred Debits (186)	233	187,858	299,730
63	Def. Losses from Disposition of Utility Plt. (187)	—		
64	Research, Devel. and Demonstration Expend. (188)	352-353		
65	Unamortized Loss on Reacquired Debt (189)	—		
66	Accumulated Deferred Income Taxes (190)	234-235		
67	Unrecovered Purchased Gas Costs (191)	—	5,851,153	3,796,665
68	TOTAL Deferred Debits (Enter Total of lines 54 thru 67)		8,771,403	6,718,163
69	TOTAL Assets and other Debits (Enter Total of lines 10, 11, 12, 22, 52, and 68)		91,029,804	104,407,375

Name of Respondent AMERICAN NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at Beginning of Year (c)	Balance at End of Year (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	2,325,333	2,361,922
3	Preferred Stock Issued (204)	252		
4	Capital Stock Subscribed (202, 205)	252		
5	Stock Liability for Conversion (203, 206)	252	26,924,497	27,528,243
6	Premium on Capital Stock (207)	253		
7	Other Paid-In Capital (208-211)	252	53,759	58,907
8	Installments Received on Capital Stock (212)	254		
9	(Less) Discount on Capital Stock (213)	254	(1,916,493)	(1,917,020)
10	(Less) Capital Stock Expense (214)	118-119	(20,000)	322,201
11	Retained Earnings (215, 215.1, 216)	118-119	935,407	(39,648)
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	250-251		
13	(Less) Reacquired Capital Stock (217)	—	28,302,503	28,314,605
14	TOTAL Proprietary Capital (Enter Total of lines 2 thru 13)			
15	LONG-TERM DEBT			
16	Bonds (221)	256-257	38,652,000	38,325,000
17	(Less) Reacquired Bonds (222)	256-257		
18	Advances from Associated Companies (223)	256-257	1,940,098	1,453,777
19	Other Long-Term Debt (224)	258-259		
20	Unamortized Premium on Long-Term Debt (225)	258-259	(348,643)	(248,404)
21	(Less) Unamortized Discount on Long-Term Debt-Dr. (226)	—	40,243,455	39,530,373
22	TOTAL Long-Term Debt (Enter Total of lines 16 thru 21)			
23	OTHER NONCURRENT LIABILITIES			
24	Obligations Under Capital Leases - Noncurrent (227)	—		
25	Accumulated Provision for Property Insurance (228.1)	—		
26	Accumulated Provision for Injuries and Damages (228.2)	—		
27	Accumulated Provision for Pensions and Benefits (228.3)	—		
28	Accumulated Miscellaneous Operating Provisions (228.4)	—		
29	Accumulated Provision for Rate Refunds (229)	—		
30	TOTAL Other Noncurrent Liabilities (Enter Total of lines 24 thru 29)			
31	CURRENT AND ACCRUED LIABILITIES			
32	Notes Payable (231)	—	7,790,000	19,395,000
33	Accounts Payable (232)	—	3,126,735	3,660,494
34	Notes Payable to Associated Companies (233)	—		
35	Accounts Payable to Associated Companies (234)	—	381,246	498,566
36	Customer Deposits (235)	262-263	(241,223)	501,518
37	Taxes Accrued (236)	—	890,233	1,081,096
38	Interest Accrued (237)	—		
39	Dividends Declared (238)	—		
40	Matured Long-Term Debt (239)	—		
41	Matured Interest (240)	—	81,310	86,577
42	Tax Collections Payable (241)	268	690,159	726,249
43	Miscellaneous Current and Accrued Liabilities (242)	—		
44	Obligations Under Capital Leases-Current (243)	—		
45	TOTAL Current and Accrued Liabilities (Enter Total of lines 32 thru 44)		12,718,460	25,949,500

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS) (Continued)

Line No.	Title of Account (a)	Ref. Page No. (b)	Balance at Beginning of Year (c)	Balance at End of Year (d)
46	DEFERRED CREDITS			
47	Customer Advances for Construction (252)		222,426	217,575
48	Accumulated Deferred Investment Tax Credits (255)	266-267	743,900	673,500
49	Deferred Gains from Disposition of Utility Plant (256)			
50	Other Deferred Credits (253)	269	82,060	461,147
51	Other Regulatory Liabilities (254)	278	915,200	867,675
52	Unamortized Gain on Reacquired Debt (257)	260		
53	Accumulated Deferred Income Taxes (281-283)	272-277	7,801,800	8,393,000
54	TOTAL Deferred Credits (Enter Total of lines 47 thru 53)		9,765,386	10,612,897
55				
56				
57				
58				
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61				
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67				
68	TOTAL Liabilities and Other Credits (Enter Total of lines 14, 22, 30, 45 and 54)		91,029,804	104,407,375

Name of Respondent ATA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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STATEMENT OF INCOME FOR THE YEAR

1. Report amounts for accounts 412 and 413, *Revenue and Expenses from Utility Plant Leased to Others*, in another utility column (i, k, m, o) in a similar manner to a utility department. Spread the amount(s) over lines 02 thru 24 as appropriate. Include these amounts in columns (c) and (d) totals.

2. Report amounts in account 414, *Other Utility Operating Income*, in the same manner as accounts 412 and 413 above.

3. Report data for lines 7, 9, and 10 for Natural Gas companies using accounts 404.1, 404.2, 404.3, 407.1, and 407.2.

4. Use page 122 for important notes regarding the statement of income or any account thereof.

5. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in a material refund to the utility with respect to power or gas purchases. State for each year affected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power and gas purchases.

6. Give concise explanations concerning significant amounts of any refunds made or received during the year

Line No.	Account (a)	(Ref.) Page No. (b)	TOTAL	
			ALL GAS Current Year (c)	Previous Year (d)
1	UTILITY OPERATING INCOME			
2	Operating Revenues (400)	300-301	39,185,262	33,052,029
3	Operating Expenses			
4	Operation Expenses (401)	320-325	27,652,939	22,752,943
	Maintenance Expenses (402)	320-325	590,629	477,355
6	Depreciation Expense (403)	336-338	3,134,647	2,674,195
7	Amort. & Depl. of Utility Plant (404-405)	336-338	740	119
8	Amort. of Utility Plant Acq. Adj. (406)	336-338		
9	Amort. of Property Losses, Unrecovered Plant and Regulatory Study Costs (407)			
10	Amort. of Conversion Expenses (407)			
11	Regulatory Debits (407.3)			
12	(Less) Regulatory Credits (407.4)			
13	Taxes Other Than Income Taxes (408.1)	262-263	1,151,827	1,049,257
14	Income Taxes — Federal (409.1)	262-263	491,915	(392,880)
15	— Other (409.1)	262-263	(31,740)	(353,020)
16	Provision for Deferred Income Taxes (410.1)	234,272-277	516,700	1,875,100
17	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234,272-277		
18	Investment Tax Credit Adj. - Net (411.4)	266	(70,400)	(71,000)
19	(Less) Gains from Disp. of Utility Plant (411.6)			
20	Losses from Disp. of Utility Plant (411.7)			
21	(Less) Gains from Disposition of Allowances (411.8)			
22	Losses from Disposition of Allowances (411.9)			
23	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 22)		33,437,257	28,012,069
24	Net Utility Operating Income (Enter Total of line 2 less 23) (Carry forward to page 117, line 25)		5,748,005	5,039,960

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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STATEMENT OF INCOME FOR THE YEAR (Continued)

resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purchases, and a summary of the adjustments made to balance sheet, income, and expense accounts.

7. If any notes appearing in the report to stockholders are applicable to this Statement of Income, such notes may be attached at page 122.

8. Enter on page 122 a concise explanation of only those changes in accounting methods made during the year which had an effect on net income, including the

basis of allocations and apportionments from those used in the preceding year. Also give the approximate dollar effect of such changes.

9. Explain in a footnote if the previous year's figures are different from that reported in prior reports.

10. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles, lines 2 to 23, and report the information in the blank space on page 122 or in a supplemental statement.

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		Line No.
Current Year (e)	Previous Year (f)	Current Year (g)	Previous Year (h)	Current Year (i)	Previous Year (j)	
						1
						2
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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STATEMENT OF INCOME FOR THE YEAR (Continued)

Line No.	OTHER UTILITY		OTHER UTILITY		OTHER UTILITY	
	Current Year (k)	Previous Year (l)	Current Year (m)	Previous Year (n)	Current Year (o)	Previous Year (p)
1						
2						
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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STATEMENT OF INCOME FOR THE YEAR (Continued)

Line No.	Account (a)	(Ref.) Page No. (b)	TOTAL	
			Current Year (c)	Previous Year (d)
25	Net Utility Operating Income (Carried forward from page 114)	—	5,748,005	5,039,960
26	Other Income and Deductions			
27	Other Income			
28	Nonutility Operating Income			
29	Revenues From Merchandising, Jobbing and Contract Work (415)		64,802	72,122
30	(Less) Costs and Exp. of Merchandising, Job & Contract Work (416)		(47,859)	(52,724)
31	Revenues From Nonutility Operations (417)			
32	(Less) Expenses of Nonutility Operations (417.1)			
33	Nonoperating Rental Income (418)			
34	Equity in Earnings of Subsidiary Companies (418.1)	119	410,857	381,377
35	Interest and Dividend Income (419)		21,503	31,585
36	Allowance for Other Funds Used During Construction (419.1)			
37	Miscellaneous Nonoperating Income (421)		(1,278)	22,340
38	Gain on Disposition of Property (421.1)			
39	TOTAL Other Income (Enter Total of lines 29 thru 38)		448,025	454,700
40	Other Income Deductions			
41	Loss on Disposition of Property (421.2)			
42	Miscellaneous Amortization (425)	340		
43	Miscellaneous Income Deductions (426.1-426.5)	340	(8,426)	(9,202)
44	TOTAL Other Income Deductions (Total of lines 41 thru 43)		(8,426)	(9,202)
45	Taxes Applic. to Other Income and Deductions			
46	Taxes Other Than Income Taxes (408.2)	262-263		
47	Income Taxes—Federal (409.2)	262-263	13,400	33,600
48	Income Taxes—Other (409.2)	262-263	3,400	7,900
49	Provision for Deferred Inc. Taxes (410.2)	234.272-277		
50	(Less) Provision for Deferred Income Taxes—Cr. (411.2)	234.272-277		
51	Investment Tax Credit Adj.—Net (411.5)			
52	(Less) Investment Tax Credits (420)			
53	TOTAL Taxes on Other Inc. and Ded. (Total of 46 thru 52)		16,800	41,500
54	Net Other Income and Deductions (Enter Total of lines 39, 44, 53)		439,651	422,402
55	Interest Charges			
56	Interest on Long-Term Debt (427)		3,152,939	2,281,638
57	Amort. of Debt Disc. and Expense (428)	258-259	111,600	103,966
58	Amortization of Loss on Reacquired Debt (428.1)			
59	(Less) Amort. of Premium on Debt-Credit (429)	258-259		
60	(Less) Amortization of Gain on Reacquired Debt-Credit (429.1)			
61	Interest on Debt to Assoc. Companies (430)	340		
62	Other Interest Expense (431)	340	884,879	839,980
63	(Less) Allowance for Borrowed Funds Used During Construction—Cr.(432)			
64	Net Interest Charges (Enter Total of lines 56 thru 63)		4,149,418	3,225,584
65	Income Before Extraordinary Items (Enter Total of lines 25, 54 and 64)		2,038,238	2,236,778
66	Extraordinary Items			
67	Extraordinary Income (434)			
68	(Less) Extraordinary Deductions (435)			
69	Net Extraordinary Items (Enter Total of line 67 less line 68)			
70	Income Taxes—Federal and Other (409.3)	262-263		
71	Extraordinary Items After Taxes (Enter Total of line 69 less line 70)			
72	Net Income (Enter Total of lines 65 and 71)		2,038,238	2,236,778

Name of Respondent TA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19_97
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STATEMENT OF RETAINED EARNINGS FOR THE YEAR

1. Report all changes in appropriated retained earnings, unappropriated retained earnings, and unappropriated undistributed subsidiary earnings for the year.

2. Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436-439 inclusive). Show the contra primary account affected in column (b).

3. State the purpose and amount for each reservation or appropriation of retained earnings.

4. List first account 439, *Adjustments to Retained Earnings*, reflecting adjustments to the opening balance of retained earnings. Follow by credit, then debit items, in that order.

5. Show dividends for each class and series of capital stock.

6. Show separately the State and Federal income tax effect of items shown in account 439, *Adjustments to Retained Earnings*.

7. Explain in a footnote the basis for determining the amount reserved or appropriated. If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated.

8. If any notes appearing in the report to stockholders are applicable to this statement, attach them at page 122.

Line No.	Item (a)	Contra Primary Account Affected (b)	Amount (c)
	UNAPPROPRIATED RETAINED EARNINGS (Account 216)		
1	Balance—Beginning of Year		(20,000)
2	Changes (<i>Identify by prescribed retained earnings accounts</i>)		
3	Adjustments to Retained Earnings (Account 439)		
4	Credit: Dividends From Subs		1,385,912
5	Credit:		
6	Credit:		
7	Credit:		
8	Credit:		
9	Total Credits to Retained Earnings (Account 439) (<i>Enter Total of lines 4 thru 8</i>)		
10	Debit:		
11	Debit:		
12	Debit:		
13	Debit:		
14	Debit:		
15	TOTAL Debits to Retained Earnings (Account 439) (<i>Total of lines 10 thru 14</i>)		
16	Balance Transferred from Income (Account 433 less Account 418.1)		1,627,381
17	Appropriations of Retained Earnings (Account 436)		
18			
19			
20			
21			
22	TOTAL Appropriations of Retained Earnings (Account 436) (<i>Total of lines 18 thru 21</i>)		
23	Dividends Declared—Preferred Stock (Account 437)		
24			
25			
26			
27			
28			
29	TOTAL Dividends Declared—Preferred Stock (Account 437) (<i>Total of lines 24 thru 28</i>)		
30	Dividends Declared—Common Stock (Account 438)		
31			
32			
33			
34			
35			
36	TOTAL Dividends Declared—Common Stock (Account 438) (<i>Total of lines 31 thru 35</i>)		2,671,092
37	Transfers from Acct. 216.1, Unappropriated Undistributed Subsidiary Earnings		
38	Balance—End of Year (<i>Total of lines 01, 09, 15, 16, 22, 29, 36 and 37</i>)		322,201

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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STATEMENT OF RETAINED EARNINGS FOR THE YEAR (Continued)

Line No.	Item (a)	Amount (b)
	APPROPRIATED RETAINED EARNINGS (Account 215) State balance and purpose of each appropriated retained earnings amount at end of year and give accounting entries for any applications of appropriated retained earnings during the year.	
39		
40		
41		
42		
43		
44		
45	TOTAL Appropriated Retained Earnings (Account 215)	
	APPROPRIATED RETAINED EARNINGS-AMORTIZATION RESERVE, FEDERAL (Account 215.1) State below the total amount set aside through appropriations of retained earnings, as of the end of the year, in compliance with the provisions of Federally granted hydroelectric project licenses held by the respondent. If any reductions or changes other than the normal annual credits hereto have been made during the year, explain such items in a footnote.	
46	TOTAL Appropriated Retained Earnings-Amortization Reserve, Federal (Account 215.1)	
47	TOTAL Appropriated Retained Earnings (Accounts 215, 215.1) (Enter Total of lines 45 & 46)	
48	TOTAL Retained Earnings (Account 215, 215.1, 216) (Enter Total of lines 38 and 47)	322,201
	UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS (Account 216.1)	
49	Balance—Beginning of Year (Debit or Credit)	935,407
50	Equity in Earnings for Year (Credit) (Account 418.1)	410,857
51	(Less) Dividends Received (Debit)	1,385,912
52	Other Changes (Explain)	
53	Balance—End of Year (Total of lines 49 thru 52)	(39,648)

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
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STATEMENT OF CASH FLOWS

- If the notes to the cash flow statement in the respondents annual stockholders report are applicable to this statement, such notes should be attached to page 122. Information about noncash investing and financing activities should be provided on page 122. Provide also on page 122 a reconciliation between "Cash and Cash Equivalents at End of Year" with related amounts on the balance sheet.
- Under "Other" specify significant amounts and group others.
- Operating Activities—Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show on page 122 the amounts of interest paid (net of amounts capitalized) and income taxes paid.

Line No.	DESCRIPTION (See Instructions for Explanation of Codes) (a)	Amounts (b)
1	Net Cash Flow from Operating Activities:	
2	Net Income (Line 72(c) on page 117)	2,038,238
3	Noncash Charges (Credits) to Income:	
4	Depreciation and Depletion	3,135,387
5	Amortization of (Specify) Debt Expense	111,600
6		
7		
8	Deferred Income Taxes (Net)	(473,275)
9	Investment Tax Credit Adjustments (Net)	
10	Net (Increase) Decrease in Receivables	(1,144,532)
11	Net (Increase) Decrease in Inventory	(1,511,663)
12	Net (Increase) Decrease in Allowances Inventory	
13	Net Increase (Decrease) in Payables and Accrued Expenses	935,582
14	Net (Increase) Decrease in Other Regulatory Assets	
	Net Increase (Decrease) in Other Regulatory Liabilities	
	(Less) Allowance for Other Funds Used During Construction	
17	(Less) Undistributed Earnings from Subsidiary Companies	
18	Other: Unrecovered Gas Costs	2,054,488
19		
20		
21	Net Cash Provided by (Used in) Operating Activities	
22	(Total of lines 2 thru 20)	5,145,825
23		
24	Cash Flows from Investment Activities:	
25	Construction and Acquisition of Plant (including land):	
26	NET Gross Additions to Utility Plant (less nuclear fuel)	6,037,839
27	Gross Additions to Nuclear Fuel	
28	Gross Additions to Common Utility Plant	
29	Gross Additions to Nonutility Plant	
30	(Less) Allowance for Other Funds Used During Construction	
31	Other: Construction Work In Progress	5,593,542
32		
33		
34	Cash Outflows for Plant (Total of lines 26 thru 33)	11,631,381
35		
36	Acquisition of Other Noncurrent Assets (d)	
37	Proceeds from Disposal of Noncurrent Assets (d)	
38		
39	Investments in and Advances to Assoc. and Subsidiary Companies	2,693,663
40	Contributions and Advances from Assoc. and Subsidiary Companies	
	Disposition of Investments in (and Advances to)	
	Associated and Subsidiary Companies	
43		
44	Purchase of Investment Securities (a)	
45	Proceeds from Sales of Investment Securities (a)	

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo. Da. Yr) 03/31/98	Year of Report Dec. 31, 1997
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STATEMENT OF CASH FLOWS (Continued)

4. Investing Activities

Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed on page 122.

Do not include on this statement the dollar amount of leases capitalized per USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost on page 122.

5. Codes used:

- (a) Net proceeds or payments.
- (b) Bonds, debentures and other long-term debt.
- (c) Include commercial paper.
- (d) Identify separately such items as investments, fixed assets, intangibles, etc.

6. Enter on page 122 clarifications and explanations.

Line No.	Description (See Instruction No. 5 for Explanation of Codes) (a)	Amounts (b)
46	Loans Made or Purchased	32,000
47	Collections on Loans	24,000
48		
49	Net (Increase) Decrease in Receivables	
50	Net (Increase) Decrease in Inventory	
51	Net (Increase) Decrease in Allowances Held for Speculation	
52	Net Increase (Decrease) in Payables and Accrued Expenses	
53	Other:	
54		
55		
56	Net Cash Provided by (Used in) Investing Activities	
57	(Total of lines 34 thru 55)	14,333,044
58		
59	Cash Flows from Financing Activities:	
60	Proceeds from Issuance of:	
61	Long-Term Debt (b)	
62	Preferred Stock	
63	Common Stock	640,335
64	Other:	
65		
66	Net Increase in Short-Term Debt (c)	11,605,000
67	Other:	
68		
69		
70	Cash Provided by Outside Sources (Total of lines 61 thru 69)	12,245,335
71		
72	Payments for Retirement of:	
73	Long-term Debt (b)	813,321
74	Preferred Stock	
75	Common Stock	
76	Other:	
77		
78	Net Decrease in Short-Term Debt (c)	
79		
80	Dividends on Preferred Stock	
81	Dividends on Common Stock	2,671,092
82	Net Cash Provided by (Used in) Financing Activities	
83	-- (Total of lines 70 thru 81)	8,760,922
84		
85	Net Increase (Decrease) in Cash and Cash Equivalents	
86	(Total of lines 22, 57 and 83)	426,297
87		
88	Cash and Cash Equivalents at Beginning of Year	18,106
89		
90	Cash and Cash Equivalents at End of Year	444,403

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
ETA NATURAL GAS COMPANY, INC.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	03/31/98	Dec. 31, 1997

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.

2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.

3. For Account 116, *Utility Plant Adjustments*, explain the origin of such amount, debits and credits during the year,

and plan of disposition contemplated, giving references to Commission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.

4. Where Accounts 189, *Unamortized Loss on Reacquired Debt*, and 257, *Unamortized Gain on Reacquired Debt*, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.

5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.

6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be attached hereto.

Name of Respondent	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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DELTA NATURAL GAS COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

Name of Respondent D. NATURAL GAS COMPANY, INC.		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19_97
SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS FOR DEPRECIATION, AMORTIZATION AND DEPLETION				
Line No.	Item (a)	ALL GAS Total (b)	Electric (c)	
1	UTILITY PLANT			
2	In Service			
3	Plant in Service (Classified)	106,251,873		
4	Property Under Capital Leases			
5	Plant Purchased or Sold			
6	Completed Construction not Classified			
7	Experimental Plant Unclassified			
8	TOTAL (Enter Total of lines 3 thru 7)	106,251,873		
9	Leased to Others			
10	Held for Future Use			
11	Construction Work in Progress	8,127,135		
12	Acquisition Adjustments			
13	TOTAL Utility Plant (Enter Total of lines 8 thru 12)	114,379,008		
14	Accum. Prov. for Depr., Amort., & Depl.	30,066,390		
15	Net Utility Plant (Enter Total of line 13 less 14)	84,312,618		
16	DETAIL OF ACCUMULATED PROVISIONS FOR DEPRECIATION, AMORTIZATION AND DEPLETION			
17	In Service:			
18	Depreciation	30,066,390		
	Amort. and Depl. of Producing Natural Gas Land and Land Rights			
	Amort. of Underground Storage Land and Land Rights			
21	Amort. of Other Utility Plant			
22	TOTAL In Service (Enter Total of lines 18 thru 21)	30,066,390		
23	Leased to Others			
24	Depreciation			
25	Amortization and Depletion			
26	TOTAL Leased to Others (Enter Total of lines 24 and 25)			
27	Held for Future Use			
28	Depreciation			
29	Amortization			
30	TOTAL Held for Future Use (Enter Total of lines 28 and 29)			
31	Abandonment of Leases (Natural Gas)			
32	Amort. of Plant Acquisition Adj.			
33	TOTAL Accumulated Provisions (Should agree with line 14 above) (Enter Total of lines 22, 26, 30, 31, and 32)	30,066,390		

Name of Respondent	This Report Is: (1) <input type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr)	Year of Report Dec. 31, 19__
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**SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS
FOR DEPRECIATION, AMORTIZATION AND DEPLETION (Continued)**

Gas (d)	Other (Specify) (e)	Other (Specify) (f)	Other (Specify) (g)	Common (h)	Line No.
					1
					2
					3
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Name of Respondent D. NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19_97
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GAS PLANT IN SERVICE (Accounts 101, 102, 103, and 106)

1. Report below the original cost of gas plant in service according to the prescribed accounts.

2. In addition to Account 101, *Gas Plant in Service (Classified)*, this page and the next include Account 102, *Gas Plant Purchased or Sold*; Account 103, *Experimental Gas Plant Unclassified*; and Account 106, *Completed Construction Not Classified—Gas*.

3. Include in column (c) or (d), as appropriate, corrections of additions and retirements for the current or preceding year.

4. Enclose in parentheses credit adjustments of plant accounts to indicate the negative effect of such accounts.

5. Classify Account 106 according to prescribed accounts, on an estimated basis if necessary, and include the

entries in column (c). Also to be included in column (c) are entries for reversals of tentative distributions of prior year reported in column (b). Likewise, if the respondent has a significant amount of plant retirements which have not been classified to primary accounts at the end of the year, include in column (d) a tentative distribution of such retirements, on an estimated basis, with appropriate contra entry to the account for accumulated depreciation provision. Include also in column (d) reversals of tentative distributions or prior year of unclassified retirements. Attach supplemental statement showing the account distributions of these tentative classifications in columns (c) and (d).

Line No.	Account (a)	Balance at Beginning of Year (b)	Additions (c)
1	1. Intangible Plant		
2	301 Organization	53,151	
3	302 Franchises and Consents	3,479	
4	303 Miscellaneous Intangible Plant		
5	TOTAL Intangible Plant	56,630	
6	2. Production Plant		
7	Natural Gas Production and Gathering Plant		
8	325.1 Producing Lands		
	325.2 Producing Leaseholds		
	325.3 Gas Rights		
11	325.4 Rights-of-Way	75,975	
12	325.5 Other Land and Land Rights		
13	326 Gas Well Structures		
14	327 Field Compressor Station Structures	42,950	
15	328 Field Meas. and Reg. Sta. Structures		
16	329 Other Structures		
17	330 Producing Gas Wells—Well Construction		
18	331 Producing Gas Wells—Well Equipment	13,392	
19	332 Field Lines	1,815,170	
20	333 Field Compressor Station Equipment	798,336	2,118
21	334 Field Meas. and Reg. Sta. Equipment	82,734	
22	335 Drilling and Cleaning Equipment		
23	336 Purification Equipment		
24	337 Other Equipment		
25	338 Unsuccessful Exploration & Devel. Costs		
26	TOTAL Production and Gathering Plant	2,828,557	2,118
27	Products Extraction Plant		
28	340 Land and Land Rights		
29	341 Structures and Improvements		
30	342 Extraction and Refining Equipment		
31	343 Pipe Lines		
32	344 Extracted Products Storage Equipment		
33	345 Compressor Equipment		
34	346 Gas Meas. and Reg. Equipment		
	347 Other Equipment		
	TOTAL Products Extraction Plant		
37	TOTAL Nat. Gas Production Plant	2,828,557	2,118
38	Mfd. Gas Prod. Plant (Submit Suppl. Statement)	95,981	
39	TOTAL Production Plant	2,924,538	2,118

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19__97
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GAS PLANT IN SERVICE (Accounts 101, 102, 103, and 106)

including the reversals of the prior years tentative account distributions of these amounts. Careful observance of the above instructions and the texts of Accounts 101 and 106 will avoid serious omissions of the reported amount of respondent's plant actually in service at end of year.

6. Show in column (f) reclassifications or transfers within utility plant accounts. Include also in column (f) the additions or reductions of primary account classifications arising from distribution of amounts initially recorded in Account 102. In showing the clearance of Account 102, include in column (e) the amounts with respect to accumulated provision for depreciation, acquisition adjustments, etc., and show in col-

umn (f) only the offset to the debits or credits distributed in column (f) to primary account classifications.

7. For Account 399, state the nature and use of plant included in this account and if substantial in amount submit a supplementary statement showing subaccount classification of such plant conforming to the requirements of these pages.

8. For each amount comprising the reported balance and changes in Account 102, state the property purchased or sold, name of vendor or purchaser, and date of transaction. If proposed journal entries have been filed with the Commission as required by the Uniform System of Accounts, give also date of such filing.

Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)		Line No.
					1
			53,151	301	2
	(740)		2,739	302	3
				303	4
	(740)		55,890		5
					6
					7
				325.1	8
				325.2	9
				325.3	10
			75,975	325.4	11
				325.5	12
				326	13
			42,950	327	14
				328	15
				329	16
				330	17
			13,392	331	18
			1,815,170	332	19
			800,454	333	20
			82,734	334	21
				335	22
				336	23
				337	24
				338	25
			2,830,675		26
					27
				340	28
				341	29
				342	30
				343	31
				344	32
				345	33
				346	34
				347	35
					36
			2,830,675		37
			95,981		38
			2,926,656		39

Name of Respondent ATA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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GAS PLANT IN SERVICE (Accounts 101, 102, 103, and 106) (Continued)

Line No	Account (a)	Balance at Beginning of Year (b)	Additions (c)
40	3. Natural Gas Storage and Processing Plant		
41	Underground Storage Plant		
42	350.1 Land	14,142	96,413
43	350.2 Rights-of-Way	56,072	
44	351 Structures and Improvements		
45	352 Wells	830,027	
46	352.1 Storage Leaseholds and Rights	1,881,731	
47	352.2 Reservoirs	294,307	
48	352.3 Non-recoverable Natural Gas	764,625	15,468
49	353 Lines	1,132,139	
50	354 Compressor Station Equipment	263,154	
51	355 Measuring and Reg. Equipment	87,073	
52	356 Purification Equipment	47,209	
53	357 Other Equipment	5,370,479	111,881
54	TOTAL Underground Storage Plant		
55	Other Storage Plant		
56	360 Land and Land Rights		
57	361 Structures and Improvements		
58	362 Gas Holders		
59	363 Purification Equipment		
60	363.1 Liquefaction Equipment		
61	363.2 Vaporizing Equipment		
62	363.3 Compressor Equipment		
63	363.4 Meas. and Reg. Equipment		
64	363.5 Other Equipment		
65	TOTAL Other Storage Plant		
66	Base Load Liquefied Natural Gas Terminating and Processing Plant		
67	364.1 Land and Land Rights		
68	364.2 Structures and Improvements		
69	364.3 LNG Processing Terminal Equipment		
70	364.4 LNG Transportation Equipment		
71	364.5 Measuring and Regulating Equipment		
72	364.6 Compressor Station Equipment		
73	364.7 Communications Equipment		
74	364.8 Other Equipment		
75	TOTAL Base Load Liquefied Natural Gas, Terminating and Processing Plant	5,370,479	111,881
76	TOTAL Nat. Gas Storage and Proc. Plant		
77	4. Transmission Plant		
78	365.1 Land and Land Rights	37,455	5,829
79	365.2 Rights-of-Way	590,182	8,735
80	366 Structures and Improvements	138,485	6,959
81	367 Mains	18,993,211	983,281
82	368 Compressor Station Equipment	1,267,850	
83	369 Measuring and Reg. Sta. Equipment	741,518	138,952
84	370 Communication Equipment	410,734	13,773
85	371 Other Equipment	22,179,435	1,157,529
86	TOTAL Transmission Plant		
87			

Name of Respondent		This Report Is:		Date of Report	Year of Report
DELTA NATURAL GAS COMPANY, INC.		(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		(Mo, Da, Yr) 3-31-98	Dec. 31, 1997
GAS PLANT IN SERVICE (Accounts 101, 102, 103, and 106) (Continued)					
Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)		Line No.
					40
					41
			14,142	350.1	42
		19,617	116,030	350.2	43
			56,072	351	44
				352	45
	(1,071)		828,956	352.1	46
			1,881,731	352.2	47
			294,307	352.3	48
			780,093	353	49
			1,132,139	354	50
			263,154	355	51
			87,073	356	52
			47,209	357	53
	(1,071)	19,617	5,500,906		54
					55
				360	56
				361	57
				362	58
				363	59
				363.1	60
				363.2	61
				363.3	62
				363.4	63
				363.5	64
					65
					66
				364.1	67
				364.2	68
				364.3	69
				364.4	70
				364.5	71
				364.6	72
				364.7	73
				364.8	74
					75
	(1,071)	19,617	5,500,906		76
					77
					78
			43,284	365.1	79
	(1,665)	(19,617)	577,635	365.2	80
			145,444	366	81
16,271			19,960,221	367	82
			1,267,849	368	83
			880,470	369	84
				370	85
	(5,788)		418,719	371	86
16,271	(7,453)	(19,617)	23,293,623		87

Name of Respondent DARTMOUTH NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 97
GAS PLANT IN SERVICE (Accounts 101, 102, 103, and 106) (Continued)			

Line No.	Account (a)	Balance at Beginning of Year (b)	Additions (c)
88	5. Distribution Plant		
89	374 Land and Land Rights	240,847	2,024
90	375 Structures and Improvements	97,007	4,101
91	376 Mains	39,749,252	2,772,515
92	377 Compressor Station Equipment		
93	378 Meas. and Reg. Sta. Equip.—General	802,092	116,217
94	379 Meas. and Reg. Sta. Equip.—City Gate	388,040	2,853
95	380 Services	6,017,698	872,721
96	381 Meters	4,574,419	94,369
97	382 Meter Installations	2,054,732	149,850
98	383 House Regulators	1,783,283	85,933
99	384 House Reg. Installations		
100	385 Industrial Meas. and Reg. Sta. Equipment	1,063,029	57,974
101	386 Other Prop. on Customers' Premises		
102	387 Other Equipment		
103	TOTAL Distribution Plant	56,770,399	4,158,557
104	6. General Plant		
105	389 Land and Land Rights	840,112	
106	390 Structures and Improvements	2,870,962	11,853
107	391 Office Furniture and Equipment	553,160	91,463
108	392 Transportation Equipment	2,459,339	745,131
	393 Stores Equipment	41,199	
	394 Tools, Shop, and Garage Equipment	920,512	30,477
111	395 Laboratory Equipment	154,267	5,317
112	396 Power Operated Equipment	1,279,948	209,839
113	397 Communication Equipment	578,963	22,773
114	398 Miscellaneous Equipment	97,209	
115	Subtotal	9,795,671	1,116,853
116	399 Other Tangible Property	3,116,882	464,714
117	TOTAL General Plant	12,912,553	1,581,567
118	TOTAL (Accounts 101 and 106)	100,214,034	7,011,652
119	Gas Plant Purchased (See Instr. 8)		
120	(Less) Gas Plant Sold (See Instr. 8)		
121	Experimental Gas Plant Unclassified		
122	TOTAL Gas Plant in Service	100,214,034	7,011,652

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Name of Respondent	This Report Is:	Date of Report	Year of Report
DELTA NATURAL GAS COMPANY, INC.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) 3-31-98	Dec. 31, 1997
GAS PLANT IN SERVICE (Accounts 101, 102, 103, and 106) (Continued)			

Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)		Line No.
					88
			242,871	374	89
			101,108	375	90
145,370		1,000	42,377,397	376	91
				377	92
11,878			906,431	378	93
			390,893	379	94
64,886		(1,000)	6,824,533	380	95
21,642			4,647,146	381	96
5,491			2,199,091	382	97
18,843			1,850,373	383	98
				384	99
7,658			1,113,345	385	100
				386	101
				387	102
275,768			60,653,188		103
					104
			840,112	389	105
700			2,882,115	390	106
25,532			619,091	391	107
485,691			2,718,779	392	108
			41,199	393	109
2,833			948,156	394	110
			159,584	395	111
86,161	5,832		1,409,458	396	112
1,864			599,872	397	113
			97,209	398	114
602,781	5,832		10,315,575		115
75,561			3,506,035	399	116
678,342	5,832		13,821,610		117
970,381	(3,432)		106,251,873		118
					119
					120
					121
970,381	(3,432)		106,251,873		122

Name of Respondent	This Report Is: (1) <input type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr)	Year of Report Dec. 31, 19__
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PRODUCTION PROPERTIES HELD FOR FUTURE USE (Account 105.1)

1. Report separately each property held for future use at end of the year having an original cost of \$250,000 or more. Group other items of property held for future use.
 2. For property having an original cost of \$250,000 or more previously used in utility operations, now held for future use,

give in column (a), in addition to other required information, the date that utility use of such property was discontinued, and the date the original cost was transferred to Account 105.1.

Line No.	Description and Location of Property (a)	Date Originally Included in This Account (b)	Date Expected to be Used in Utility Service (c)	Balance at End of Year (d)
1	Natural Gas Lands, Leaseholds, and Gas Rights Held for Future Utility Use (Per Pages 500-501)			
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
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43				
44				
45				
46	TOTAL			

Name of Respondent DEPTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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CONSTRUCTION WORK IN PROGRESS—GAS (Account 107)

1. Report below descriptions and balances at end of year of projects in process of construction (107).
2. Show items relating to "research, development, and demonstration" projects last, under a caption Research,

Development, and Demonstration (see Account 107 of the Uniform System of Accounts).
3. Minor projects (less than \$500,000) may be grouped.

Line No.	Description of Project (a)	Construction Work in Progress—Gas (Account 107) (b)	Estimated Additional Cost of Project (c)
1			
2			
3	MISCELLANEOUS UNFINISHED JOBS	3,407,049	300,000
4			
5	STORAGE LINE		
6	Canada Mountain	4,216,359	5,000
7			
8	TRANSMISSION EXTENSION		
9	Bluegrass Army Depot	503,727	600,000
10			
11			
12			
13			
16			
17			
18			
19			
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23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
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36			
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38			
39			
42			
43	TOTAL	8,127,135	905,000

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19_97
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CONSTRUCTION OVERHEADS—GAS

1. List in column (a) the kinds of overheads according to the titles used by the respondent. Charges for outside professional services for engineering fees and management or supervision fees capitalized should be shown as separate items.
 2. On page 218 furnish information concerning construction overheads.
 3. A respondent should not report "none" to this page if no overhead apportionments are made, but rather should explain on page

218 the accounting procedures employed and the amounts of engineering, supervision and administrative costs, etc., which are directly charged to construction.
 4. Enter on this page engineering, supervision, administrative, and allowance for funds used during construction, etc., which are first assigned to a blanket work order and then prorated to construction jobs.

Line No.	Description of Overhead (a)	Total Amount Charged for the Year (b)	Total Cost of Construction to Which Overheads Were Charged (Exclusive of Overhead Charges) (c)
1			
2			
3			
4	ENGINEERING, ACCOUNTING AND ADMINISTRATIVE	1,568,090	9,086,777
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
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35			
36			
37			
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39			
40			
41			
42			
43			
44			
45			
46	TOTAL	1,568,090	9,086,777

Name of Respondent	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 1997
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GENERAL DESCRIPTION OF CONSTRUCTION OVERHEAD PROCEDURE

1. For each construction overhead explain: (a) the nature and extent of work, etc., the overhead charges are intended to cover, (b) the general procedure for determining the amount capitalized, (c) the method of distribution to construction jobs, (d) whether different rates are applied to different types of construction, (e) basis of differentiation in rates for different types of construction, and (f) whether the overhead is directly or indirectly assigned.

2. Show below the computation of allowance for funds used during construction rates, in accordance with the provisions of Gas Plant Instructions 3 (17) of the U.S. of A.

3. Where a net-of-tax rate for borrowed funds is used, show the appropriate tax effect adjustment to the computations below in a manner that clearly indicates the amount of reduction in the gross rate for tax effects.

Payroll and associated costs plus other applicable expenses of engineering, accounting and administrative functions are allocated to construction work.

The allocation is based upon periodic time studies.

COMPUTATION OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION RATES

For line 1(5), column (d) below, enter the rate granted in the last rate proceeding. If such is not available, use the average rate earned during the preceding three years.

1. Components of Formula (Derived from actual book balances and actual cost rates):

Line No.	Title (a)	Amount (b)	Capitalization Ratio (Percent) (c)	Cost Rate Percentage (d)
(1)	Average Short-Term Debt	S		
(2)	Short-Term Interest			s
(3)	Long-Term Debt	D		d
(4)	Preferred Stock	P		p
(5)	Common Equity	C		c
(6)	Total Capitalization		100%	
(7)	Average Construction Work in Progress Balance	W		

2. Gross Rate for Borrowed Funds $s \left(\frac{S}{W}\right) + d \left(\frac{D}{D+P+C}\right) \left(1 - \frac{S}{W}\right)$

Rate for Other Funds $\left[1 - \frac{S}{W}\right] \left[p \left(\frac{P}{D+P+C}\right) + c \left(\frac{C}{D+P+C}\right)\right]$

4. Weighted Average Rate Actually Used for the Year:

a. Rate for Borrowed Funds —

b. Rate for Other Funds —

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19_97
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ACCUMULATED PROVISION FOR DEPRECIATION OF GAS UTILITY PLANT (Account 108)

1. Explain in a footnote any important adjustments during year.
2. Explain in a footnote any difference between the amount for book cost of plant retired, line 11, column (c), and that reported for gas plant in service, pages 204-209, column (d), excluding retirements of non-depreciable property.
3. The provisions of Account 108 in the Uniform System of Accounts require that retirements of depreciable plant be recorded when such plant is removed from service. If

the respondent has a significant amount of plant retired at year end which has not been recorded and/or classified to the various reserve functional classifications, make preliminary closing entries to tentatively functionalize the book cost of the plant retired. In addition, include all costs included in retirement work in progress at year end in the appropriate functional classifications.

4. Show separately interest credits under a sinking fund or similar method of depreciation accounting.

Section A. Balances and Changes During Year

Line No.	Item (a)	Total (c+d+e) (b)	Gas Plant in Service (c)	Gas Plant Held for Future Use (d)	Gas Plant Leased to Others (e)
1	Balance Beginning of Year	27,143,977			
2	Depreciation Provisions for Year, Charged to				
3	(403) Depreciation Expense	3,134,647			
4	(413) Exp. of Gas Plt. Leas. to Others				
5	Transportation Expenses—Clearing	385,800			
6	Other Clearing Accounts	132,000			
7	Other Accounts (Specify):				
8					
9	TOTAL Deprec. Prov. for Year (Enter Total of lines 3 thru 8)				
10	Net Charges for Plant Retired:				
11	Book Cost of Plant Retired	897,683			
12	Cost of Removal	12,239			
13	Salvage (Credit)	176,741			
14	TOTAL Net Chrgs. for Plant Ret. (Enter Total of lines 11 thru 13)	733,181			
15	Other Debit or Cr. Items (Describe):	2,686			
16		5,833			
17	Balance End of Year (Enter Total of lines 1, 9, 14, 15, and 16)	30,066,390			

Section B. Balances at End of Year According to Functional Classifications

18	Production—Manufactured Gas	1,125,178			
19	Prod. and Gathering—Natural Gas				
20	Products Extraction—Natural Gas				
21	Underground Gas Storage	570,810			
22	Other Storage Plant				
23	Base Load LNG Term. and Proc. Plt.				
24	Transmission	6,938,718			
25	Distribution	14,973,858			
26	General	6,457,826			
27	TOTAL (Enter Total of lines 18 thru 26)	30,066,390			

Name of Respondent	This Report Is:	Date of Report	Year of Report
PLTA NATURAL GAS COMPANY, INC.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) 03/31/98	Dec. 31, 1997
GAS STORED (ACCOUNT 117, 164.1, 164.2 AND 164.3)			

1. If during the year adjustment was made to the stored gas inventory (such as to correct cumulative inaccuracies of gas measurements), furnish in a footnote an explanation of the reason for the adjustment, the Mcf and dollar amount of adjustment, and account charged or credited.

2. Give in a footnote a concise statement of the facts and the accounting performed with respect to any encroachment of withdrawals during the year, or restoration of previous encroachment, upon native gas constituting the "gas cushion" of any storage reservoir.

3. If the company uses a "base stock" in connection with its inventory accounting, give a concise statement of the basis of establishing such "base stock" and the inventory basis and the accounting performed with respect to any encroachment

of withdrawals upon "base stock," or restoration of previous encroachment, including brief particulars of any such accounting during the year.

4. If the company has provided accumulated provision for stored gas which may not eventually be fully recovered from any storage project, furnish a statement showing: (a) date of Commission authorization of such accumulated provision, (b) explanation of circumstances requiring such provision, (c) basis of provision and factors of calculation, (d) estimated ultimate accumulated provision accumulation, and (e) a summary showing balance of accumulated provision and entries during year.

5. Report pressure base of gas volumes as 14.73 psia at 60° F.

Line No.	Description (a)	Noncurrent (Account 117) (b)	Current (Account 164.1) (c)	LNG (Account 164.2) (d)	LNG (Account 164.3) (e)	Total (f)
1	Balance at Beginning of Year	3,364,552	411,625			
2	Gas Delivered to Storage (contra Account)	681,575	2,616,015			
3	Gas Withdrawn from Storage (contra Account)		1,172,438			
4	Other Debits or Credits (Net)					
5	Balance at End of Year	4,046,127	1,855,202			
6	Mcf					
7	Amount Per Mcf					

8 State basis of segregation of inventory between current and noncurrent portions:

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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NONUTILITY PROPERTY (Account 121)

1. Give a brief description and state the location of non-utility property included in Account 121.
2. Designate with an asterisk any property which is leased to another company. State name of lessee and whether lessee is an associated company.
3. Furnish particulars (details) concerning sales, purchases, or transfers of Nonutility Property during the year.
4. List separately all property previously devoted to public service and give date of transfer to Account 121, *Nonutility Property*. These items are separate and dis-

- tinct from those allowed to be grouped under instruction No. 5.
5. Minor items (5% of the Balance at the End of the Year, for Account 121) may be grouped.
6. Natural gas companies which have oil property should report such property by State, classified as to (a) oil lands and land rights, (b) oil wells, and (c) other oil property. Gasoline plants and other plants for the recovery of products from natural gas are classifiable as gas plant and should be reported as such and not shown as *Nonutility Property*.

Line No.	Description and Location (a)	Balance at Beginning of Year (b)	Purchases, Sales, Transfers, etc. (c)	Balance at End of Year (d)
1				
2	Two Housetrailer, furnishings and			
3	miscellaneous equipment in			
4	Pidgeon Forge, TN.	18,592		18,592
5				
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ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY (Account 122)

Report below the information called for concerning depreciation and amortization of nonutility property.

Line No.	Item (a)	Amount (b)
1	Balance, Beginning of Year	18,952
2	Accruals for Year, Charged to	
3	(417) Income from Nonutility Operations	
4	(418) Nonoperating Rental Income	
5	Other Accounts (Specify):	
6		
7	TOTAL Accruals for Year (Enter Total of lines 3 thru 6)	
8	Net Charges for Plant Retired	
9	Book Cost of Plant Retired	
10	Cost of Removal	
11	Salvage (Credit)	
12	TOTAL Net Charges (Enter Total of lines 9 thru 11)	
13	Other Debit or Credit Items (Describe):	
14		
15	Balance, End of Year (Enter Total of lines 1, 7, 12, and 14)	18,952

Name of Respondent D. NATURAL GAS COMPANY, INC.	This Report is:- (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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INVESTMENTS (Accounts 123, 124, 136)

1. Report below investments in Accounts 123, *Investments in Associated Companies*, 124, *Other Investments*, and 136, *Temporary Cash Investments*.

2. Provide a subheading for each account and list thereunder the information called for:

(a) Investment in Securities — List and describe each security owned, giving name of issuer, date acquired and date of maturity. For bonds, also give principal amount, date of issue, maturity, and interest rate. For capital stock (including capital stock of respondent reacquired under a definite plan for resale pursuant to authorization by the Board

of Directors, and included in Account 124, *Other Investments*, state number of shares, class, and series of stock. Minor investments may be grouped by classes. Investments included in Account 136, *Temporary Cash Investments*, also may be grouped by classes.

(b) Investment Advances — Report separately for each person or company the amounts of loans or investment advances which are properly includable in Account 123. Advances subject to current repayment should be included in Accounts 145 and 146. With respect to each advance, show whether the advance is a note or open account.

Line No.	Description of Investment (a)	Book Cost at Beginning of Year <i>(If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference.)</i> (b)	Purchases or Additions During Year (c)
1			
2			
3			
4			
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Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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INVESTMENTS (Accounts 123, 124, 136) (Continued)

Each note should be listed giving date of issuance, maturity date, and specifying whether note is a renewal. Designate any advances due from officers, directors, stockholders, or employees. Exclude amounts reported on page 229.

3. For any securities, notes or accounts that were pledged designate with an asterisk such securities, notes, or accounts and in a footnote state the name of pledgee and purpose of the pledge.

4. If Commission approval was required for any advance made or security acquired, designate such fact in a footnote and give name of Commission, date of authorization, and case or docket number.

5. Report in column (g) interest and dividend revenues from investments including such revenues from securities disposed of during the year.

6. In column (h) report for each investment disposed of during the year the gain or loss represented by the difference between cost of the investment (or the other amount at which carried in the books of account if different from cost) and the selling price thereof, not including any dividend or interest adjustment includible in column (g).

Sales or Other Dispositions During Year <i>(d)</i>	Principal Amount or No. of Shares at End of Year <i>(e)</i>	Book Cost at End of Year <i>(If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference.)</i> <i>(f)</i>	Revenues for Year <i>(g)</i>	Gain or Loss from Investment Disposed of <i>(h)</i>	Line No.
					1
					2
					3
					4
					5
					6
					7
					8
					9
					10
					11
					12
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19_97
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INVESTMENTS IN SUBSIDIARY COMPANIES (Account 123.1)

1. Report below investments in Accounts 123.1, *Investments in Subsidiary Companies*.

2. Provide a subheading for each company and list thereunder the information called for below. Sub-total by company and give a total in columns (e), (f), (g) and (h).

(a) Investment in Securities — List and describe each security owned. For bonds give also principal amount, date of issue, maturity, and interest rate.

(b) Investment Advances — Report separately the amounts of loans or investment advances which are subject to repayment, but which are not subject to current settlement. With respect to each advance show whether the advance is a note or open account. List each note giving date of issuance, maturity date, and specifying whether note is a renewal.

3. Report separately the equity in undistributed subsidiary earnings since acquisition. The total in column (e) should equal the amount entered for Account 418.1.

Line No.	Description of Investment (a)	Date Acquired (b)	Date of Maturity (c)	Amount of Investment at Beginning of Year (d)
1	All Common Stock Of			
2				
3				
4	Delta Resources, Inc.	4/84		(129,773)
5				
6	Delgasco, Inc.	5/86		4,817
7				
8	Deltran, Inc.	5/86		1,000
9				
10	Enpro, Inc.	5/86		1,059,362
11				
12	Tranex Corporation, Inc.	6/97		-0-
13	Tranex Investment in Common Stock			
14				
15				
16				
17				
18				
19				
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42	TOTAL Cost of Account 123.1 \$ _____		TOTAL	935,406

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report IS: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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INVESTMENTS IN SUBSIDIARY COMPANIES (Account 123.1) (Continued)

4. For any securities, notes, or accounts that were pledged, designate such securities, notes, or accounts in a footnote, and state the name of pledgee and purpose of the pledge.

5. If Commission approval was required for any advance made or security acquired, designate such fact in a footnote and give name of Commission, date of authorization, and case or docket number.

6. Report column (f) interest and dividend revenues from investments, including such revenues from securities disposed of during the year.

7. In column (h) report for each investment disposed of during the year, the gain or loss represented by the difference between cost of the investment (or the other amount at which carried in the books of account if different from cost) and the selling price thereof, not including interest adjustment includible in column (f).

8. Report on Line 42, column (a) the total cost of Account 123.1.

Equity in Subsidiary Earnings for Year (e)	Revenues for Year (f)	Amount of Investment at End of Year (g)	Gain or Loss from Investment Disposed of (h)	Line No.
				1
				2
				3
190,401	78,680	(18,052)		4
				5
40,490	41,538	3,769		6
				7
-0-	-0-	1,000		8
				9
225,251	1,265,694	18,919		10
				11
(45,285)	-0-			12
1,000,000		954,715		13
				14
				15
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1,410,857	1,385,912	960,351		42

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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GAS PREPAYMENTS UNDER PURCHASE AGREEMENTS

1. Report below the information called for concerning gas prepayments as defined in the text of Account 165, *Prepayments*. (Report advances on page 229.)

2. If any prepayment at beginning of year (or incurred during year) was cancelled, forfeited, or applied to another

purpose, state in a footnote gas volume and dollar amount, period when such prepayment was incurred, and accounting disposition of prepayment amount. Give a concise explanation of circumstances causing forfeiture or other disposition of the prepayment.

Line No.	Name of Vendor (Designate associated companies with an asterisk) (a)	Seller FERC Rate Schedule No. (b)	BALANCE BEGINNING OF YEAR	
			Mcf (14.73 psia at 60°F) (c)	Amount (d)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
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42	TOTAL			

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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GAS PREPAYMENTS UNDER PURCHASE AGREEMENTS (Continued)

3. If for any reason a take or pay situation is in controversy, list in the columns below the amount of those prepayment claims which have not been paid, together with footnote notation that the amount is in controversy (and any explanation the respondent chooses to make).

4. If any prepayment was determined other than by reference to amounts per Mcf or demand-commodity factors, furnish in a footnote a concise explanation of basis of computation.

BALANCE END OF YEAR		PREPAYMENTS IN CURRENT YEAR			Make-up Period expiration date	Line No.
Mcf (14.73 psia at 60°F) (e)	Amount (f)	Cents per Mcf (g)	Mcf (14.73 psia at 60°F) (h)	Percent of Year's required take (i)		
						1
						2
						3
						4
						5
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31. 1997
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**ADVANCES FOR GAS PRIOR TO INITIAL DELIVERIES OR COMMISSION CERTIFICATION
(Accounts 124, 166 and 167)**

1. Report below the information called for concerning all advances for gas, as defined in the text of Account 166, *Advances for Gas Exploration, Development and Production*, and 167, *Other Advances for Gas*, whether reported in Accounts 166, 167, or reclassified to Account 124, *Other Investments*. List Account 124 items first.

2. In column (a), give the date the advance was made, the payee (designate associated companies with an asterisk) a brief statement of the purpose, (exploration, development, production, general loan, etc.) and the estimated date of repayment. Do not use the term indefinite in reporting

estimated date of repayment. If advances are made to a payee in connection with different projects with different arrangements for repayments, use separate lines for reporting; otherwise all advances may be grouped by payee, subject to the requirements of instruction 3 below.

3. If the beginning balance shown in column (c) does not agree with the prior year's ending balance, column (g), provide a detailed explanation in a footnote. Show all Advances made during the year in column (d) and all repayments or other credits in column (e). Report amounts shown in column (e) separately by account, as reported in column (f).

Line No.	Date of Advance, Payee, Purpose and Estimated Date of Repayment (a)	Account Number (124, 166 or 167) (b)	Balance at Beginning of Year (c)	Advances During Year (d)	Repayments or Other Credits During Year (e)	Accounts Charged (f)	Balance at End of Year (g)
1							
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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PREPAYMENTS (Account 165)

1. Report below the particulars (details) on each prepayment.

2. Report all payments for undelivered gas on line 5 and complete pages 226 to 227 showing particulars (details) for gas prepayments.

Line No.	Nature of Prepayment (a)	Balance at End of Year (In Dollars) (b)
1	Prepaid Insurance	114,182
2	Prepaid Rents	
3	Prepaid Taxes (pages 262-263)	
4	Prepaid Interest	
5	Gas Prepayments (pages 226-227)	
6	Miscellaneous Prepayments: Primarily Pension Cost	270,593
7	TOTAL	384,775

EXTRAORDINARY PROPERTY LOSSES (Account 182.1)

Line No.	Description of Extraordinary Loss [Include in the description the date of loss, the date of Commission authorization to use Account 182.1 and period of amortization (mo, yr, to mo, yr).] (a)	Total Amount of Loss (b)	Losses Recognized During Year (c)	WRITTEN OFF DURING YEAR		Balance at End of Year (f)
				Account Charged (d)	Amount (e)	
1						
2						
3						
4						
5						
6						
9	TOTAL					

UNRECOVERED PLANT AND REGULATORY STUDY COSTS (182.2)

Line No.	Description of Unrecovered Plant and Regulatory Study Costs [Include in the description of costs, the date of Commission authorization to use Account 182.2, and period of amortization (mo, yr, to mo, yr).] (a)	Total Amount of Charges (b)	Costs Recognized During Year (c)	WRITTEN OFF DURING YEAR		Balance at End of Year (f)
				Account Charged (d)	Amount (e)	
10						
11						
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30	TOTAL					

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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PRELIMINARY SURVEY AND INVESTIGATION CHARGES (Account 183)

1. Report below particulars (details) concerning the cost of plans, surveys, and investigations made for the purpose of determining the feasibility of projects under contemplation.
 2. For gas companies, report separately amounts included in Account 183.1, *Preliminary Natural Gas Survey and*

Investigation Charges, and Account 183.2, Other Preliminary Survey and Investigation Charges.
 3. Minor items (less than \$250,000) may be grouped by classes.

Line No.	Description and Purpose of Project <i>(a)</i>	Balance at Beginning of Year <i>(b)</i>	Debits <i>(c)</i>	CREDITS		Balance at End of Year <i>(f)</i>
				Account Charged <i>(d)</i>	Amount <i>(e)</i>	
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44	TOTAL					

Name of Respondent ALTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19<u>97</u>
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OTHER REGULATORY ASSETS (Account 182.3)

- | | |
|--|--|
| <p>1. Reporting below the particulars (details) called for concerning other regulatory assets which are created through the ratemaking actions of regulatory agencies (and not includable in other amounts).</p> <p>2. For regulatory assets being amortized, show period of amortization in column (a).</p> | <p>3. Minor items (5% of the Balance at End of Year for Account 182.3 or amounts less than \$50,000, whichever is less) may be grouped by classes.</p> |
|--|--|

Line No.	Description and Purpose of Other Regulatory Assets <i>(a)</i>	Debits <i>(b)</i>	CREDITS		Balance at End of Year <i>(e)</i>
			Account Charged <i>(c)</i>	Amount <i>(d)</i>	
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44	TOTAL				

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: - (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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OTHER REGULATORY ASSETS (Account 182.3)

1. Report below the particulars (details) called for concerning miscellaneous deferred debits.
 2. For any deferred debit being amortized, show period of amortization in column (a).
 3. Minor items (less than \$100,000) may be grouped by classes.

Line No.	Description of Miscellaneous Deferred Debts (a)	Balance at Beginning of Year (b)	Debits (c)	CREDITS		Balance at End of Year (f)
				Account Charged (d)	Amount (e)	
1						
2	Management Audit					
3	Costs	187,858		921	5,158	182,700
4						
5	Rate Case Expense					
6	#97-066	-0-	119,323	921	2,293	117,030
7						
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45						
46						
47	Misc. Work in Progress					
48	DEFERRED REGULATORY COMM. EXPENSES (SEE PAGES 350-351)					
49	TOTAL	187,858				299,730

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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ACCUMULATED DEFERRED INCOME TAXES (Account 190) (Continued)

3. If more space is needed, use separate pages as required.

4. In the space provided below, identify by amount and classification, significant items for which deferred taxes are being provided. Indicate insignificant amounts listed under Other.

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	DEBITS		CREDITS			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
							1
							2
							3
							4
							5
							6
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NOTES (Continued)

Name of Respondent E.I. NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
CAPITAL STOCK (Accounts 201 and 204)			

1. Report below the particulars (details) called for concerning common and preferred stock at end of year, distinguishing separate series of any general class. Show separate totals for common and preferred stock. If information to meet the stock exchange reporting requirement outlined in column (a) is available from the SEC 10-K Report Form filing, a specific reference to the report form (i.e. year

and company title) may be reported in column (a) provided the fiscal years for both the 10-K report and this report are compatible.

2. Entries in column (b) should represent the number of shares authorized by the articles of incorporation as amended to end of year.

Line No.	Class and Series of Stock and Name of Stock Exchange (a)	Number of Shares Authorized by Charter (b)	Par or Stated Value Per Share (c)	Call Price at End of Year (d)
1	Common Stock	6,000,000	\$1	
2				
3				
4				
5				
6				
7				
8				
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Name of Respondent ATA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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CAPITAL STOCK (Accounts 201 and 204) (Continued)

3. Give particulars (details) concerning shares of any class and series of stock authorized to be issued by a regulatory commission which have not yet been issued.
 4. The identification of each class of preferred stock should show the dividend rate and whether the dividends are cumulative or noncumulative.

5. State in a footnote if any capital stock which has been nominally issued is nominally outstanding at end of year.
 6. Give particulars (details) in column (a) of any nominally issued capital stock, reacquired stock, or stock in sinking and other funds which is pledged, stating name of pledgee and purpose of pledge.

OUTSTANDING PER BALANCE SHEET (Total amount outstanding without reduction for amounts held by respondent.)		HELD BY RESPONDENT				Line No.
Shares (e)	Amount (f)	AS REACQUIRED STOCK (Account 217)		IN SINKING AND OTHER FUNDS		
		Shares (g)	Cost (h)	Shares (i)	Amount (j)	
2,361,922	2,361,922					1
						2
						3
						4
						5
						6
						7
						8
						9
						10
						11
						12
						13
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
DELTA NATURAL GAS COMPANY, INC.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	03/31/98	Dec. 31, 19_97

**CAPITAL STOCK SUBSCRIBED, CAPITAL STOCK LIABILITY FOR CONVERSION,
PREMIUM ON CAPITAL STOCK, AND INSTALLMENTS RECEIVED ON CAPITAL STOCK**
(Accounts 202 and 205, 203 and 206, 207, 212)

1. Show for each of the above accounts the amounts applying to each class and series of capital stock.
 2. For Account 202, *Common Stock Subscribed*, and Account 205, *Preferred Stock Subscribed*, show the subscription price and the balance due on each class at the end of year.
 3. Describe in a footnote the agreement and transactions under which a conversion liability existed under Account 203,

Common Stock Liability for Conversion, or Account 206, *Preferred Stock Liability for Conversion*, at the end of the year.
 4. For Premium on Account 207, *Capital Stock*, designate with an asterisk any amounts representing the excess of consideration received over stated values of stocks without par value.

Line No.	Name of Account and Description of Item (a)	Number of Shares (b)	Amount (c)
1	A/C 207		
2	Premiums Paid on Capital Stock	N/A	27,528,243
3			
4	A/C 212		
5	Installments Received on Common Stock		
6	thru employee Stock Plan	N/A	58,907
7			
8			
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46	TOTAL		

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19<u>97</u>
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OTHER PAID-IN CAPITAL (Accounts 208-211, inc.)

Report below the balance at the end of the year and the information specified below for the respective other paid-in capital accounts. Provide a subheading for each account and show a total for the account, as well as total of all accounts for reconciliation with balance sheet, page 112. Add more columns for any account if deemed necessary. Explain changes made in any account during the year and give the accounting entries effecting such change.

(a) *Donations Received from Stockholders (Account 208)*—State amount and give brief explanation of the origin and purpose of each donation.

(b) *Reduction in Par or Stated Value of Capital Stock (Account 209)*—State amount and give brief explanation of the

capital changes which gave rise to amounts reported under this caption including identification with the class and series of stock to which related.

(c) *Gain on Resale or Cancellation of Reacquired Capital Stock (Account 210)*—Report balance at beginning of year, credits, debits, and balance at end of year with a designation of the nature of each credit and debit identified by the class and series of stock to which related.

(d) *Miscellaneous Paid-In Capital (Account 211)*—Classify amounts included in this account according to captions which, together with brief explanations, disclose the general nature of the transactions which gave rise to the reported amounts.

Line No.	Item (a)	Amount (b)
1		
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40	TOTAL	

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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DISCOUNT ON CAPITAL STOCK (Account 213)

1. Report the balance at end of year of discount on capital stock for each class and series of capital stock.
 2. If any change occurred during the year in the balance with respect to any class or series of stock, attach a statement giving particulars (details) of the change. State the reason for any charge-off during the year and specify the amount charged.

Line No.	Class and Series of Stock (a)	Balance at End of Year (b)
1		
2		
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10		
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18		
19		
20		
21	TOTAL	

CAPITAL STOCK EXPENSE (Account 214)

1. Report the balance at end of year of capital stock expenses for each class and series of capital stock.
 2. If any change occurred during the year in the balance with respect to any class or series of stock, attach a statement giving particulars (details) of the change. State the reason for any charge-off of capital stock expense and specify the account charged.

Line No.	Class and Series of Stock (a)	Balance at End of Year (b)
1		
2	Common Stock \$1 Par Value	1,917,020
3		
4		
5		
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21	TOTAL	

Name of Respondent	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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DELTA NATURAL GAS COMPANY, INC.

**SECURITIES ISSUED OR ASSUMED AND
SECURITIES REFUNDED OR RETIRED DURING THE YEAR**

1. Furnish a supplemental statement giving a brief description of security financing and refinancing transactions during the year and the accounting for the securities, discounts, premiums, expenses, and related gains or losses. Identify as to Commission authorization numbers and dates.

2. Furnish particulars (details) showing fully the accounting for the total principal amount, par value, or stated value of each class and series of security issued, assumed, retired, or refunded and the accounting for premiums, discounts, expenses, and gains or losses relating to the securities. Set forth the facts of the accounting clearly with regard to redemption premiums, unamortized discounts, expenses, and gains or losses relating to securities retired or refunded, including the accounting for such amounts carried in the respondent's accounts at the date of the refunding or refinancing transactions with respect to securities previously refunded or retired.

3. Include in the identification of each class and series of security, as appropriate, the interest or dividend rate,

nominal date of issuance, maturity date, aggregate principal amount, par value or stated value, and number of shares. Give also the issuance of redemption price and name of the principal underwriting firm through which the security transactions were consummated.

4. Where the accounting for amounts relating to securities refunded or retired is other than that specified in General Instruction 17 of the Uniform System of Accounts, give references to the Commission authorization for the different accounting and state the accounting method.

5. For securities assumed, give the name of the company for which the liability on the securities was assumed as well as particulars (details) of the transactions whereby the respondent undertook to pay obligations of another company. If any unamortized discount, premiums, expenses, and gains or losses were taken over onto the respondent's books, furnish details of these amounts with amounts relating to refunded securities clearly earmarked.

Name of Respondent	This Report Is:- (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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LONG-TERM DEBT (Accounts 221, 222, 223, and 224)

1. Report by balance sheet Account the particulars (details) concerning long-term debt included in Accounts 221, Bonds, 222, *Reacquired Bonds*, 223, *Advances from Associated Companies*, and 224, *Other Long-Term Debt*. If information to meet the stock exchange reporting requirement outlined in column (a) is available from the SEC 10-K Report Form filing, a specific reference to the report form (i.e. year and company title) may be reported in column (a) provided the fiscal years for both the 10-K report and this report are compatible.

2. For bonds assumed by the respondent, include in column (a) the name of the issuing company as well as a description of the bonds.

3. For advances from Associated Companies, report separately advances on notes and advances on open accounts. Designate demand notes as such. Include in column (a) names of associated companies from which advances were received.

4. For receivers' certificates, show in column (a) the name of the court and date of court order under which such certificates were issued.

Line No.	Class and Series of Obligation and Name of Stock Exchange (a)	Nominal Date of Issue (b)	Date of Maturity (c)	Outstanding (Total amount outstanding without reduction for amounts held by respondent) (d)
1	Debentures	4/91	4/11	10,000,000
2				
3	Debentures	10/93	10/23	13,325,000
4				
5	Debentures	7/96	7/26	15,000,000
6				
7	Lease Arrangement IBM	7/95	6/98	33,777
8				
9	Promissory Note - Canada Mtn.	11/95	11/01	1,400,000
10				
11	Promissory Note - Owingsville Land	6/96	1/98	20,000
12				
13				
14				
15				
16				
17				
18				
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38	TOTAL			39,778,777

Name of Respondent	This Report Is:	Date of Report	Year of Report
DELTA NATURAL GAS COMPANY, INC.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) 03/31/98	Dec. 31, 1997

LONG-TERM DEBT (Accounts 221, 222, 223, and 224) (Continued)

5. In a supplemental statement, give explanatory particulars (details) for Accounts 223 and 224 of net changes during the year. With respect to long-term advances, show for each company: (a) principal advanced during year, (b) interest added to principal amount, and (c) principal repaid during year. Give Commission authorization numbers and dates.

6. If the respondent has pledged any of its long-term debt securities, give particulars (details) in a footnote, including name of the pledgee and purpose of the pledge.

7. If the respondent has any long-term securities which have been nominally issued and are nominally

outstanding at end of year, describe such securities in a footnote.

8. If interest expense was incurred during the year on any obligations retired or reacquired before end of year, include such interest expense in column (f). Explain in a footnote any difference between the total of column (f) and the total of Account 427, *Interest on Long-Term Debt* and Account 430, *Interest on Debt to Associated Companies*.

9. Give particulars (details) concerning any long-term debt authorized by a regulatory commission but not yet issued.

INTEREST FOR YEAR		HELD BY RESPONDENT		Redemption Price Per \$100 at End of Year	Line No.
Rate (in %)	Amount	Reacquired Bonds (Acct. 222)	Sinking and Other Funds		
(e)	(f)	(g)	(h)	(i)	
9%	900,000				1
					2
6.625%	893,033				3
					4
8.3%	1,356,604				5
					6
4.72%	3,302				7
					8
0%	-				9
					10
0%	-				11
					12
					13
					14
					15
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	3,152,939				38

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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UNAMORTIZED DEBT EXPENSE, PREMIUM AND DISCOUNT ON LONG-TERM DEBT (Accounts 181, 225, 226)

1. Report under separate subheadings for Unamortized Debt Expense, Unamortized Premium on Long-Term Debt and Unamortized Discount on Long-Term Debt, particulars (details) of expense, premium or discount applicable to each class and series of long-term debt.

2. Show premium amounts by enclosing the figures in parentheses.

3. In column (b) show the principal amount of bonds or other long-term debt originally issued.

4. In column (c) show the expense, premium or discount with respect to the amount of bonds or other long-term debt originally issued.

Line No	Designation of Long-Term Debt (a)	Principal Amount of Debt Issued (b)	Total Expense, Premium or Discount (c)	AMORTIZATION PERIOD	
				Date From (d)	Date To (e)
1	Debentures	10,000,000	514,176	4/91	4/11
2					
3	Debentures	15,000,000	1,874,508	10/93	10/23
4					
5	Debentures	15,000,000	689,666	7/96	7/26
6					
7					
8	Totals	40,000,000	3,078,350		
9					
10					
11					
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
DELTA NATURAL GAS COMPANY, INC.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	03/31/98	Dec. 31, 19 97

AMORTIZED DEBT EXPENSE, PREMIUM AND DISCOUNT ON LONG-TERM DEBT (Accounts 181, 225, 226) (Cont.)

5. Furnish in a footnote particulars (details) regarding the treatment of unamortized debt expense, premium or discount associated with issues redeemed during the year. Also, give in a footnote the date of the Commission's authorization of treatment other than as specified by the Uniform System of Accounts.

6. Identify separately undisposed amounts applicable to issues which were redeemed in prior years.

7. Explain any debits and credits other than amortization debited to Account 428, *Amortization of Debt Discount and Expense*, or credited to Account 429, *Amortization of Premium on Debt—Credit*.

Balance at Beginning of Year (f)	Debits During Year (g)	Credits During Year (h)	Balance at End of Year (i)	Line No.
365,200		26,400	338,800	1
				2
1,669,200		62,400	1,606,800	3
				4
674,500		22,800	651,700	5
				6
				7
2,708,900		111,600	2,597,300	8
				9
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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UNAMORTIZED LOSS AND GAIN ON REACQUIRED DEBT (Accounts 189, 257)

1. Report under separate subheadings for Unamortized Loss and Unamortized Gain on Reacquired Debt, particulars (details) of gain and loss, including maturity date, on reacquisition applicable to each class and series of long-term debt. If gain or loss resulted from a refunding transaction, include also the maturity date of the new issue.

2. In column (c) show the principal amount of bonds or other long-term debt reacquired.

3. In column (d) show the net gain or net loss realized

on each debt reacquisition as computed in accordance with General Instruction 17 of the Uniform Systems of Accounts.

4. Show loss amounts by enclosing the figures in parentheses.

5. Explain in a footnote any debits and credits other than amortization debited to Account 428.1, *Amortization of Loss on Reacquired Debt*, or credited to Account 429.1, *Amortization of Gain on Reacquired Debt-Credit*.

Line No.	Designation of Long-Term Debt (a)	Date Reacquired (b)	Principal of Debt Reacquired (c)	Net Gain or Net Loss (d)	Balance at Beginning of Year (e)	Balance at End of Year (f)
1						
2						
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is:- (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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**RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME
FOR FEDERAL INCOME TAXES**

1. Report the reconciliation of reported net income for the year with taxable income used in computing Federal income tax accruals and show computation of such tax accruals. Include in the reconciliation, as far as practicable, the same detail as furnished on Schedule M-1 of the tax return for the year. Submit a reconciliation even though there is no taxable income for the year. Indicate clearly the nature of each reconciling amount.

2. If the utility is a member of a group which files consolidated Federal tax return, reconcile reported net income with taxable net income as if a separate return were to be filed, indicating, however, intercompany amounts to be eliminated in such a consolidated return. State names of group members, tax assigned to each group member, and basis of allocation, assignment, or sharing of the consolidated tax among the group members.

Line No.	Particulars (Details) (a)	Amount (b)
1	Net Income for the Year (Page 117)	2,038,238
2	Reconciling Items for the Year	
3		
4	Taxable Income Not Reported on Books	
5	Unbilled Revenue	231,867
6	Book/Tax Retirements	70,556
7	Debt Expense	36,286
8	Other Items	12,666
9	Deductions Recorded on Books Not Deducted for Return	
10	Self Construction Interest	169,802
11	Employee Plans	29,950
12	Meals & Entertainment	17,056
13	Amortize Ferrin Note	16,248
14	Income Recorded on Books Not Included in Return	
15	CSV of Life Insurance	8,426
16	Net Income of Subsidiaries	410,857
17		
18		
19	Deductions on Return Not Charged Against Book Income	
20	Tax Depr vs Book Depr	2,400,000
21	Accrued Pension	456,500
22	Deferred Gas Costs	(2,054,488)
23		
24	Other Reconciling	(84,847)
25		
26		
27	Federal Tax Net Income	1,486,221
28	Show Computation of Tax:	505,315
29		
30		
31		
32		
33		
34	Delta's fiscal year ends June 30. For interim	
35	periods, in accordance with APB#28, Delta estimates	
36	an effective tax rate which is used to record total	
37	tax expense. Therefore, some detail above is that	
38	as reflected on Delta's return for fiscal year end.	
39	Delta does at Dec. 31, for balance sheet purposes,	
40	estimates deferred taxes for accelerated depreciation.	
41		
42		
43		
44		

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-97	Year of Report Dec. 31, 19 98
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TAXES ACCRUED, PREPAID AND CHARGED DURING YEAR

1. Give particulars (details) of the combined prepaid and accrued tax accounts and show the total taxes charged to operations and other accounts during the year. Do not include gasoline and other sales taxes which have been charged to the accounts to which the taxed material was charged. If the actual or estimated amounts of such taxes are known, show the amounts in a footnote and designate whether estimated or actual amounts.

2. Include on this page, taxes paid during the year and charged direct to final accounts, (not charged to prepaid or

accrued taxes). Enter the amounts in both columns (d) and (e). The balancing of this page is not affected by the inclusion of these taxes.

3. Include in column (d) taxes charged during the year, taxes charged to operations and other accounts through (a) accruals credited to taxes accrued, (b) amounts credited to proportions of prepaid taxes chargeable to current year, and (c) taxes paid and charged direct to operations or accounts other than accrued and prepaid tax accounts.

4. List the aggregate of each kind of tax in such manner

Line No.	Kind of Tax (See Instruction 5) (a)	BALANCE AT BEGINNING OF YEAR	
		Taxes Accrued (Account 236) (DR AMT)(b)	Prepaid Taxes (Incl. in Account 165) (c)
1	Sales, Utility and Franchise	220,711	
2	Mineral Severance	9,840	
3	Payroll	18,501	
4	License	-	
5	State Income	(450,020)	
6	Federal Income	(393,885)	
7	Property	353,630	
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18	TOTAL	(241,223)	

Line No.	DISTRIBUTION OF TAXES CHARGED (Show utility department where applicable and account charged.)			
	Electric (Account 408.1, 409.1) (j)	Gas (Account 408.1, 409.1) (i)	Other Utility Departments (Account 408.1, 409.1) (k)	Other Income and Deductions (Account 408.2, 409.2) (l)
1				
2				
3				
4				
5		495,308		
6		6,029		
7		(31,740)		3,400
8		491,915		13,400
9		650,490		
10				
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16				
17				
18	TOTAL	1,612,002		16,800

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 1998
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TAXES ACCRUED, PREPAID AND CHARGED DURING YEAR (Continued)

that the total tax for each State and subdivision can readily be ascertained.

5. If any tax (exclude Federal and state income taxes) covers more than one year, show the required information separately for each tax year, identifying the year in column (a).

6. Enter all adjustments of the accrued and prepaid tax accounts in column (f) and explain each adjustment in a footnote. Designate debit adjustments by parentheses.

7. Do not include on this page entries with respect to deferred income taxes or taxes collected through payroll

deductions or otherwise pending transmittal of such taxes to the taxing authority.

8. Show in columns (i) thru (p) how the taxed accounts were distributed. Show both the utility department and number of account charged. For taxes charged to utility plant, show the number of the appropriate balance sheet plant account or subaccount.

9. For any tax apportioned to more than one utility department or account, state in a footnote the basis (necessity) of apportioning such tax.

Taxes Charged During Year (DR AMT) (d)	Taxes Paid During Year (e)	Adjustments (DR AMT)(f)	BALANCE AT END OF YEAR		Line No.
			Taxes Accrued (Account 236) (DR AMT)(g)	Prepaid Taxes (Incl. in Account 165) (h)	
1,983,269	1,835,758		368,222		1
58,469	63,859		4,450		2
495,308	494,460		19,349		3
6,029	6,029		-		4
		(1) (12,201)			5
(28,340)	33	(2) 211,350	(279,244)		6
505,315	536,600	(1) (14,775)	(276,745)		7
650,490	338,634	(3) 163,200	665,486		8
					9
					10
					11
					12
					13
(1) Reclass Defers					14
(2) Refund					15
(3) Primarily Applicable to Subs					16
					17
3,670,540	3,275,373	347,574	501,518		18

DISTRIBUTION OF TAXES CHARGED (Show utility department where applicable and account charged.)

Extraordinary Items (Account 409.3) (m)	Other Utility Opn. Income (Account 408.1, 409.1) (n)	Adjustment to Ret. Earnings (Account 439) (o)	Other (p)	Line No.
				1
				2
			1,983,269	3
			58,469	4
				5
				6
				7
				8
				9
				10
				11
				12
				13
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			2,041,738	18

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-97	Year of Report Dec. 31, 19_98
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INVESTMENT TAX CREDITS GENERATED AND UTILIZED

1. Prepare this page regardless of the method of accounting adopted for the investment tax credits. By footnote state the method of accounting adopted, and whether the company has consented or is required by another Commission to pass the tax credits on to customers.

2. As indicated in column (a), show each year's activities from 1962 through the year covered by this report, identifying the data by the indicated percentages.

3. Report in columns (b) and (e) the amount of investment tax credits generated from properties acquired for use in utility operations. Report in columns (c) and (f) the amount of such generated credits utilized in computing the annual income taxes. Also explain by footnote any adjustments to

columns (b) through (f) such as corrections, etc., or carryback of unused credits. Such adjustments should be carried back or forward to the applicable years.

4. Report in column (d), the weighted-average useful life of all properties used in computing the investment tax credits in column (b). Also, show in this column for the year 1971 and thereafter, the option exercised [(1) rate base treatment, (2) ratable flow through, or (3) flow through] for rate purposes in accordance with section 46(f) of the Internal Revenue Code.

5. Show by footnote (page 551, Footnotes) any unused credits available at end of each year for carrying forward as a reduction of taxes in subsequent years.

Line No.	Year (a)	Gas			Other Departments or Operations	
		Generated (b)	Utilized (c)	Weighted Average Life of Property (d)	Generated (e)	Utilized (f)
1	1962-78					
2	3%	52,823	52,823			
3	4%	41,081	41,081			
4	7%					
5	10%	138,650	138,650			
6	11%					
7						
8	1979					
9	3%					
	4%					
	7%					
12	10%	50,115	50,115			
13	11%					
14						
15	1980					
16	3%					
17	4%					
18	7%					
19	10%	177,000	177,000			
20	11%					
21						
22						
23	1981					
24	3%					
25	4%					
26	6%					
27	7%					
28	10%	272,000	272,000			
29	11%					
30						
31						
32	1982					
33	3%					
34	4%					
35	6%					
	7%					
37	10%	254,300	254,300			
38	11%					
39						
40						

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>98</u>
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TAXES ACCRUED, PREPAID AND CHARGED DURING YEAR (Continued)

that the total tax for each State and subdivision can readily be ascertained.

5. If any tax (exclude Federal and state income taxes) covers more than one year, show the required information separately for each tax year, identifying the year in column (a).

6. Enter all adjustments of the accrued and prepaid tax accounts in column (f) and explain each adjustment in a footnote. Designate debit adjustments by parentheses.

7. Do not include on this page entries with respect to deferred income taxes or taxes collected through payroll

deductions or otherwise pending transmittal of such taxes to the taxing authority.

8. Show in columns (i) thru (p) how the taxed accounts were distributed. Show both the utility department and number of account charged. For taxes charged to utility plant, show the number of the appropriate balance sheet plant account or subaccount.

9. For any tax apportioned to more than one utility department or account, state in a footnote the basis (necessity) of apportioning such tax.

Taxes Charged During Year (DR AMT) (d)	Taxes Paid During Year (e)	Adjustments (DR AMT)(f)	BALANCE AT END OF YEAR		Line No.
			Taxes Accrued (Account 236) (DR AMT)(g)	Prepaid Taxes (Incl. in Account 165) (h)	
1,983,269	1,835,758		368,222		1
58,469	63,859		4,450		2
495,308	494,460		19,349		3
6,029	6,029		-		4
		(1) (12,201)			5
(28,340)	33	(2) 211,350	(279,244)		6
505,315	536,600	(1) (14,775)	(276,745)		7
650,490	338,634	(3) 163,200	665,486		8
					9
					10
					11
					12
					13
(1) Reclass Defers					14
(2) Refund					15
(3) Primarily Applicable to Subs					16
					17
3,670,540	3,275,373	347,574	501,518		18

DISTRIBUTION OF TAXES CHARGED (Show utility department where applicable and account charged.)

Extraordinary Items (Account 409.3) (m)	Other Utility Opn. Income (Account 408.1, 409.1) (n)	Adjustment to Ret. Earnings (Account 439) (o)	Other (p)	Line No.
				1
				2
			1,983,269	3
			58,469	4
				5
				6
				7
				8
				9
				10
				11
				12
				13
				14
				15
				16
				17
			2,041,738	18

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-97	Year of Report Dec. 31, 19_98
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INVESTMENT TAX CREDITS GENERATED AND UTILIZED

1. Prepare this page regardless of the method of accounting adopted for the investment tax credits. By footnote state the method of accounting adopted, and whether the company has consented or is required by another Commission to pass the tax credits on to customers.

2. As indicated in column (a), show each year's activities from 1962 through the year covered by this report, identifying the data by the indicated percentages.

3. Report in columns (b) and (e) the amount of investment tax credits generated from properties acquired for use in utility operations. Report in columns (c) and (f) the amount of such generated credits utilized in computing the annual income taxes. Also explain by footnote any adjustments to

columns (b) through (f) such as corrections, etc., or carryback of unused credits. Such adjustments should be carried back or forward to the applicable years.

4. Report in column (d), the weighted-average useful life of all properties used in computing the investment tax credits in column (b). Also, show in this column for the year 1971 and thereafter, the option exercised [(1) rate base treatment, (2) ratable flow through, or (3) flow through] for rate purposes in accordance with section 46(f) of the Internal Revenue Code.

5. Show by footnote (page 551, Footnotes) any unused credits available at end of each year for carrying forward as a reduction of taxes in subsequent years.

Line No.	Year (a)	Gas			Other Departments or Operations	
		Generated (b)	Utilized (c)	Weighted Average Life of Property (d)	Generated (e)	Utilized (f)
1	1962-78					
2	3%	52,823	52,823			
3	4%	41,081	41,081			
4	7%					
5	10%	138,650	138,650			
6	11%					
7						
8	1979					
9	3%					
10	4%					
11	7%					
12	10%	50,115	50,115			
13	11%					
14						
15	1980					
16	3%					
17	4%					
18	7%					
19	10%	177,000	177,000			
20	11%					
21						
22						
23	1981					
24	3%					
25	4%					
26	6%					
27	7%					
28	10%	272,000	272,000			
29	11%					
30						
31						
32	1982					
33	3%					
34	4%					
35	6%					
36	7%					
37	10%	254,300	254,300			
38	11%					
39						
40						

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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INVESTMENT TAX CREDITS GENERATED AND UTILIZED (Continued)

Line No.	Year (a)	Gas			Other Departments or Operations	
		Generated (b)	Utilized (c)	Weighted Average Life of Property (d)	Generated (e)	Utilized (f)
41	1983					
42	3%					
43	4%					
44	6%					
45	7%					
46	8%	178,400	178,400			
47	10%					
48	11%					
49						
50						
51	1984					
52	3%					
53	4%					
54	6%					
55	7%					
56	8%	277,700	277,700			
57	10%					
58	11%					
59						
60						
61	1985					
62	3%					
63	4%					
64	6%					
65	7%					
66	8%	251,300	251,300			
67	10%					
68	11%					
69						
70						
71	1986					
72	3%					
73	4%					
74	6%					
75	7%					
76	8%	55,300	55,300			
77	10%					
78						
79	1987					
80	10%					
81		4,500	4,500			
82	1988					
83	10%					
84						
85	1989					
86	10%					
87						

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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ACCUMULATED DEFERRED INVESTMENT TAX CREDITS (Account 255)

Report below information applicable to Account 255. Where appropriate, segregate the balances and transactions by utility and nonutility operations. Explain by footnote any correction adjustments to the account balance shown in column (g). Include in column (i) the average period over which the tax credits are amortized.

Line No.	Account Subdivisions (a)	Balance at Beginning of Year (b)	Deferred for Year		Allocations to Current Year's Income		Adjustments (g)
			Account No. (c)	Amount (d)	Account No. (e)	Amount (f)	
1	Gas Utility						
2	3%						
3	4%						
4	7%						
5	10%						
6							
7							
8	TOTAL	743,900			411	70,400	
9	Other (List separately and show 3%, 4%, 7%, 10% and TOTAL)						
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
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36							
37							
38							
39							
40							
41							
42							
43							
44							
45							
46							
47							
48							

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 ⁹⁷
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ACCUMULATED DEFERRED INVESTMENT TAX CREDITS (Account 255) (Continued)

Balance at End of Year <i>(h)</i>	Average Period of Allocation to Income <i>(i)</i>	Adjustment Explanation	Line No.
			1
			2
			3
			4
			5
			6
			7
673,500			8
			9
			10
			11
			12
			13
			14
			15
			16
			17
			18
			19
			20
			21
			22
			23
			24
			25
			26
			27
			28
			29
			30
			31
			32
			33
			34
			35
			36
			37
			38
			39
			40
			41
			42
			43
			44
			45
			46
			47
			48

Name of Respondent DELTA NATURAL GAS COMPANY, INC		This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES (Account 242)					
1. Describe and report the amount of other current and accrued liabilities at the end of year.			2. Minor items (less than \$100,000) may be grouped under appropriate title.		
Line No.	Item (a)	Balance at End of Year (b)			
1					
2					
3					
4	Miscellaneous	84,217			
5					
6	Accrued Medical - Self Insured	126,000			
7					
8	Accrued Vacation & Annual Leave	516,032			
9					
10					
11					
12					
13					
14					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
42					
43	TOTAL	726,249			

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 1997
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OTHER DEFERRED CREDITS (Account 253)

1. Report below the particulars (details) called for concerning other deferred credits.
2. For any deferred credit being amortized, show the period of amortization.
3. Minor items (less than \$100,000) may be grouped by classes.

4. For any undelivered gas obligations to customers under take-or-pay clauses of sale agreements, show the total amount on this page and report particulars (details) called for by page 267. Show also on this page, but as a separate item, any advance billings or receipts for gas sales or service classified in Account 253 but not related to take-or-pay arrangements.

Line No.	Description of Other Deferred Credits <i>(a)</i>	Balance at Beginning of Year <i>(b)</i>	DEBITS		Credits <i>(e)</i>	Balance at End of Year <i>(f)</i>
			Contra Account <i>(c)</i>	Amount <i>(d)</i>		
1						
2						
3						
4	Purchase gas cost					
5	refunds	82,060				
6						
7						
8						
9						
10	Refund to customers					
11	via GCR filings		803	247,175		
12						
13						
14						
15						
16						
17	Refunds received plus					
18	interest-net of					
19	refunds transferred					
20	per GCR filings				626,262	
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41						
42						
43						
44						
45						
46						
47	TOTAL	82,060				461,147

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>98</u>
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UNDELIVERED GAS OBLIGATIONS UNDER SALES AGREEMENTS

1. Report below the information called for concerning obligations to customers under take or pay clauses of gas sale agreements. If any of the obligations are included in an account other than 253, *Other Deferred Credits*, show the account in which included and on page 266 of this report show the aggregate dollar amount with notation that details are reported on this page. Explain why

any take or pay obligations were not included in Account 253.

2. If any obligation at the beginning of year (or which arose during the year) was cancelled, forfeited by the customer, or applied to another purpose, state in a footnote gas volume and dollar amount, period when such obligation arose, accounting entries, and give a concise explanation

Line No.	Name of Customer (Designate associated companies with an asterisk) (a)	Respondent's FERC Rate Schedule No. (b)	BALANCE AT BEGINNING OF YEAR	
			Mcf (14.73 psia at 60°F) (c)	Amount (d)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				
46	TOTAL			

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>98</u>
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UNDELIVERED GAS OBLIGATIONS UNDER SALES AGREEMENTS (Continued)

of circumstances causing forfeiture or other disposition of the take or pay obligation.
 3. If for any reason a take or pay situation is in controversy, list the amount of those prepayment claims which have not been paid, together with footnote notation that the amount is in controversy (and any explanation the respondent chooses to make).

4. If any delivery obligation was determined other than by reference to amounts per Mcf or demand-commodity factors, furnish a concise explanation of basis of computation in a footnote.

BALANCE AT END OF YEAR		UNDELIVERED GAS FOR CURRENT YEAR			Make-Up Period Expiration Date (i)	Line No.
Mcf (14.73 psia at 60°F) (e)	Amount (f)	Cents per Mcf (g)	Mcf (14.73 psia at 60°F) (h)	Percent of Year's Required Delivery (i)		
						1
						2
						3
						4
						5
						6
						7
						8
						9
						10
						11
						12
						13
						14
						15
						16
						17
						18
						19
						20
						21
						22
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						29
						30
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						37
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						40
						41
						42
						43
						44
						45
						46

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 1997
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ACCUMULATED DEFERRED INCOME TAXES—ACCELERATED AMORTIZATION PROPERTY (Account 281)

1. Report the information called for below concerning the respondent's accounting for deferred income taxes relating to amortizable property.
2. For Other (Specify), include deferrals relating to other

Line No.	Account (a)	Balance at Beginning of Year (b)	CHANGES DURING YEAR	
			Amounts Debited to Account 410.1 (c)	Amounts Credited to Account 411.1 (d)
1	Accelerated Amortization (Account 281)			
2	Electric			
3	Defense Facilities			
4	Pollution Control Facilities			
5	Other			
6				
7				
8	TOTAL Electric (Enter Total of lines 3 thru 7)			
9	Gas			
10	Defense Facilities			
11	Pollution Control Facilities			
12	Other			
13				
14				
15	TOTAL Gas (Enter Total of lines 10 thru 14)			
16	Other (Specify)			
17	TOTAL (Acct 281) (Total of 8, 15 and 16)			
	Classification of TOTAL			
19	Federal Income Tax			
20	State Income Tax			
21	Local Income Tax			

NOTES

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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ACCUMULATED DEFERRED INCOME TAXES—ACCELERATED AMORTIZATION PROPERTY (Account 281) (Continued)

income and deductions.
3. Use separate pages as required.

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	DEBITS		CREDITS			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
							1
							2
							3
							4
							5
							6
							7
							8
							9
							10
							11
							12
							13
							14
							15
							16
							17
							18
							19
							20
							21

NOTES (Continued)

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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ACCUMULATED DEFERRED INCOME TAXES—OTHER PROPERTY (Account 282)

1. Report the information called for below concerning the respondent's accounting for deferred income taxes relating to property not subject to accelerated amortization. ...
 2. For Other (Specify), include deferrals relating to other

Line No.	Account Subdivisions (a)	Balance at Beginning of Year (b)	CHANGES DURING YEAR	
			Amounts Debited to Account 410.1 (c)	Amounts Credited to Account 411.1 (d)
1	Account 282			
2	Electric			
3	Gas			
4	Other (Define)			
5	TOTAL (Enter Total of lines 2 thru 4)			
6	Other (Specify)			
7				
8				
9	TOTAL Account 282 (Enter Total of lines 5 thru 8)			
10	Classification of TOTAL			
11	Federal Income Tax			
12	State Income Tax			
13	Local Income Tax			

NOTES

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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ACCUMULATED DEFERRED INCOME TAXES—OTHER PROPERTY (Account 282) (Continued)

income and deductions.
3. Use separate pages as required.

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	DEBITS		CREDITS			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
							1
							2
							3
							4
							5
							6
							7
							8
							9
							10
							11
							12
							13

NOTES (Continued)

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19_97
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ACCUMULATED DEFERRED INCOME TAXES—OTHER (Account 283)

1. Report the information called for below concerning the respondent's accounting for deferred income taxes relating

to amounts recorded in Account 283.

2. For Other (Specify), include deferrals relating to other

Line No.	Account Subdivisions (a)	Balance at Beginning of Year (b)	CHANGES DURING YEAR	
			Amounts Debited to Account 410.1 (c)	Amounts Credited to Account 411.1 (d)
1	Account 283			
2	Electric			
3				
4				
5				
6				
7				
8	Other			
9	TOTAL Electric (Total of lines 3 thru 8)			
10	Gas			
11	Accelerated Depreciation	8,414,800	897,100	
12				
13				
14				
15				
16	Other	(613,000)	(380,400)	
17	TOTAL Gas (Total of lines 11 thru 16)	7,801,800	516,700	
18	Other (Specify)			
19	TOTAL (Acct 283) (Total of lines 9,17 and 18)	7,801,800	516,700	
20	Classification of TOTAL			
21	Federal Income Tax			
22	State Income Tax			
23	Local Income Tax			

NOTES

(DEBIT BALANCE)

Name of Respondent DELTA NATURAL GAS COMPANY	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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ACCUMULATED DEFERRED INCOME TAXES—OTHER (Account 283) (Continued)

income and deductions
3. Provide in the space below explanations for pages 276

and 277. Include amounts relating to insignificant items listed under Other.
4. Use separate pages as required.

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No.
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411.2 (f)	DEBITS		CREDITS			
		Account Credited (g)	Amount (h)	Account Debited (i)	Amount (j)		
							1
							2
							3
							4
							5
							6
							7
							8
							9
						9,311,900	10
							11
							12
							13
							14
							15
				236/254	74,500	(918,900)	16
					74,500	8,393,000	17
							18
					74,500	8,393,000	19
							20
							21
							22
							23

NOTES (Continued)

(DEBIT BALANCE)

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19_97
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OTHER REGULATORY LIABILITIES (Account 254)

1. Reporting below the particulars (details) called for concerning other regulatory liabilities which are created through the ratemaking actions of regulatory agencies (and not includable in other amounts).
2. For regulatory liabilities being amortized, show period of amortization in column (a).
3. Minor items (5% of the Balance at End of Year for Account 254 or amounts less than \$50,000, whichever is less) may be grouped by classes.

Line No.	Description and Purpose of Other Regulatory Liabilities (a)	DEBITS		Credits (d)	Balance at End of Year (e)
		Account Credited (b)	Amount (c)		
1					
2					
3	Regulatory Liability as a result				
4	of Income Tax Differences	410	1,725		428,975
5					
6	Regulatory Liability on				
7	unamortized ITC	411	45,800		438,700
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
41	TOTAL				867,675

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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19_97
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GAS OPERATING REVENUES (ACCOUNT 400)

1. Report below natural gas operating revenues for each prescribed account, and manufactured gas revenues in total.
 2. Natural gas means either natural gas unmixed or any mixture of natural and manufactured gas.
 3. Report number of customers, columns (f) and (g), on the basis of meters, in addition to the number of flat rate accounts; except that where separate meter readings are added for billing purposes, one customer should be counted

for each group of meters added. The average number of customers means the average of twelve figures at the close of each month.
 4. Report quantities of natural gas sold in Mcf (14.73 psia at 60°F). If billings are on a therm basis, give the Btu contents of the gas sold and the sales converted to Mcf.
 5. If increases or decreases from previous year (columns (c), (e) and (g)), are not derived from previously

Line No.	Title of Account (a)	OPERATING REVENUES	
		Amount for Year (b)	Amount for Previous Year (c)
1	GAS SERVICE REVENUES		
2	480 Residential Sales	20,525,942	17,450,899
3	481 Commercial & Industrial Sales		
4	Small (or Comm.) (See Instr. 6)	12,349,399	10,472,909
5	Large (or Ind.) (See Instr. 6)	2,075,931	1,553,704
6	482 Other Sales to Public Authorities		
7	484 Interdepartmental Sales		
8	TOTAL Sales to Ultimate Consumers	34,951,272	29,477,512
9	483 Sales for Resale		
10	TOTAL Nat. Gas Service Revenues	34,951,272	29,477,512
11	Revenues from Manufactured Gas		
12	TOTAL Gas Service Revenues		
13	OTHER OPERATING REVENUES		
14	485 Intracompany Transfers		
15	487 Forfeited Discounts		
16	488 Misc. Service Revenues	110,376	103,525
17	489 Rev. from Trans. of Gas of Others	4,123,614	3,470,992
18	490 Sales of Prod. Ext. from Nat. Gas		
19	491 Rev. from Nat. Gas Proc. by Others		
20	492 Incidental Gasoline and Oil Sales		
21	493 Rent from Gas Property		
22	494 Interdepartmental Rents		
23	495 Other Gas Revenues		
24	TOTAL Other Operating Revenues	4,233,990	3,574,517
25	TOTAL Gas Operating Revenues	39,185,262	33,052,029
26	(Less) 496 Provision for Rate Refunds		
27	TOTAL Gas Operating Revenues Net of Provision for Refunds	39,185,262	
28	Dist. Type Sales by States (Incl. Main Line Sales to Resid. and Comm. Custrs.)	32,875,341	
29	Main Line Industrial Sales (Incl. Main Line Sales to Pub. Authorities)	2,075,931	
30	Sales for Resale		
31	Other Sales to Pub. Auth. (Local Dist. Only)		
32	Interdepartmental Sales		
33	TOTAL (Same as Line 10, Columns (b) and (d))	34,951,272	

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19_97
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GAS OPERATING REVENUES (ACCOUNT 400) (Continued)

reported figures, explain any inconsistencies in a footnote.

6. *Commercial and Industrial Sales*, Account 481, may be classified according to the basis of classification (Small or Commercial, and Large or Industrial) regularly used by the respondent if such basis of classification is not generally greater than 200,000 Mcf per year or approximately 800 Mcf

per day of normal requirements. (See Account 481 of the Uniform System of Accounts. Explain basis of classification in a footnote.)

7. See pages 108-109, *Important Changes During Year*, for important new territory added and important rate increases or decreases.

MCF OF NATURAL GAS SOLD		AVG. NO. OF NAT. GAS CUSTRS. PER MO.		Line No.
Quantity for Year (d)	Quantity for Previous Year (e)	Number for Year (f)	Number for Previous Year (g)	
				1
2,527,891	2,704,765	31,720	30,362	2
				3
1,591,136	1,673,334	4,854	4,641	4
289,138	282,555	88	73	5
				6
				7
4,408,165	4,660,654	36,662	35,076	8
				9
4,408,165	4,660,654	36,662	35,076	10
NOTES				11
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				22
				23
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				25
				26
				27
4,119,027				28
289,138				29
				30
				31
				32
4,408,165				33

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DISTRIBUTION TYPE SALES BY STATES

1. Report in total for each State, sales by classes of service. Report main line sales to residential and commercial consumers in total by States. Do not include field and main line sales to industrial consumers; these should be reported on pages 306-309, Field and Main Line Industrial Sales of Natural Gas.

Line No.	Name of State (a)	Total Residential, Commercial and Industrial		Residential
		Operating Revenues (Total of (d), (f) and (h)) (b)	Mcf (14.73 psia at 60°F) (Total of (e), (g) and (i)) (c)	Operating Revenues (d)
1				
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: - (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19_9_8
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DISTRIBUTION TYPE SALES BY STATES (Continued)

2. Provide totals for sales within each State.
 3. Natural gas means either natural gas unmixed, or any mixture of natural and manufactured gas. State in a footnote the components of mixed gas, i.e., whether natural and oil refinery gases, natural and coke oven gases, etc., and specify the approximate percentage of natural gas in the mixture.

Residential (Continued)	Commercial		Industrial		Line No.
	Mcf (14.73 psia at 60°F) (e)	Operating Revenues (f)	Mcf (14.73 psia at 60°F) (g)	Operating Revenues (h)	
					1
					2
					3
					4
					5
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FIELD AND MAIN LINE INDUSTRIAL SALES OF NATURAL GAS (Continued)

Mcf Sold (14.73 psia at 60°F) (f)	REVENUE				PEAK DAY DELIVERY TO CUSTOMERS			Line No.
	Total (To nearest dollar) (g)	Portion Due to Adjustments (Itemize) (h)	Cents per Mcf (To nearest hundredth)		Date (Noncoin.) (k)	Mcf (14.73 psia at 60°F)		
			Total (i)	Portion Due to Adjustments (j)		Noncoincidental (l)	Coincidental (m)	
								40
								41
								42
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Name of Respondent TA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 1997
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SALES FOR RESALE NATURAL GAS (Account 483)

1. Report particulars (details) concerning sales of natural gas during the year to other gas utilities and to pipeline companies for resale. Sales to each customer should be subdivided by service classifications, identified in column (c) where applicable, by rate schedule designation contained in the company's tariff.

2. Natural gas means either natural gas unmixed, or any mixture of natural and manufactured gas.

3. In either column a or b, provide separate subheadings and totals for each State in addition to a grand total for all sales to other gas utilities.

4. Enter in column b, point of delivery, the name of city or town and State, and such other designation necessary to enable identification on maps of respondent's pipeline system.

5. Designate with an asterisk and footnote any sales which are other than firm sales, i.e., sales for storage, etc.

6. Monthly billing demands, as used in column (g), are the number of Mcf in the respective months actually used in computing the demand portion of the customer's bills; such quantity of Mcf is multiplied by the demand portion of the tariff rate. Report in column (g) the sum of the monthly billing demands for the number of months the customer received service or was subject to demand changes.

7. Where consolidated bills for more than one point of delivery are rendered under a FERC rate schedule, indicate the several points of delivery in column (b) and report the remainder of the columns on a consolidated basis corresponding to the billing. Where, however, consolidated bills for more than one point of delivery are not rendered under a

Line No.	Name of Other Gas Utility (Designate associated companies with an asterisk) (a)	Point of Delivery (City, Town or State) (b)	FERC Tariff Rate Schedule Designation (c)	Mcf of Gas Sold (Approx. Btu per Cu. Ft.) (d)	Revenue for Year (See Instr. 5) (e)
1					
2					
3					
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Name of Respondent	This Report Is: (1) <input type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr)	Year of Report Dec. 31, 19__
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SALES FOR RESALE-NATURAL GAS (Account 483) (Continued)

FERC rate schedule, the required information (columns) shall be furnished for each point of delivery.

8. Designate in a footnote if Btu per cubic foot of gas is different for any delivery point from that shown in the heading of column d.

9. For each firm sale of \$25,000 or more for the year at each point of delivery, shown in column (f) peak day volume of gas, at pressure base indicated in column (d), and in column (h) show the date of such peak delivery. If an estimate is used for any peak day delivery, state the basis for such estimate. If deliveries are made to one customer at more than one delivery point, show the peak day delivery and date thereof for each delivery point if billing is on a non-conjunctive basis, and show the total for

each such customer if billing is on a conjunctive basis.

10. Summarize total sales as follows: A. Field sales subdivided by deliveries to (i) interstate pipeline companies and (ii) others; B. Transmission system sales divided by deliveries to (i) interstate pipeline companies, (ii) intrastate pipeline companies and gas utilities for resale under FERC rate schedules, and (iii) others. "Field sales" means sales made from wells, from points along gathering lines in gas field or production areas or from points along transmission lines within fields or production areas. "Transmission sales" means sales made from points along transmission lines not within gas fields or production areas.

11. Enter Mcf at 14.73 psia at 60°F.

Average Revenue per Mcf (In cents) (f)	Sum of Monthly Billing Demands Mcf (g)	Peak Day Delivery to Customers			Line No.
		Date (h)	Mcf		
			Noncoincidental (i)	Coincidental (j)	
					1
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Name of Respondent	This Report Is: - (1) <input type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr)	Year of Report Dec. 31, 19__
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REVENUE FROM TRANSPORTATION OF GAS OF OTHERS—NATURAL GAS (Account 489)

1. Report below particulars (details) concerning revenue from transportation or compression (by respondent) of natural gas for others. Subdivide revenue between transportation or compression for interstate pipeline companies and others.

2. Natural gas means either natural gas unmixed, or any mixture of natural and manufactured gas. Designate with an

asterisk, however, if gas transported or compressed is other than natural gas.

3. In column (a) include the names of companies from which revenues were derived, points of receipt and delivery, and names of companies from which gas was received and to which delivered. Also specify the Commission order or regulation authorizing such transaction.

Line No.	Name of Company and Description of Service Performed (Designate associated companies with an asterisk) (a)	Distance Transported (In miles) (b)
1		
2	Southern Gas	
3	AKS Energy	
4	Wiser Marketing & Oil Company	
5	Miller Petroleum	
6	Equitable Resources Exploration	
7	Delgasco, Inc.	
8	Delta Resources	
9	Cooper Tire	
10	Walker Company	
11	Hayes Lemmerz	
12	Alcan Ingot	
13	American Tape	
14	Donaldson Company	
15	Lexington Quarry	
16	Firestone Ind.	
17	Baptist Regional Hospital	
18		
19		
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44		
45	TOTAL	

Name of Respondent	This Report Is: (1) <input type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr)	Year of Report Dec. 31, 19__
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REVENUE FROM TRANSPORTATION OF GAS OF OTHERS—NATURAL GAS (Account 489) (Continued)

4. Designate points of receipt and delivery so that they can be identified on map of the respondent's pipe line system.

5 Enter Mcf at 14.73 psia at 60°F.

6. Minor items (less than 1,000,000 mcf) may be grouped.

"Note: For transportation provided under Part 284 of Title 18 of the Code of Federal Regulations, report only grand totals for all transportation in columns (b) through (g) for the following regulation sections to be listed in column (a): §284.102, 284.122, 284.222, 284.223(a), 284.223(b) and 284.224. Details for each transportation are reported in separate annual reports required under Part 284 of the Commission's regulations."

Mcf of Gas Received (c)	Mcf of Gas Delivered (d)	Revenue (e)	Average Revenue per Mcf of Gas Delivered (in cents) (f)	FERC Tariff Rate Schedule Designation (g)	Line No.
					1
	1,202,195 (1)	312,571			2
	230,054 (1)	59,814			3
	224,356 (1)	58,333			4
	17,303 (1)	4,499			5
	1,572 (1)	393			6
	9,929	2,581			7
	2,196,233	3,108,243			8
	54,826	75,224			9
	7,589	14,751			10
	23,842	37,839			11
	866,158	212,154			12
	45,241	98,770			13
	4,044	5,842			14
	50,386	65,353			15
	5,418	7,461			16
	40,294	59,785			17
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	(1) DTH				30
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	4,979,440	4,123,614			45

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SALES OF PRODUCTS EXTRACTED FROM NATURAL GAS (Account 490)

1. Report particulars (details) concerning sales of gasoline, butane, propane, and other products extracted from natural gas, including sales of any such products which may have been purchased from others for re-sale.

2. If the purchasers are numerous, it is permissible to group the sales by kind of product. Show the number of purchasers grouped. Show separately, however, sales to associated companies or to companies which were associated at the time the applicable sales contracts were made.

Line No.	Name of Purchaser (Designate associated companies with an asterisk) (a)	Name of Product (b)	Quantity (In gallons) (c)	Amount of Sales (In dollars) (d)	Sales Amount per Gallon (In cents) (d ÷ c) (e)
1					
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REVENUES FROM NATURAL GAS PROCESSED BY OTHERS (Account 491)

1. Report particulars (details) concerning royalties and other revenues derived from permission granted to others for the right to remove products from the respondent's natural gas.

2. If the respondent's natural gas is processed by others for removal of saleable products and no revenue therefrom is derived by the respondent, complete only columns (a) and (b) below, and include the date of contract in column (a).

Line No.	Name of Processor and Description of Transaction (Designate associated companies with an asterisk) (a)	Mcf of Respondent's Gas Processed (14.73 psia at 60°F) (b)	Revenue (In dollars) (c)
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2			
3			
4			
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16			

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GAS OPERATION AND MAINTENANCE EXPENSES

If the amount for previous year is not derived from previously reported figures, explain in footnotes.

Line No.	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
1	1. PRODUCTION EXPENSES		
2	A. Manufactured Gas Production		
3	Manufactured Gas Production <i>(Submit Supplemental Statement)</i>		
4	B. Natural Gas Production		
5	B1. Natural Gas Production and Gathering		
6	Operation		
7	750 Operation Supervision and Engineering		
8	751 Production Maps and Records		
9	752 Gas Wells Expenses		
10	753 Field Lines Expenses	13,169	27,954
11	754 Field Compressor Station Expenses	83,806	98,125
12	755 Field Compressor Station Fuel and Power		
13	756 Field Measuring and Regulating Station Expenses		
14	757 Purification Expenses		
15	758 Gas Well Royalties		
16	759 Other Expenses		
17	760 Rents		
18	TOTAL Operation (Enter Total of lines 7 thru 17)	96,975	126,079
19	Maintenance		
20	761 Maintenance Supervision and Engineering		
21	762 Maintenance of Structures and Improvements		
22	763 Maintenance of Producing Gas Wells		
23	764 Maintenance of Field Lines	3,956	2,583
24	765 Maintenance of Field Compressor Station Equipment	16,377	14,188
25	766 Maintenance of Field Meas. and Reg. Sta. Equipment		
26	767 Maintenance of Purification Equipment		
27	768 Maintenance of Drilling and Cleaning Equipment		
28	769 Maintenance of Other Equipment		
29	TOTAL Maintenance (Enter Total of lines 20 thru 28)	20,333	16,771
30	TOTAL Natural Gas Production and Gathering (Total of lines 18 and 29)	117,308	142,850
31	B2. Products Extraction		
32	Operation		
33	770 Operation Supervision and Engineering		
34	771 Operation Labor		
35	772 Gas Shrinkage		
36	773 Fuel		
37	774 Power		
38	775 Materials		
39	776 Operation Supplies and Expenses		
40	777 Gas Processed by Others		
41	778 Royalties on Products Extracted		
42	779 Marketing Expenses		
43	780 Products Purchased for Resale		
44	781 Variation in Products Inventory		
45	(Less) 782 Extracted Products Used by the Utility—Credit		
46	783 Rents		
47	TOTAL Operation (Enter Total of lines 33 thru 46)		

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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No.	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
	B2. Products Extraction (Continued)		
48	Maintenance		
49	784 Maintenance Supervision and Engineering		
50	785 Maintenance of Structures and Improvements		
51	786 Maintenance of Extraction and Refining Equipment		
52	787 Maintenance of Pipe Lines		
53	788 Maintenance of Extracted Products Storage Equipment		
54	789 Maintenance of Compressor Equipment		
55	790 Maintenance of Gas Measuring and Reg. Equipment		
56	791 Maintenance of Other Equipment		
57	TOTAL Maintenance (Enter Total of lines 49 thru 56)		
58	TOTAL Products Extraction (Enter Total of lines 47 and 57)		
59	C. Exploration and Development		
60	Operation		
61	795 Delay Rentals		
62	796 Nonproductive Well Drilling		
63	797 Abandoned Leases		
64	798 Other Exploration		
65	TOTAL Exploration and Development (Enter Total of lines 61 thru 64)		
	D. Other Gas Supply Expenses		
66	Operation		
67	800 Natural Gas Well Head Purchases		
68	800.1 Natural Gas Well Head Purchases, Intracompany Transfers		
69	801 Natural Gas Field Line Purchases		
70	802 Natural Gas Gasoline Plant Outlet Purchases		
71	803 Natural Gas Transmission Line Purchases	20,839,565	14,959,447
72	804 Natural Gas City Gate Purchases		
73	804.1 Liquefied Natural Gas Purchases		
74	805 Other Gas Purchases		
75	(Less) 805.1 Purchased Gas Cost Adjustments		
76			
77	TOTAL Purchased Gas (Enter Total of lines 67 to 75)	20,839,565	14,959,447
78	806 Exchange Gas		
79	Purchased Gas Expenses		
80	807.1 Well Expenses—Purchased Gas		
81	807.2 Operation of Purchased Gas Measuring Stations		
82	807.3 Maintenance of Purchased Gas Measuring Stations		
83	807.4 Purchased Gas Calculations Expenses		
84	807.5 Other Purchased Gas Expenses		
85	TOTAL Purchased Gas Expenses (Enter Total of lines 80 thru 84)		
86	808.1 Gas Withdrawn from Storage—Debit		
87	(Less) 808.2 Gas Delivered to Storage—Credit		
88	809.1 Withdrawals of Liquefied Natural Gas for Processing—Debit		
89	(Less) 809.2 Deliveries of Natural Gas for Processing—Credit		
90	Gas Used in Utility Operations—Credit		
91	810 Gas Used for Compressor Station Fuel—Credit		
92	811 Gas Used for Products Extraction—Credit		
93	812 Gas Used for Other Utility Operations—Credit		
94	TOTAL Gas Used in Utility Operations—Credit (Total of lines 91 thru 93)		
95	813 Other Gas Supply Expenses		
96	TOTAL Other Gas Supply Exp (Total of lines 77, 78, 85, 86 thru 89, 94, 95)	20,839,565	14,959,447
97	TOTAL Production Expenses (Enter Total of lines 3, 30, 58, 65, and 96)	20,956,873	15,102,297

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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No.	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
98	2. NATURAL GAS STORAGE, TERMINALING AND PROCESSING EXPENSES		
99	A. Underground Storage Expenses		
100	Operation		
101	814 Operation Supervision and Engineering		
102	815 Maps and Records		
103	816 Wells Expenses	27,893	9,575
104	817 Lines Expense		
105	818 Compressor Station Expenses	21,213	14,265
106	819 Compressor Station Fuel and Power		
107	820 Measuring and Regulating Station Expenses		
108	821 Purification Expenses		
109	822 Exploration and Development		
110	823 Gas Losses		
111	824 Other Expenses	887	5,564
112	825 Storage Well Royalties	62,113	22,325
113	826 Rents		
114	TOTAL Operation (Enter Total of lines 101 thru 113)	112,106	51,729
115	Maintenance		
116	830 Maintenance Supervision and Engineering		
117	831 Maintenance of Structures and Improvements	688	
118	832 Maintenance of Reservoirs and Wells	701	10
119	833 Maintenance of Lines	1,928	81
120	834 Maintenance of Compressor Station Equipment	853	1,823
121	835 Maintenance of Measuring and Regulating Station Equipment	1,945	497
122	836 Maintenance of Purification Equipment		
123	837 Maintenance of Other Equipment	989	
124	TOTAL Maintenance (Enter Total of lines 116 thru 123)	7,104	2,411
125	TOTAL Underground Storage Expenses (Total of lines 114 and 124)	119,210	54,140
126	B. Other Storage Expenses		
127	Operation		
128	840 Operation Supervision and Engineering		
129	841 Operation Labor and Expenses		
130	842 Rents		
131	842.1 Fuel		
132	842.2 Power		
133	842.3 Gas Losses		
134	TOTAL Operation (Enter Total of lines 128 thru 133)		
135	Maintenance		
136	843.1 Maintenance Supervision and Engineering		
137	843.2 Maintenance of Structures and Improvements		
138	843.3 Maintenance of Gas Holders		
139	843.4 Maintenance of Purification Equipment		
140	843.5 Maintenance of Liquefaction Equipment		
141	843.6 Maintenance of Vaporizing Equipment		
142	843.7 Maintenance of Compressor Equipment		
143	843.8 Maintenance of Measuring and Regulating Equipment		
144	843.9 Maintenance of Other Equipment		
145	TOTAL Maintenance (Enter Total of lines 136 thru 144)		
146	TOTAL Other Storage Expenses (Enter Total of lines 134 and 145)		

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No.	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
147	C. Liquefied Natural Gas Terminating and Processing Expenses		
148	Operation		
149	844.1 Operation Supervision and Engineering		
150	844.2 LNG Processing Terminal Labor and Expenses		
151	844.3 Liquefaction Processing Labor and Expenses		
152	844.4 Liquefaction Transportation Labor and Expenses		
153	844.5 Measuring and Regulating Labor and Expenses		
154	844.6 Compressor Station Labor and Expenses		
155	844.7 Communication System Expenses		
156	844.8 System Control and Load Dispatching		
157	845.1 Fuel		
158	845.2 Power		
159	845.3 Rents		
160	845.4 Demurrage Charges		
161	(Less) 845.5 Wharfage Receipts—Credit		
162	845.6 Processing Liquefied or Vaporized Gas by Others		
163	846.1 Gas Losses		
164	846.2 Other Expenses		
165	TOTAL Operation (Enter Total of lines 149 thru 164)		
166	Maintenance		
167	847.1 Maintenance Supervision and Engineering		
168	847.2 Maintenance of Structures and Improvements		
169	847.3 Maintenance of LNG Processing Terminal Equipment		
170	847.4 Maintenance of LNG Transportation Equipment		
171	847.5 Maintenance of Measuring and Regulating Equipment		
172	847.6 Maintenance of Compressor Station Equipment		
173	847.7 Maintenance of Communication Equipment		
174	847.8 Maintenance of Other Equipment		
175	TOTAL Maintenance (Enter Total of lines 167 thru 174)		
176	TOTAL Liquefied Nat Gas Terminating and Processing Exp (Lines 165 & 175)		
177	TOTAL Natural Gas Storage (Enter Total of lines 125, 146, and 176)	119,210	54,140
178	3. TRANSMISSION EXPENSES		
179	Operation		
180	850 Operation Supervision and Engineering		
181	851 System Control and Load Dispatching		
182	852 Communication System Expenses		
183	853 Compressor Station Labor and Expenses		
184	854 Gas for Compressor Station Fuel		
185	855 Other Fuel and Power for Compressor Stations		
186	856 Mains Expenses R/W Clearing	30,467	42,458
187	857 Measuring and Regulating Station Expenses		
188	858 Transmission and Compression of Gas by Others		
189	859 Other Expenses		
190	860 Rents		
191	TOTAL Operation (Enter Total of lines 180 thru 190)		

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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No.	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
3. TRANSMISSION EXPENSES (Continued)			
192	Maintenance		
193	861 Maintenance Supervision and Engineering		
194	862 Maintenance of Structures and Improvements		
195	863 Maintenance of Mains		
196	864 Maintenance of Compressor Station Equipment		
197	865 Maintenance of Measuring and Reg. Station Equipment		
198	866 Maintenance of Communication Equipment		
199	867 Maintenance of Other Equipment		
200	TOTAL Maintenance (Enter Total of lines 193 thru 199)	30,467	42,458
201	TOTAL Transmission Expenses (Enter Total of lines 191 and 200)		
202	4. DISTRIBUTION EXPENSES		
203	Operation		
204	870 Operation Supervision and Engineering P/R & Transp.	2,502,175	2,315,783
205	871 Distribution Load Dispatching	33,611	42,272
206	872 Compressor Station Labor and Expenses		
207	873 Compressor Station Fuel and Power		
208	874 Mains and Services Expenses		
209	875 Measuring and Regulating Station Expenses—General		
210	876 Measuring and Regulating Station Expenses—Industrial		
211	877 Measuring and Regulating Station Expenses—City Gate Check Station		
212	878 Meter and House Regulator Expenses		
213	879 Customer Installations Expenses		
214	880 Other Expenses	406,180	429,397
215	881 Rents	5,819	29,545
216	TOTAL Operation (Enter Total of lines 204 thru 215)	2,947,785	2,816,997
217	Maintenance		
218	885 Maintenance Supervision and Engineering T/E & W/E	46,544	35,574
219	886 Maintenance of Structures and Improvements	1,472	345
220	887 Maintenance of Mains	144,938	148,286
221	888 Maintenance of Compressor Station Equipment		
222	889 Maintenance of Meas. and Reg. Sta. Equip.—General	5,754	3,129
223	890 Maintenance of Meas. and Reg. Sta. Equip.—Industrial		
224	891 Maintenance of Meas. and Reg. Sta. Equip.—City Gate Check Station		
225	892 Maintenance of Services	71,889	58,916
226	893 Maintenance of Meters and House Regulators	105,463	88,521
227	894 Maintenance of Other Equipment		
228	TOTAL Maintenance (Enter Total of lines 218 thru 227)	376,060	334,771
229	TOTAL Distribution Expenses (Enter Total of lines 216 and 228)	3,323,845	3,151,768
230	5. CUSTOMER ACCOUNTS EXPENSES		
231	Operation		
232	901 Supervision		
233	902 Meter Reading Expenses (1)	200,000	180,000
234	903 Customer Records and Collection Expenses	733,813	632,043
235	904 Uncollectible Accounts	310,000	150,000
236	905 Miscellaneous Customer Accounts Expenses		
237	TOTAL Customer Accounts Expenses (Enter Total of lines 232 thru 236)	1,243,813	962,043

(1) Amts. Estimated

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No.	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
238	6. CUSTOMER SERVICE AND INFORMATIONAL EXPENSES		
239	Operation		
240	907 Supervision		
241	908 Customer Assistance Expenses		
242	909 Informational and Instructional Expenses		
243	910 Miscellaneous Customer Service and Informational Expenses		
244	TOTAL Customer Service and Information Expenses (Lines 240 thru 243)		
245	7. SALES EXPENSES		
246	Operation		
247	911 Supervision		
248	912 Demonstrating and Selling Expenses		
249	913 Advertising Expenses	15,669	18,562
250	916 Miscellaneous Sales Expenses		
251	TOTAL Sales Expenses (Enter Total of lines 247 thru 250)	15,669	18,562
252	8. ADMINISTRATIVE AND GENERAL EXPENSES		
253	Operation		
254	920 Administrative and General Salaries & T/E	2,027,447	1,933,842
255	921 Office Supplies and Expenses	510,511	524,632
256	(Less) (922) Administrative Expenses Transferred—Cr.	[3,407,988]	[2,329,077]
257	923 Outside Services Employed	309,586	451,622
258	924 Property Insurance	447,103	466,248
259	925 Injuries and Damages		
260	926 Employee Pensions and Benefits	1,981,745	2,162,286
261	927 Franchise Requirements		
262	928 Regulatory Commission Expenses	62,853	63,755
263	(Less) (929) Duplicate Charges—Cr.		
264	930.1 General Advertising Expenses		
265	930.2 Miscellaneous General Expenses	435,302	502,320
266	931 Rents		
267	TOTAL Operation (Enter Total of lines 254 thru 266)	2,366,559	3,775,628
268	Maintenance		
269	935 Maintenance of General Plant	187,132	123,402
270	TOTAL Administrative and General Exp (Total of lines 267 and 269)	2,553,691	3,899,030
271	TOTAL Gas O. and M. Exp (Lines 97, 177, 201, 229, 237, 244, 251, and 270)	28,243,568	23,230,298

NUMBER OF GAS DEPARTMENT EMPLOYEES

1. The data on number of employees should be reported for the payroll period ending nearest to October 31, or any payroll period ending 60 days before or after October 31.

2. If the respondent's payroll for the reporting period includes any special construction personnel, include such employees on line 3, and show the number of such special

construction employees in a footnote.

3. The number of employees assignable to the gas department from joint functions of combination utilities may be determined by estimate, on the basis of employee equivalents. Show the estimated number of equivalent employees attributed to the gas department from joint functions.

1. Payroll Period Ended (Date)	12-31-97
2. Total Regular Full-Time Employees	181
3. Total Part-Time and Temporary Employees	8
4. Total Employees	189

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**EXPLORATION AND DEVELOPMENT EXPENSES (Accounts 795, 796, 798)
(Except Abandoned Leases, Account 797)**

1. Report below exploration and development costs for the year, exclusive of Account 797, *Abandoned Leases*, according to the prescribed accounts shown by the column headings.

2. Provide subheadings and subtotals for exploration and development costs for each State.

3. Explain in a footnote any difference between the amounts reported in column (f) and the amount shown on page 231, *Preliminary Survey and Investigation Charges*, for clearance to Account 798 during the year from Account 183.1, *Preliminary Natural Gas Survey and Investigation Charges*.

Line No	Field (a)	County (b)	Delay Rentals (Account 795) (c)	Nonproductive Well Drilling (Account 796)		Other Exploration Costs (Accounts 798) (f)	Total (g)
				Number of Wells (d)	Amount (e)		
1							
2							
3							
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27	TOTAL						

ABANDONED LEASES (Account 797)

1. Report below particulars (details) concerning the provision for the year to cover probable loss on abandonment of natural gas leases included in Account 105, *Gas Plant Held for Future Use* which have never been productive.

2. Explain the basis of determining the year's provision and state whether the basis is the same as that used for the preceding year.

If the year's total provision is comprised of separate determinations with respect to certain groups or classes of leases, show separately the determinations for each such group or class. If the provision was so determined that component amounts may be identified by territories, fields, or counties, show the component amounts identified as such.

Line No.	Item (a)	Amount (b)
1		
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10	TOTAL	

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19_97
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GAS PURCHASES (Accounts 800, 800.1, 801, 802, 803, 804, 804.1, 805, 805.1)

1. Provide totals for the following accounts:
- 800 Natural Gas Well Head Purchases
 - 800.1 Natural Gas Well Head Purchases, Intracompany Transfers
 - 801 Natural Gas Field Line Purchases
 - 802 Natural Gas Gasoline Plant Outlet Purchases
 - 803 Natural Gas Transmission Line Purchases
 - 804 Natural Gas City Gate Purchases
 - 804.1 Liquefied Natural Gas Purchases
 - 805 Other Gas Purchases
 - 805.1 Purchase Gas Cost Adjustments

The totals shown in columns (b) and (c) should agree with the books of account. Reconcile any differences in a footnote.

2. State in column (b) the volume of purchased gas as finally measured for the purpose of determining the amount payable for the gas. Include current year receipts of make-up gas that was paid for in prior years.

3. State in column (c) the dollar amount (omit cents) paid and previously paid for the volumes of gas shown in column (b).

4. State in column (d) the average cost per Mcf to the nearest hundredth of a cent. (Average means column (c) divided by column (b) multiplied by 100.)

Line No.	Account Title (a)	Gas Purchased-Mcf (14.73 psia 60°F) (b)	Cost of Gas (In dollars) (c)	Average Cost Per Mcf (To nearest .01 of a cent) (d)
01	800 — Natural Gas Well Head Purchases			
02	800.1 — Natural Gas Well Head Purchases, Intracompany Transf.			
03	801 — Natural Gas Field Line Purchases			
04	802 — Natural Gas Gasoline Plant Outlet Purchases			
05	803 — Natural Gas Transmission Line Purchases	4,408,165	20,839,565	4.7275
06	804 — Natural Gas City Gate Purchases			
07	804.1 — Liquefied Natural Gas Purchases			
08	805 — Other Gas Purchases			
09	805.1 — Purchased Gas Cost Adjustments			
10	TOTAL (Enter Total of lines 01 thru 9)			

Notes to Gas Purchases

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EXCHANGE GAS TRANSACTIONS (Account 806, Exchange Gas)

1. Report below particulars (details) concerning the gas volumes and related dollar amounts of natural gas exchange transactions during the year. Minor transac-

tions (less than 100,000 Mcf) may be grouped.
2. Also give the particulars (details) called for concerning each natural gas exchange where consideration

Line No.	Name of Company (Designate associated companies with an asterisk) (a)	Exchange Gas Received		
		Point of Receipt (City, state, etc.) (b)	Mcf (c)	Debit (Credit) Account 242 (d)
1				
2				
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44				
45	TOTAL			

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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EXCHANGE GAS TRANSACTIONS (Account 806, Exchange Gas) (Continued)

was received or paid in performance of gas exchange services.
3. List individually net transactions occurring during the year for each rate schedule.

4. Indicate points of receipt and delivery of gas so that they may be readily identified on a map of the respondent's pipeline system.

Exchange Gas Delivered			Excess Mcf Received or Delivered (h)	Debit (Credit) Account 806 (i)	Line No.
Point of Delivery (City, state, etc.) (e)	Mcf (f)	Debit (Credit) Account 174 (g)			
					1
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Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is:- (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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EXCHANGE GAS TRANSACTIONS (Account 806, Exchange Gas) (Continued)

5. Furnish any additional explanations needed to further explain the accounting for exchange gas transactions.

6. Report the pressure base of measurement of gas volumes at 14.73 psia at 60°F.

Line No.	Name of Company (Designate associated companies with an asterisk) (a)	Charges Paid or Payable by Respondent		Revenues Received or Receivable by Respondent		FERC Tariff Rate Schedule Identification (n)
		Amount (l)	Account (k)	Amount (l)	Account (m)	
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2						
3						
4						
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44						
45	TOTAL					

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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GAS USED IN UTILITY OPERATIONS—CREDIT (Accounts 810, 811, 812)

1. Report below particulars (details) of credits during the year to Accounts 810, 811 and 812 which offset charges to operating expenses or other accounts for the cost of gas from the respondent's own supply.

2. Natural gas means either natural gas unmixed, or any mixture of natural and manufactured gas.

3. If the reported Mcf for any use is an estimated quantity, state such fact in a footnote.

4. If any natural gas was used by the respondent for which a change was not made to the appropriate operating expense or other account, list separately in column (c) the Mcf of gas used, omitting entries in columns (d) and (e).

5. Report pressure base of measurement of gas volumes at 14.73 psia at 60°F.

Line No.	Purpose for Which Gas Was Used (a)	Account Charged (b)	Natural Gas			Manufactured Gas	
			Mcf of Gas Used (c)	Amount of Credit (d)	Amount per Mcf (In Cents) (e)	Mcf of Gas Used (f)	Amount of Credit (g)
1	810 Gas used for Compressor Station Fuel—Cr						
2	811 Gas used for Products Extraction—Cr						
3	Gas Shrinkage and Other Usage in Respdnt's Own Proc.						
4	Gas Shrinkage, Etc. for Respdnt's Gas Processed by Others						
5	812 Gas used for Other Util. Oprs—Cr (Rpt sep. for each prin. use. Group minor uses)						
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25	TOTAL						

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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TRANSMISSION AND COMPRESSION OF GAS BY OTHERS (Account 858)

1. Report below particulars (details) concerning gas transported or compressed for respondent by others equalling more than 1,000,000 Mcf (Bcf) and amounts of payments for such services during the year. Minor

items (less than 1,000,000 Mcf) must be grouped.
2. In column (a) give name of companies to which payments were made, points of delivery and receipt of gas, names of companies to which gas was delivered and from

Line No.	Name of Company and Description of Service Performed <i>(Designate associated companies with an asterisk)</i> (a)	Distance Transported (In miles) (b)
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46	TOTAL	

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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TRANSMISSION AND COMPRESSION OF GAS BY OTHERS (Account 858) (Continued)

which received. Points of delivery and receipt should be so designated that they can be identified readily on map of respondent's pipeline system.

3. If the Mcf of gas received differs from the Mcf delivered, explain in a footnote the reason for difference, i.e., uncompleted deliveries, allowance for transmission loss, etc.

Mcf of Gas Delivered (14.73 psia at 60°F) (c)	Mcf of Gas Received (14.73 psia at 60°F) (d)	Amount of Payment (In dollars) (e)	Amount per Mcf of Gas Received (In cents) (f)	Line No.
				1
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				3
				4
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: - (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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OTHER GAS SUPPLY EXPENSES (Account 813)

Report other gas supply expenses by descriptive titles which clearly indicate the nature of such expenses. Show maintenance expenses separately. Indicate the functional classification and purpose of property to which any expenses relate.

Line No.	Description (a)	Amount (in dollars) (b)
1		
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50	TOTAL	

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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MISCELLANEOUS GENERAL EXPENSES (Account 930.2) (Gas)

1	Industry association dues	37,253
2	Experimental and general research expenses	
3	Publishing and distributing information and reports to stockholders; trustee, registrar, and transfer agent fees and expenses, and other expenses of servicing outstanding securities of the respondent	91,507
4	Other expenses (items of \$5,000 or more must be listed separately in this column showing the (1) purpose, (2) recipient and (3) amount of such items. Amounts of less than \$5,000 may be grouped by classes if the number of items so grouped is shown)	
5		
6	Directors Fees & Expenses	107,050
7	Fees - Industry Meetings & Conventions	4,118
8		
9	Marketing Activities	35,061
10	Company Relations - Employees	29,243
11		
12	Customer & Public Relations	52,884
13	Lobbying Expenses	1,237
14		
15	Public Relations	17,412
16	Conservation	59,537
17		
18		
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23		
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49	TOTAL	435,302

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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**DEPRECIATION, DEPLETION, AND AMORTIZATION OF GAS PLANT (Accounts 403, 404.1, 404.2, 404.3, 405)
(Except Amortization of Acquisition Adjustments)**

1. Report in Section A the amounts of depreciation expense, depletion and amortization for the accounts indicated and classified according to the plant functional groups shown.

2. Report all available information called for in Section B for the report year 1971, 1974 and every fifth year thereafter. Report only annual changes in the intervals

between the report years (1971, 1974 and every fifth year thereafter).

Report in column (b) all depreciable plant balances to which rates are applied and show a composite total. (If more desirable, report by plant account, subaccount or functional classifications other than those pre-printed in column (a). Indicate at the bottom of Section B the

Section A. Summary of Depreciation, Depletion, and Amortization Charges

Line No.	Functional Classification <i>(a)</i>	Depreciation Expense (Account 403) <i>(b)</i>	Amortization and Depletion of Producing Natural Gas Land and Land Rights (Account 404.1) <i>(c)</i>	Amortization of Underground Storage Land and Land Rights (Account 404.2) <i>(d)</i>
1	Intangible plant			
2	Production plant, manufactured gas			
3	Production and gathering plant, natural gas	116,000		
4	Products extraction plant			
5	Underground gas storage plant	240,000		
6	Other storage plant			
7	Base load LNG terminating and processing plant			
8	Transmission plant	636,000		
	Distribution plant	1,555,000		
	General plant	587,647		
11	Common plant-gas			
12	All Figures Are Estimates			
13				
14				
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25	TOTAL	3,134,647		

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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**DEPRECIATION, DEPLETION, AND AMORTIZATION OF GAS PLANT (Accounts 403, 404.1, 404.2, 404.3, 405)
(Except Amortization of Acquisition Adjustments) (Continued)**

manner in which column (b) balances are obtained. If average balances, state the method of averaging used. For column (c) report available information for each plant functional classification listed in column (a). If composite depreciation accounting is used, report available information called for in columns (b) and (c) on this basis. Where the unit-of-production method is used to determine

depreciation charges, show at the bottom of Section B any revisions made to estimated gas reserves.

3. If provisions for depreciation were made during the year in addition to depreciation provided by application of reported rates, state at the bottom of Section B the amounts and nature of the provisions and the plant items to which related.

Section A. Summary of Depreciation, Depletion, and Amortization Charges

Amortization of Other Limited-term Gas Plant (Account 404.3) (e)	Amortization of Other Gas Plant (Account 405) (f)	Total (b to f) (g)	Functional Classification (a)	Line No.
740		740	Intangible plant	1
			Production plant, manufactured gas	2
		116,000	Production and gathering plant, natural gas	3
			Products extraction plant	4
		240,000	Underground gas storage plant	5
			Other storage plant	6
			Base load LNG terminating and processing plant	7
		636,000	Transmission plant	8
		1,555,000	Distribution plant	9
		587,647	General plant	10
			Common plant-gas	11
				12
				13
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		3,135,387	TOTAL	25

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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DEPRECIATION, DEPLETION, AND AMORTIZATION OF GAS PLANT (Continued)
Section B. Factors Used in Estimating Depreciation Charges

Line No.	Functional Classification (a)	Depreciation Plant Base (Thousands) (b)	Applied Depr. Rate(s) (Percent) (c)
1	Production and Gathering Plant		
2	Offshore		
3	Onshore		
4	Underground Gas Storage Plant		
5	Transmission Plant		
6	Offshore		
7	Onshore		
8	General Plant		
9			
10			

Notes to Depreciation, Depletion and Amortization of Gas Plant

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year of Report
DELTA NATURAL GAS COMPANY, INC.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	03/31/98	Dec. 31, 19 <u>97</u>

INCOME FROM UTILITY PLANT LEASED TO OTHERS (Account 412 and 413)

1. Report below the following information with respect to utility property leased to others constituting an operating unit or system.

2. For each lease show: (1) name of lessee and description and location of the leased property; (2) revenues; (3) operating expenses classified as to operation, maintenance, depreciation, rents, amortization; and (4) net income from lease for year. Arrange amounts so that deductions appear as a

subtraction from revenues, and income as the remainder.

3. Provide a subheading and total for each utility department in addition to a total for all utility departments.

4. Furnish particulars (details) of the method of determining the annual rental for the property.

5. Designate with an asterisk associated companies.

Line No.	
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 ⁹⁷
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PARTICULARS CONCERNING CERTAIN INCOME DEDUCTIONS AND INTEREST CHARGES ACCOUNTS

Report the information specified below, in the order given, for the respective income deduction and interest charges accounts. Provide a subheading for each account and a total for the account. Additional columns may be added if deemed appropriate with respect to any account.

(a) *Miscellaneous Amortization* (Account 425) — Describe the nature of items included in this account, the contra account charged, the total of amortizations charges for the year, and the period of amortization.

(b) *Miscellaneous Income Deductions* — Report the nature, payee, and amount of other income deductions for the year as required by Accounts 426.1, *Donations*; 426.2, *Life Insurance*; 426.3, *Penalties*; 426.4, *Expenditures for Certain Civic, Political and Related Activities*; and 426.5, *Other*

Deductions, of the Uniform System of Accounts. Amounts of less than \$10,000 may be grouped by classes within the above accounts.

(c) *Interest on Debt to Associated Companies* (Account 430) — For each associated company to which interest on debt was incurred during the year, indicate the amount and interest rate respectively for (a) advances on notes, (b) advances on open account, (c) notes payable, (d) accounts payable, and (e) other debt, and total interest. Explain the nature of other debt on which interest was incurred during the year.

(d) *Other Interest Expense* (Account 431) — Report particulars (details) including the amount and interest rate for other interest charges incurred during the year.

Line No.	Item (a)	Amount (b)
1		
2		
3	Keyman Insurance A/C 426	(8,426)
4		
5	Customer Deposit Interest	25,502
6		
7	Short Term Note Interest	<u>859,377</u>
8		
9		
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	TOTAL	<u>884,879</u>

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Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 1997
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REGULATORY COMMISSION EXPENSES

1. Report particulars (details) of regulatory commission expenses incurred during the current year (or incurred in previous years, if being amortized) relating to formal cases before a regulatory body, or cases in which

such a body was a party.

2. In columns (b) and (c), indicate whether the expenses were assessed by a regulatory body or were otherwise incurred by the utility.

Line No.	Description (Furnish name of regulatory commission or body, the docket or case number, and a description of the case.) (a)	Assessed by Regulatory Commission (b)	Expenses of Utility (c)	Total Expenses to Date (d)	Deferred in Account 186 at Beginning of Year (e)
1					
2					
3	Public Service				
4	Commission of	62,853			
5	Kentucky				
6					
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46	TOTAL	62,853			

Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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REGULATORY COMMISSION EXPENSES (Continued)

3. Show in column (k) any expenses incurred in prior years which are being amortized. List in column (a) the period of amortization.
4. The totals of columns (e), (i), (k), and (l) must agree with the totals shown at the bottom of page 233

for Account 186.

5. List in column (f), (g), and (h) expenses incurred during year which were charged currently to income, plant, or other accounts.
6. Minor items (less than \$25,000) may be grouped.

EXPENSES INCURRED DURING YEAR			AMORTIZED DURING YEAR			Deferred in Account 186, End of Year (l)	Line No.
CHARGED CURRENTLY TO			Deferred to Account 186 (i)	Contra Account (j)	Amount (k)		
Department (f)	Account No. (g)	Amount (h)					
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: - (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19_97
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RESEARCH, DEVELOPMENT, AND DEMONSTRATION ACTIVITIES

1. Describe and show below costs incurred and accounts charged during the year for technological research, development, and demonstration (R, D & D) projects initiated, continued, or concluded during the year. Report also support given to others during the year for jointly-sponsored projects. (Identify recipient regardless of affiliation.) For any R, D & D work carried on by the respondent in which there is a sharing of costs with others, show separately the respondent's cost for the year and cost chargeable to others. (See definition of research, development, and demonstration in Uniform System of Accounts.)

2. Indicate in column (a) the applicable classification, as shown below. Classifications:

A. Gas R, D & D Performed Internally

- (1) Pipeline
 - a. Design
 - b. Efficiency

- (2) Compressor Station
 - a. Design
 - b. Efficiency
- (3) System Planning, Engineering, and Operation
- (4) Transmission Control and Dispatching
- (5) LNG Storage and Transportation
- (6) Underground Storage
- (7) Other Storage
- (8) New Appliances and New Uses
- (9) Gas Exploration, Drilling, Production, and Recovery
- (10) Coal Gasification
- (11) Synthetic Gas
- (12) Environmental Research
- (13) Other (Classify and Include Items in Excess of \$5,000.)
- (14) Total Cost Incurred

Line No.	Classification (a)	Description (b)
1		
2		
3		
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: ~ (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 ⁹⁷
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RESEARCH, DEVELOPMENT, AND DEMONSTRATION ACTIVITIES (Continued)

- B. Gas, R, D & D Performed Externally**
 (1) Research Support to American Gas Association
 (2) Research Support to Others (*Classify*)
 (3) Total Cost Incurred

3. Include in column (c) all R, D & D items performed internally and in column (d) those items performed outside the company costing \$5,000 or more, briefly describing the specific area of R, D & D (such as safety, corrosion control, pollution, automation, measurement, insulation, type of appliance, etc.). Group items under \$5,000 by classifications and indicate the number of items grouped. Under Other, (A.(13) and B.(2)) classify items by type of R, D & D activity.

4. Show in column (e) the account number charged with expenses during the year or the account to which amounts were capitalized during the year, listing Account 107 (Construction Work in Progress) first. Show in column (f) the amounts related to the account charged in column (e).

5. Show in column (g) the total unamortized accumulation of costs of projects. This total must equal the balance in Account 188 *Research, Development, and Demonstration Expenditures* outstanding at the end of the year.

6. If costs have not been segregated for R, D & D activities or projects, submit estimates for columns (c), (d) and (f) with such amounts identified by "Est."

7. Report separately research and related testing facilities operated by the respondent.

Costs Incurred Internally Current Year (c)	Costs Incurred Externally Current Year (d)	AMOUNTS CHARGED IN CURRENT YEAR		Unamortized Accumulation (g)	Line No.
		Account (e)	Amount (f)		
					1
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Name of Respondent DELTA NATURAL GAS COMPANY, INC	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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DISTRIBUTION OF SALARIES AND WAGES

Report below the distribution of total salaries and wages for the year. Segregate amounts originally charged to clearing accounts to *Utility Departments, Construction, Plant Removals, and Other Accounts*, and enter such amounts

in the appropriate lines and columns provided. In determining this segregation of salaries and wages originally charged to clearing accounts, a method of approximation giving substantially correct results may be used.

Line No.	Classification (a)	Direct Payroll Distribution (b)	Allocation of Payroll Charged for Clearing Accounts (c)	Total (d)
1	Electric			
2	Operation			
3	Production			
4	Transmission			
5	Distribution			
6	Customer Accounts			
7	Customer Service and Informational			
8	Sales			
9	Administrative and General			
10	TOTAL Operation (Total of lines 3 thru 9)			
11	Maintenance			
12	Production			
13	Transmission			
14	Distribution			
15	Administrative and General			
16	TOTAL Maint. (Total of lines 12 thru 15)			
	Total Operation and Maintenance			
18	Production (Total of lines 3 and 12)			
19	Transmission (Total of lines 4 and 13)			
20	Distribution (Total of lines 5 and 14)			
21	Customer Accounts (Line 6)			
22	Customer Service and Informational (Line 7)			
23	Sales (Line 8)			
24	Administrative and General (Total of lines 9 and 15)			
25	TOTAL Oper. and Maint. (Total of lines 18 thru 24)			
26	Gas			
27	Operation			
28	Production—Manufactured Gas			
29	Production—Nat. Gas (Including Expl. and Dev.)	62,676		
30	Other Gas Supply			
31	Storage, LNG Terminating and Processing	37,273		
32	Transmission			
33	Distribution	2,648,804		
34	Customer Accounts	544,964		
35	Customer Service and Informational			
36	Sales			
37	Administrative and General	1,913,447		
38	TOTAL Operation (Total of lines 28 thru 37)	5,207,164		
39	Maintenance			
40	Production—Manufactured Gas			
41	Production—Natural Gas	4,487		
	Other Gas Supply			
	Storage, LNG Terminating and Processing	1,250		
44	Transmission			
45	Distribution	119,266		
46	Administrative and General			
47	TOTAL Maint. (Total of lines 40 thru 46)	125,003		

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/98	Year of Report Dec. 31, 19 <u>97</u>
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DISTRIBUTION OF SALARIES AND WAGES (Continued)

Line No.	Classification (a)	Direct Payroll Distribution (b)	Allocation of Payroll Charged for Clearing Accounts (c)	Total (d)
	Gas (Continued)			
48	Total Operation and Maintenance			
49	Production—Manufactured Gas (Lines 28 and 40)			
50	Production—Natural Gas (Including Expl. and Dev.) (Lines 29 and 41)	67,163		
51	Other Gas Supply (Lines 30 and 42)			
52	Storage, LNG Terminating and Processing (Lines 31 and 43)	38,523		
53	Transmission (Lines 32 and 44)			
54	Distribution (Lines 33 and 45)	2,768,070		
55	Customer Accounts (Line 34)	544,964		
56	Customer Service and Informational (Line 35)			
57	Sales (Line 36)			
58	Administrative and General (Lines 37 and 46)	1,913,447		
59	TOTAL Operation and Maint. (Total of lines 49 thru 58)	5,332,167	(820,000)	4,512,167
60	Other Utility Departments			
61	Operation and Maintenance			
62	TOTAL All Utility Dept. (Total of lines 25, 59, and 61)			
63	Utility Plant			
64	Construction (By Utility Departments)			
65	Electric Plant			
66	Gas Plant	964,753	814,000	1,778,753
67	Other			
68	TOTAL Construction (Total of lines 65 thru 67)	964,753	814,000	1,778,753
69	Plant Removal (By Utility Departments)			
70	Electric Plant			
71	Gas Plant			
72	Other			
73	TOTAL Plant Removal (Total of lines 70 thru 72)			
74	Other Accounts (Specify):			
75				
76	Merchandising	3,327		3,327
77				
78	Subsidiaries	12,488	6,000	18,488
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90				
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94				
95	TOTAL Other Accounts	15,815	6,000	21,815
96	TOTAL SALARIES AND WAGES	6,312,735	-0-	6,312,735

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Name of Respondent	This Report Is: - (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19_97
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CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES

1. Report the information specified below for all charges made during the year included in any account (including plant accounts) for outside consultative and other professional services. (These services include rate, management, construction, engineering, research, financial, valuation, legal, accounting, purchasing, advertising, labor relations, and public relations, rendered the respondent under written or oral arrangement, for which aggregate payments were made during the year to any corporation, partnership, organization of any kind, or individual [other than for services as an employee or for payments made for medical and related services] amounting to more than \$25,000, including payments for legislative services, except those which should be reported in Account

426.4 Expenditures for Certain Civic, Political and Related Activities.

- (a) Name and address of person or organization rendering services.
 - (b) description of services received during year and project or case to which services relate,
 - (c) basis of charges,
 - (d) total charges for the year, detailing utility department and account charged.
2. For any services which are of a continuing nature, give the date and term of contract and date of Commission authorization, if contract received Commission approval.
3. Designate with an asterisk associated companies.

1				
2				
3	Arthur Andersen LLP			
4	Louisville, Kentucky			
5				
6	Accounting, Auditing & Income Tax			
7				
8		Total	\$105,000	Total to A/C 923 \$87,600
9				
10				
11				
12				
13	Stoll, Keenon & Park			
14	Lexington, Kentucky			
15				
16	Legal Services			
17				
18		Total	\$149,602	Total to A/C 923 \$57,609
19				
20				
21				
22				
23	Milton Beattie			
24	Somerset, Kentucky			
25				
26	Consultant Various Projects			
27				
28		Total	\$ 25,872	Total to A/C 923 \$25,872
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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NATURAL GAS RESERVES AND LAND ACREAGE

1. Report below particulars (details) concerning the remaining recoverable saleable gas reserves and natural gas land acreage at end of year. Designate gas reserves on acreage acquired before October 8, 1969, and reserves on acreage acquired after October 7, 1969.

2. Classify the gas reserves and related land and land rights and costs under the sub-headings: (A) Producing Gas Lands, and (B) Non-producing Gas Lands. Provide a total for each classification.

3. For producing gas lands, report the required information alphabetically by State, County, or offshore area, and field.

If the field name is not assigned, report as "unnamed." Identify offshore fields according to their location in State or Federal domains by using the letter "S" for State domain, and "F" for Federal domain in column (a). For column (b), enter the zone number if applicable. The land, leasehold, and gas rights costs so reported should agree with the amounts carried under Account 101, *Gas Plant in Service*, and as reported for Accounts 325.1, 325.2, and 325.3 on pages 204-205. In column (e) show for each field the year and remaining recoverable saleable gas reserves available to respondent from owned lands, leaseholds, and gas rights.

Line No.	OFFSHORE AREA		Name of Field or Block (c)	Name of State/ County/Offshore Area (d)	Recoverable Gas Reserves (Thousands Mcf) (e)	OWNED LANDS
	Domain (a)	Zone (b)				Acres (f)
1			A. PRODUCING GAS LANDS			
2						
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4						
5						
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40	TOTAL					

Name of Respondent DELTA NATURAL GAS COMPANY	This Report Is: ~ (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 1997
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NATURAL GAS RESERVES AND LAND ACREAGE (Continued)

4. For non-producing gas lands, report the required information alphabetically by State, County, or offshore area by blocks. Report offshore lands in the same manner as producing gas lands. The land, leasehold, and gas rights costs reported should agree with the amounts carried under Accounts 105, *Gas Plant Held for Future Use*, and 105.1, *Production Properties Held for Future Use*, and reported in total on pages 214 and 215. Do not report estimates of gas reserves (column (e)) for unproven fields; however, if the company made estimates for such lands and normally includes such estimates in stating its reserve position in connection with proposed financing and for managerial and other purposes, include such estimates on this page.

5. Report the cost of lands, leaseholds, and gas rights in accordance with the provisions of the Uniform System of Accounts for Natural Gas Companies.

6. For columns (j) and (k), do not duplicate acreages reported for owned lands and leaseholds. Designate with an asterisk royalty interests separately owned.

7. Indicate by footnote whether acres reported are gross acres or net acres based on proportion of ownership in jointly owned tracts.

8. Do not include oil mineral interests in the cost of acreage reported.

9. Report volumes on a pressure base of 14.73 psia at 60°F.

OWNED LANDS (Cont.)	LEASEHOLDS		OWNED GAS RIGHTS		TOTAL		Line No.
	Cost (g)	Acre (h)	Cost (i)	Acre (j)	Cost (k)	Acre (l)	
							1
							2
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TOTAL							40

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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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CHANGES IN ESTIMATED NATURAL GAS RESERVES

1. Report below changes (made during the year) in estimated recoverable natural gas reserves of the respondent on acreage acquired before October 8, 1969.

2. In explanations of revisions of basic reserve estimates, identify the changes with the production areas, fields, and horizons as shown on pages 500-501, natural gas reserves. State the type of studies by which change in the reserve estimates was determined, and furnish such other pertinent explanations as appropriate.

3. For any important changes in the estimated reserves due to purchases, sales, or exchanges or natural gas lands, leaseholds, or gas rights, furnish below a brief explanation of the transactions and the Mcf of gas reserves involved.

4. The gas reserves and changes therein to be reported in column (d) are those associated with lands, leaseholds, and gas rights included in Account 105, *Gas Plant Held for Future Use*. (See *Gas Plant Accounts Instruction 7G of the U.S. of A.*) Do not report estimates of gas reserves for unproven fields; however, if the company has made estimates for such lands and normally

includes such estimates in stating its reserve position in connection with proposed financing and for managerial and other purposes, include such estimates on this page and on pages 500-501. Indicate in a footnote the inclusion of such reserve estimates.

5. If the respondent submitted estimates of natural gas reserves to the Commission during the year in connection with any proceeding, such as an application for certificate of convenience and necessity, state in a footnote the amount of such reserve estimate, date of submission and docket number of case with respect to which submitted. Explain that the estimates submitted may differ in amount with the reserves shown on this page and state the estimated amount of difference and the reasons for the difference.

6. Submit such additional information as may be appropriate concerning the size and dependability of natural gas reserves associated with lands, leaseholds, and gas rights owned by the respondent for which reserve estimates are not reported on this page or on pages 500-501.

7. Report pressure base of gas volumes at 14.73 psia at 60°F.

Line No.	Item (a)	Total Gas Reserves (Thousands Mcf) (b)	Reserves of Lands, Leaseholds, and Gas Rights in Service (Thousands Mcf) (c)	Reserves of Lands, Leaseholds, and Gas Rights Held for Future Use (Thousands Mcf) (d)
1	Estimated Natural Gas Reserves at Beginning of Year			
2	ADDITIONS			
3	Purchases and Exchanges of Lands, Leaseholds, and Gas Rights			
4	Transfers from Reserves Held for Future Use			
5	Upward Revision of Basic Reserve Estimates (Explain)			
6	Other Increases (Explain in a footnote)			
7	TOTAL Additions (Enter Total of lines 3 thru 6)			
8	DEDUCTIONS			
9	Natural Gas Production During Year			
10	Sales and Exchanges of Lands, Leaseholds, and Gas Rights			
11	Transfer of Reserves Held for Future Use to Reserves in Service			
12	Downward Revision of Estimates of Recoverable Natural Gas Reserves (Explain)			
13	Other Decreases (Explain)			
14	TOTAL Deductions (Enter Total of lines 9 thru 13)			
15	Est. Nat. Gas Reserves at End of Year (Total of lines 1, 7 and 14)			

Notes to Changes in Estimated Natural Gas Reserves

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CHANGES IN ESTIMATED HYDROCARBON RESERVES AND COSTS, AND NET REALIZABLE VALUE

1. Report changes during the year in recoverable saleable reserves of the respondent located on acreage acquired after October 7, 1969. Have the reported reserves attested to every three years by an independent appraiser. File the attestation with the Commission along with this report. If the reserves, at the time the reserve determination is made, significantly differ from those reported on this page, file a reconciliation and explanation of such differences along with the attestation.

2. For any important changes in the estimated reserves due to purchases, sales, or exchanges of lands, leaseholds, or rights, furnish on page 505 a brief explanation of the transactions and

reserves involved. Also, explain the criteria used to estimate the net realizable value of reserves.

3. For column (d), report the reserves and changes associated with lands, leaseholds, and rights included in Account 105.1, *Production Properties Held for Future Use*. (See *Gas Plant Accounts Instruction 7G of the U.S. of A.*)

4. Report pressure base of gas volumes at 14.73 psia at 60°F.

5. For line 16 base the net realizable value of hydrocarbon reserves on the current selling price of the hydrocarbon reserves less estimated costs of extraction, completion, and disposal.

Line No.	Items (a)	Total Reserves Gas (Thousands Mcf) (b)	Lands, Leaseholds and Rights		Total Reserves Oil and Liquids (Barrels) (e)	Investment (Net Book Value) (f)
			In Service Gas (Thousands Mcf) (c)	Held for Future Use Gas (Thousands Mcf) (d)		
1	Estimated Recoverable Reserves at Beginning of Year					
2	ADDITIONS					
3	Purchases and Exchanges of Lands, Leaseholds, and Rights					
4	Transfers from Reserves Held for Future Use					
5	Upward Revision of Basic Reserve Estimates (Explain in a footnote)					
6	Other Increases (Explain in a footnote)					
7	TOTAL Additions (Lines 3 thru 6)					
8	DEDUCTIONS					
9	Production During Year					
10	Sales and Exchanges of Lands, Leaseholds, and Rights					
11	Transfers of Reserves Held for Future Use to Reserves in Service					
12	Downward Revision of Estimates of Recoverable Reserves (Explain in a footnote)					
13	Other Decreases (Explain in a footnote)					
14	TOTAL Deductions (Lines 9 thru 13)					
15	Estimates Recoverable Reserves at End of Year (Enter Total of lines 1, 7, and 14)					

16 Net Realizable Value at End of Reporting Year (Explain on page 505): \$

NOTES

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HYDROCARBON RESERVES AND COSTS, AND NET REALIZABLE VALUE (Continued)

Explain below items for which explanations are required on page 504, Changes in Estimated Hydrocarbon Reserves and Costs, and Net Realizable Value. For line 16 on page 504, explain the criteria used to estimate such value and provide an explanation of any significant revision in the value of the reserves, other than from the addition of new reserves.

[Empty area for explanation]

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NATURAL GAS PRODUCTION AND GATHERING STATISTICS

- The items of plant costs and expenses, lines 1 to 25, represent combinations of accounts prescribed in the Uniform System of Accounts.
- Plant costs, line 2 to 13 of column (b), should agree with the Gas Production and Gathering Plant entry reported on page 204, Gas Plant in service.
- Expenses, lines 15 to 26 in column (b) should agree with the total Gas Production and Gathering expenses reported on page 320.
- Report the pressure base at 14.73 psia at 60°F.
- In column (c) show costs and expenses relating to leases acquired on or before October 7, 1969.
- In column (d) show costs and expenses relating to leases acquired on or after October 8, 1969.
- In column (e) show cost and expense relating to the gathering system.

Line No.	Item (a)	Total (c, d and e) (b)	Total Cost and Expense		
			Old (c)	New (d)	Gathering (e)
1	Production and Gathering Plant				
2	Natural Gas Producing Land, Leaseholds and Gas Rights				
3	Rights-of-Way				
4	Other Land and Land Rights				
5	Gas Wells				
6	Field Lines				
7	Field Compressor Stations				
8	Field Measuring and Regulating Stations				
9	Drilling and Cleaning Equipment				
10	Purification Plant				
11	Other Plant and Equipment				
12	Unsuccessful Exploration & Development Costs				
13	TOTAL Production and Gathering Plant (Enter Total of lines 2 thru 12)				
14	Production and Gathering Expenses (Except Depreciation, Depletion and Taxes)				
15	Supervision and Engineering				
16	Production Maps and Records				
17	Gas Well Expenses				
18	Field Line Expenses				
19	Field Compressor Station Expenses				
20	Field Measuring & Regulating Station Expenses				
21	Purification Expenses				
22	Mtce. of Drilling and Cleaning Equipment				
23	Gas Well Royalties				
24	Other Expenses				
25	Rents (Other Than Delay Rentals)				
26	TOTAL Operation & Maintenance Expenses, (Enter Total of lines 15 thru 25)				
27	Amortization and Depletion Expenses				
28	Depreciation Expenses				
29	Taxes (Other Than Income)				
30	TOTAL (Enter Total of lines 27 thru 29)				
31	Gas Produced (in Mcf)				

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PRODUCTS EXTRACTION OPERATIONS — NATURAL GAS			

1. Report below particulars (details) of operations by the respondent for recovery of gasoline, butane, propane, etc., from natural gas.

2. If the respondent received any gas from others for extraction of products, attach a supplemental statement giving particulars (details) of such transactions. State (a) name of company from which such gas was received, (b) name of station in which the gas was processed, (c) Mcf (14.73 psia at 60°F) of gas received, (d) amount paid for the privilege of extracting products,

and (e) account to which amount was charged. Minor quantities of gas received for processing may be reported in total for each extraction plant. Designate with an asterisk associated companies.

3. Report expenses relating to operation and maintenance of products extraction facilities, excluding those expenses not so related, such as royalties, marketing expenses, products purchased for sale, inventory variations, credits for products used, and including rents and maintenance related to extraction plant facilities.

Line No.	Item (a)	Total/Item (In Dollars) (b)
1	COST OF PLANT	
2	Land and Land Rights	
3	Structures	
4	Equipment	
5	TOTAL Plant (Enter Total of lines 2 thru 4)	
6	EXPENSES	
7	Supervision and Labor	
8	Gas Shrinkage	
9	Fuel	
10	Power	
11	Other	
12	Maintenance	
13	Rents	
14	TOTAL Expenses (Enter Total of lines 7 thru 13)	
15	For-Line 9, Do Fuel Costs Include Gas Used from Company's Own Supply?	<input type="checkbox"/> Yes <input type="checkbox"/> No
16	OPERATING AND STATISTICAL DATA	
17	Products Extracted	
18	Gasoline (Gallons)	
19	Butane (Gallons)	
20	Propane (Gallons)	
21	Other	
22	Gasoline in Storage at End of Year (Gallons)	
23	Gas Processed Data	
24	Respondent's Gas Processed, Inputs (Mcf)	
25	Gas of Others Processed (Mcf)	
26	Shrinkage of Gas Processed (Mcf)	
27	Gas Used for Fuel (Mcf)	
28	Pressure Base of Measuring Mcf if Different from 14.73 psia at 60°F	
29	Type of Extraction Process	
30	Capacities	
31	Gas Treating Capacity (Mcf Per Day)	
32	Gasoline Output Capacity (Gallons Per Day)	
33	Gasoline Storage Capacity (Gallons)	
34	Statistics	
35	Average Mcf Per Gallon of Gasoline	
36	Plant Investment Per Mcf Daily Treating Capacity	
37	Expenses Per Gallon of Product Recovered	
38	Extracted Products Used by Respondent (Specify in a footnote product, quantity, and use)	

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COMPRESSOR STATIONS

1. Report below particulars (details) concerning compressor stations. Use the following subheadings: field compressor stations, products extraction compressor stations, underground storage compressor stations, transmission compressor stations, distribution compressor stations, and other compressor stations.

2. For column (a), indicate the production areas where such stations are used. Relatively small field compressor stations may be grouped by production areas. Show the number of stations grouped. Designate any station held under a title other than full ownership. State in a footnote the name of owner or co-owner, the nature of respondent's title, and percent of ownership.

Line No.	Name of Station and Location (a)	Number of Employees (b)	Plant Cost (c)
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COMPRESSOR STATIONS (Continued)

if jointly owned. Designate any station that was not operated during the past year. State in a footnote whether the book cost of such station has been retired in the books of account, or what disposition of the station and its book cost are contemplated. Designate any compressor units in transmission compressor stations installed and put into operation during the year and show in a footnote the size

of each such unit, and the date each such unit was placed in operation.

3. For column (d), include the type of fuel or power, if other than natural gas. If two types of fuel or power are used, show separate entries for natural gas and the other fuel or power.

Expenses (Except depreciation and taxes)		Gas for Compressor Fuel Mcf (14.73 psia at 60°F)	Operation Data			Line No.
Fuel or Power (d)	Other (e)		Total Compressor Hours of Operation During Year (g)	No of Compr. Operated at Time of Station Peak (h)	Date of Station Peak (i)	
						1
						2
						3
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GAS AND OIL WELLS

1. Report below the particulars (details) concerning gas and oil wells of the respondent which are either producing or capable of production.

2. Report the required information alphabetically by states. List wells located offshore separately.

3. For column (a), under separate headings, list gas wells first, oil wells second, and combination wells third. Combination wells are wells producing or capable of production from one or more oil reservoirs and also from one or more gas reservoirs. Enter totals for each of the head-

ings (gas wells, oil wells, combination wells). Designate any wells not operated during the past year, and in a footnote state whether the book cost of such wells, or any portion thereof, has been retired in the books of account, or what disposition of the wells and their book cost is contemplated.

4. In column (f), report wells reclassified during the year as oil wells, gas wells, or combination wells. Show additions in black and deductions enclosed in parentheses. The total additions equal the total deductions.

Line No.	Location of Wells (a)	Number of Wells Beginning of Year (b)	ADDITIONS DURING YEAR			Wells Reclassified (f)	REDUCTIONS DURING YEAR			Number of Wells at End of Year (j)
			Successful Wells Drilled (c)	Wells Purchased (d)	Total (c + d) (e)		Wells Abandoned (g)	Wells Sold (h)	Total (g + h) (i)	
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FIELD AND STORAGE LINES

1. Report below the total miles of pipe composing gathering systems and those of underground gas storage projects operated by the respondent during the year.

2. Provide separate subheadings and totals for gathering system field lines and underground storage lines.

3. Report information on gathering system field lines by State.

4. If any field lines or storage lines were not operated during the past year, provide particulars (details) of such lines in a footnote. State whether the book cost of such lines or any portion thereof, has been retired in the books of account, or what disposition of the lines and their book cost is contemplated.

5. Report miles of pipe to the nearest tenth of a mile.

Line No.	Designation (Identification) of Gathering System and Production Area or Storage Area (a)	Total Miles of Pipe (b)
1		
2		
3		
4		
5		
6		
7		
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GAS STORAGE PROJECTS

1. Report particulars (details) for total gas storage projects.
2. Total storage plant (column b) should agree with amounts reported by the respondent in Acct's 350.1 to 364.8 inclusive (pages 206-207).

3. Give particulars (details) of any gas stored for the benefit of another company under a gas exchange arrangement or on basis of purchase and resale to other company. Designate with an asterisk if other company is an associated company.

Line No.	Item (a)	Total Amount (b)
1	Natural Gas Storage Plant	
2	Land and Land Rights	130,172
3	Structures and Improvements	56,072
4	Storage Wells and Holders	3,004,994
5	Storage Lines	780,093
6	Other Storage Equipment	1,529,575
7	TOTAL (Enter Total of Lines 2 Thru 6)	5,500,906
8	Storage Expenses	
9	Operation	112,106
10	Maintenance	7,104
11	Rents	
12	TOTAL (Enter Total of Lines 9 Thru 11)	119,210
13	Storage Operations (In Mcf)	
14	Gas Delivered to Storage	
15	January	
16	February	
17	March	
18	April	
19	May	4,384
20	June	24,514
21	July	186,409
22	August	176,226
23	September	164,141
24	October	153,801
25	November	
26	December	
27	TOTAL (Enter Total of Lines 15 Thru 26)	709,475
28	Gas Withdrawn from Storage	
29	January	15,478
30	February	6,746
31	March	5,153
32	April	13,874
33	May	6,094
34	June	
35	July	6,827
36	August	
37	September	
38	October	12,007
39	November	102,542
40	December	248,642
41	TOTAL (Enter Total of Lines 29 Thru 40)	417,363

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GAS STORAGE PROJECTS (Continued)				
Line No.	Item (a)	Total Amount (b)		
	Storage Operations (In Mcf)			
42	Top or Working Gas End of Year			
43	Cushion Gas (Including Native Gas)			
44	Total Gas in Reservoir (Enter Total of Line 42 and Line 43)			
45	Certificated Storage Capacity			
46	Number of Injection — Withdrawal Wells			
47	Number of Observation Wells			
48	Maximum Day's Withdrawal from Storage			
49	Date of Maximum Days' Withdrawal			
50	LNG Terminal Companies (In Mcf)			
51	Number of Tanks			
52	Capacity of Tanks			
53	LNG Volumes			
54	a) Received at "Ship Rail"			
55	b) Transferred to Tanks			
56	c) Withdrawn from Tanks			
57	d) "Boil Off" Vaporization Loss			
58	e) Converted to Mcf at Tailgate of Terminal			

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TRANSMISSION LINES

Report below by States the total miles of transmission lines of each transmission system operated by respondent at end of year.

2. Report separately any lines held under a title other than full ownership. Designate such lines with an asterisk and in a footnote state the name of owner, or co-owner, nature of respondent's title, and percent ownership if jointly owned.

3. Report separately any line that was not operated during the past year. Enter in a footnote the particulars (details) and state whether the book cost of such a line, or any portion thereof, has been retired in the books of account, or what disposition of the line and its book cost are contemplated.

4. Report the number of miles of pipe to one decimal point.

Line No.	Designation (Identification) of Line or Group of Lines (a)	Total Miles of Pipe (to 0.1) (b)
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LIQUEFIED PETROLEUM GAS OPERATIONS

1. Report the information called for below concerning plants which produce gas from liquefied petroleum gas (LPG).
2. For column (a), give city and State or such other designation necessary to locate plant on a map of the respondent's system.
3. For columns (b) and (c), the plant cost and operation and

maintenance expenses of any liquefied petroleum gas installation which is only an adjunct of a manufactured gas plant, must include or exclude (as appropriate) the plant cost and expense of any plant used jointly with the manufactured gas facilities on the basis of predominant use. Indicate in a footnote how the plant cost and expenses for the liquefied petroleum plant described above are reported.

Line No.	Location of Plant and Year Installed (City, state, etc.) (a)	Cost of Plant (Land struct. equip.) (b)	Expenses	
			Oper. Maintenance, Rents, etc. (c)	Cost of LPG Used (d)
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LIQUEFIED PETROLEUM GAS OPERATIONS (Continued)

Designate any plant held under a title other than full ownership and in a footnote state name of owner or co-owner, nature of respondent's title, and percent ownership if jointly owned.
 4. For column (g) report the Mcf that is mixed with natural gas or which is substituted for deliveries normally made from natural gas. Natural gas means either natural gas unmixed or any mixture of natural and manufactured gas or mixture of natural gas and gasified LPG.

5. If any plant was not operated during the past year, give particulars (details) in a footnote, and state whether the book cost of such plant, or any portion thereof, has been retired in the books of account, or what disposition of the plant and its book cost is contemplated.
 6. Report pressure base of gas at 14.73 psia at 60 °F. Indicate the Btu content in a footnote.

Gallons of LPG Used (e)	Gas Produced		LPG Storage Cap. Gallons (h)	Function of Plant (Base load, peaking, etc.) (i)	Line No.
	Amount of Mcf (f)	Amount of Mcf Mixed with Natural Gas (g)			
					1
					2
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TRANSMISSION SYSTEM PEAK DELIVERIES

1. Report below the total transmission system deliveries of gas, excluding deliveries to storage, for the periods of system peak deliveries indicated below, during the twelve months embracing the heating season overlapping the year's end for which this report is submitted, classified as to sales

subject to FERC rate schedules and other sales. The season's peak normally will be reached before the due date of this report, April 30, which permits inclusion of the peak information required on this page.

2. Report Mcf on a pressure base of 14.73 psia at 60°F.

Line No.	Item (a)	Month/Day/ Year (b)	Amount of Mcf (c)	Curtailements on Month/Day Indicated (d)
Section A. Three Highest Days of System Peak Deliveries				
1	Date of <i>Highest Day's Deliveries</i>			
2	Deliveries to Customers Subject to FERC Rate Schedules			
3	Deliveries to Others			
4	TOTAL			
5	Date of <i>Second Highest Day's Deliveries</i>			
6	Deliveries to Customers Subject to FERC Rate Schedules			
7	Deliveries to Others			
8	TOTAL			
9	Date of <i>Third Highest Day's Deliveries</i>			
10	Deliveries to Customers Subject to FERC Rate Schedules			
11	Deliveries to Others			
12	TOTAL			
Section B. Highest Consecutive 3-Day System Peak Deliveries (and Supplies)				
13	Date of <i>Three Consecutive Days' Highest System Peak Deliveries</i>			
14	Deliveries to Customers Subject to FERC Rate Schedules			
15	Deliveries to Others			
16	TOTAL			
17	Supplies from Line Pack			
18	Supplies from Underground Storage			
19	Supplies from Other Peaking Facilities			
Section C. Highest Month's System Deliveries				
20	Month of <i>Highest Month's System Deliveries</i>			
21	Deliveries to Customers Subject to FERC Rate Schedules			
22	Deliveries to Others			
23	TOTAL			

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19_97
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AUXILIARY PEAKING FACILITIES

1. Report below auxiliary facilities of the respondent for meeting seasonal peak demands on the respondent's system, such as underground storage projects, liquefied petroleum gas installations, gas liquefaction plants, oil gas sets, etc.

2. For column (c), for underground storage projects, report the delivery capacity on February 1 of the heating season overlapping the year-end for which this report is sub-

mitted. For other facilities, report the rated maximum daily delivery capacities.

3. For column (d), include or exclude (as appropriate) the cost of any plant used jointly with another facility on the basis of predominant use, unless the auxiliary peaking facility is a separate plant as contemplated by general instruction 12 of the Uniform System of Accounts.

	Location of Facility (a)	Type of Facility (b)	Maximum Daily Delivery Capacity of Facility, Mcf at 14.73 psia at 60° (c)	Cost of Facility (In dollars) (d)	Was Facility Operated on Day of Highest Transmission Peak Delivery?	
					Yes (e)	No (f)
1						
2						
3						
4						
5						
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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-93	Year of Report Dec. 31, 19 <u>97</u>
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GAS ACCOUNT — NATURAL GAS

1. The purpose of this page is to account for the quantity of natural gas received and delivered by the respondent, taking into consideration differences in pressure bases used in measuring Mcf of natural gas received and delivered.

2. Natural gas means either natural gas unmixed or any mixture of natural and manufactured gas.

3. Enter in column (c) the Mcf as reported in the schedules indicated for the items of receipts and deliveries.

4. In a footnote report the volumes of gas from respondent's own production delivered to respondent's transmission system and included in natural gas sale.

5. If the respondent operates two or more systems which are not interconnected, submit separate pages for this purpose. Use copies of pages 520 and 521.

6. Also indicate by footnote the volumes of gas not subject to Commission regulation which did not incur FERC regulatory costs by showing (1) the local distribution volumes delivered to the local distribution-company portion of the reporting pipeline by another jurisdictional pipeline; (2) the volumes which the reporting pipeline transported or sold

through its local distribution facilities or intrastate facilities, and which the reporting pipeline received through gathering facilities, distribution facilities or intrastate facilities, but not through any of the interstate portion of the reporting pipeline and, (3) the gathering line volumes which were not destined for interstate market or which were not transported through any interstate portion of the reporting pipeline.

7. Also indicate by footnote (1) the system supply volumes of gas which are stored by the reporting pipeline during the reporting year and also reported as sales, transportation and compression volumes by the reporting pipeline during the same reporting year, (2) the system supply volumes of gas which are stored by the reporting pipeline during the reporting year and which the reporting pipeline intends to sell or transport in a future reporting year, and (3) contract storage volumes.

8. Also indicate the volumes of pipeline production field sales which are included in both the company's total sales figure and the company's total transportation figure (lines 42 and 46 of page 521).

01 NAME OF SYSTEM

Line No.	Item (a)	Ref. Page No. (b)	Amount of Mcf (14.73 psia at 60°F) (c)
2	GAS RECEIVED		
3	Natural Gas Produced	506	
4	LPG Gas Produced and Mixed with Natural Gas	515	
5	Manufactured Gas Produced and Mixed with Natural Gas		
6	Purchased Gas		
7	Wellhead	327	
8	Field Lines	327	
9	Gasoline Plants	327	
10	Transmission Line	327	(A) 5,482,674
11	City Gate Under FERC Rate Schedules	327	
12	LNG	327	
13	Other	327	
14	TOTAL, Gas Purchased (Enter Total of lines 7 thru 13)	327	5,482,674
15	Gas of Others Received for Transportation	313	4,671,407
16	Receipts of Respondents' Gas Transported or Compressed by Others	333	
17	Exchange Gas Received	328	
18	Gas Withdrawn from Underground Storage	512	417,363
19	Gas Received from LNG Storage		
20	Gas Received from LNG Processing		
21	Other Receipts (Specify)		
22	TOTAL Receipts (Enter Total of lines 3 thru 5, 14, and 15 thru 21)		10,571,444

(A) This amount is the calendar year purchases. The amount on page 327 is the billed year in accordance with the Gas Cost Recovery Clause.

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 1997
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GAS ACCOUNT — NATURAL GAS (Continued)

01 NAME OF SYSTEM			
Line No.	Item (a)	Ref. Page No. (b)	Amount of Mcf (14.73 psia at 60°F) (c)
23	GAS DELIVERED		
24	Natural Gas Sales		
25	Field Sales		
26	To Interstate Pipeline Companies for Resale Pursuant to FERC Rate Schedules	310	
27	Retail Industrial Sales	309	
28	Other Field Sales	310	
29	TOTAL, Field Sales (Enter Total of lines 26 thru 28)		
30	Transmission Systems Sales		
31	To Interstate Pipeline Co. for Resale Under FERC Rate Sched.	310	
32	To Intrastate Pipeline Co. and Gas Utilities for Resale Under FERC Rate Schedules	310	
33	Mainline Industrial Sales Under FERC Certification	307	
34	Other Mainline Industrial Sales	307	
35	Other Transmission System Sales	310	
36	TOTAL, Transmission System Sales (Enter Total of lines 31 thru 35)		
37	Local Distribution by Respondent		
38	Retail Industrial Sales	303	289,138
39	Other Distribution System Sales	303	4,119,027
40	TOTAL, Distribution System Sales (Lines 38 + 39)		4,408,165
41	Interdepartmental Sales		
42	TOTAL SALES (Enter Total of lines 29, 36, 40 and 41)		4,408,165
43	Deliveries of Gas Transported or Compressed for:		
44	Other Interstate Pipeline Companies	313	
45	Others	313	4,666,252
46	TOTAL, Gas Transported or Compressed for Others (Enter Total of lines 44 and 45)	313	4,666,252
47	Deliveries of Respondent's Gas for Trans. or Compression by Others	333	
48	Exchange Gas Delivered	328	
49	Natural Gas Used by Respondent		122,102
50	Natural Gas Delivered to Underground Storage	512	292,112
51	Natural Gas Delivered to LNG Storage	512	
52	Natural Gas Delivered to LNG Processing Cushion Gas		307,485
53	Natural Gas for Franchise Requirements		
54	Other Deliveries (Specify): Net Unbilled		276,665
55	TOTAL SALES & OTHER DELIVERIES (Lines 42, 46, 47 thru 54)		10,072,781
56	UNACCOUNTED FOR		
57	Production System Losses		
58	Storage Losses		
59	Transmission System Losses		
60	Distribution System Losses		
61	Other Losses (Specify in so far as possible)		
62	TOTAL Unaccounted for (Enter Total of lines 57 thru 61)		498,663
63	TOTAL SALES, OTHER DELIVERIES, AND UNACCOUNTED FOR (Enter Total of lines 55 and 62)		10,571,444

Name of Respondent

DELTA NATURAL GAS COMPANY, INC.

This Report Is:

(1) An Original

(2) A Resubmission

Date of Report
(Mo, Da, Yr)

3-31-98

Year of Report

Dec. 31, 1997

SYSTEM MAPS

1. Furnish 5 copies of a system map (one with each filed copy of this report) of the facilities operated by the respondent for the production, gathering, transportation, and sale of natural gas. New maps need not be furnished if no important change has occurred in the facilities operated by the respondent since the date of the maps furnished with a previous year's annual report. If, however, maps are not furnished for this reason, reference should be made in the space below to the year's annual report with which the maps were furnished.

2. Indicate the following information on the maps:

- (a) Transmission lines—colored in red, if they are not otherwise clearly indicated.
- (b) Principal pipeline arteries of gathering systems.
- (c) Sizes of pipe in principal pipelines shown on map.
- (d) Normal directions of gas flow—indicated by arrows.
- (e) Location of natural gas fields or pools in which the respondent produces or purchases natural gas.

(f) Locations of compressor stations, products extraction plants, stabilization plants, important purification plants, underground storage areas, recycling areas, etc.

(g) Important main line interconnections with other natural gas companies, indicating in each case whether gas is received or delivered and name of connecting company.

(h) Principal communities in which respondent renders local distribution service.

3. In addition, show on each map: graphic scale to which map is drawn; date as of which the map represents the facts it purports to show; a legend giving all symbols and abbreviations used; designations of facilities leased to or from another company, giving name of such other company.

4. Maps not larger than 24 inches square are desired. If necessary, however, submit larger maps to show essential information. Fold the maps to a size not larger than this report. Bind the maps to the report.

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-98	Year of Report Dec. 31, 19 <u>97</u>
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FOOTNOTE DATA

Page No. (a)	Line No. (b)	Column No. (c)	Comments (d)

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PUBLIC SERVICE COMMISSION OF KENTUCKY
 REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
 BUSINESS FOR THE YEAR ENDING DECEMBER 31, 1997

DELTA NATURAL GAS COMPANY, INC. WINCHESTER, KY 40391
 (Utility Reporting) (Address)

(DO NOT INCLUDE TAXES COLLECTED)

- (1) Gross Revenues of Electric Utility.....\$ _____
 - (2) Gross Revenues of Gas Utility.....\$ 39,185,262
 - (3) Gross Revenues of Radio-Telephone Utility.....\$ _____
 - (4) Gross Revenues of Cellular Telephone Utility...\$ _____
 - (5) Gross Revenues of Telephone Utility.....\$ _____
 - (6) Gross Revenues of Water Utility.....\$ _____
 - (7) Gross Revenues of Sewer Utility.....\$ _____
 - (8) Other Operating Revenues.....\$ _____
- *** TOTAL GROSS REVENUES.....\$ 39,185,262

O A T H

State of... KENTUCKY.....)
) ss.
 County of... CLARK.....)

JOHN F. HALL being duly sworn, states that he/she
 (Officer)
 is V.P.-FINANCE, SEC. & TREAS. of the DELTA NATURAL GAS COMPANY, INC.
 (Official Title) (Utility Reporting)

that the above report of gross revenues is in exact accordance with the books of accounts of:

DELTA NATURAL GAS COMPANY, INC., and that such books
 (Utility Reporting)
 accurately show the gross revenues of:

DELTA NATURAL GAS COMPANY, INC., derived from Intra-Kentucky
 (Utility Reporting)

business for the year ending DECEMBER 31, 1997

John F. Hall V.P.- FINANCE, SEC. & TREAS.
 (Officer) (Title)

This the 26th day of March, 1998

Emily P. Bennett Clark
 (Notary Public) (County)

My Commission expires March 8, 2000

**NOTE: ANY DIFFERENCE BETWEEN THE AMOUNT OF THE GROSS REVENUES SHOWN
 IN THE ANNUAL REPORT AND THE AMOUNT APPEARING ON THIS STATEMENT
 MUST BE RECONCILED ON THE REVERSE SIDE OF THIS REPORT**

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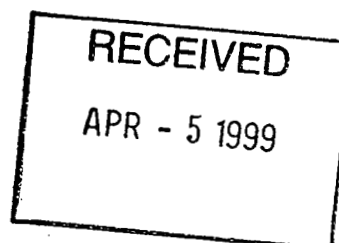
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Commonwealth of Kentucky
PUBLIC SERVICE COMMISSION
730 Schenkel Lane
Post Office Box 615
Frankfort, Kentucky 40602

APRIL 1, 1999



JOHN F. HALL
DELTA NATURAL GAS COMPANY, INC.
3617 LEXINGTON ROAD
WINCHESTER, KY. 40391

Dear MR. HALL:

In reviewing the annual report of DELTA NATURAL GAS COMPANY, INC., for the year ending December 31, 1998, we need additional information ON THE REPORT THAT FERC FORM NO.2 DOESN'T COVER. IF YOU WOULD PLEASE FURNISH THE INFORMATION ON THE PAGES ENCLOSED I WOULD APPRECIATE IT. PLEASE RETURN AS SOON AS POSSIBLE.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Collins".

Nancy Collins
Annual Report Branch

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec. 31, 19 <u>98</u>
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GAS OPERATING REVENUES (ACCOUNT 400)

1. Report below natural gas operating revenues for each prescribed account, and manufactured gas revenues in total.
2. Natural gas means either natural gas unmixed or any mixture of natural and manufactured gas.
3. Report number of customers, columns (f) and (g), on the basis of meters, in addition to the number of flat rate accounts; except that where separate meter readings are added for billing purposes, one customer should be counted

for each group of meters added. The average number of customers means the average of twelve figures at the close of each month.

4. Report quantities of natural gas sold in Mcf (14.73 psia at 60°F). If billings are on a therm basis, give the Btu contents of the gas sold and the sales converted to Mcf.

5. If increases or decreases from previous year (columns (c), (e) and (g)), are not derived from previously

Line No.	Title of Account (a)	OPERATING REVENUES	
		Amount for Year (b)	Amount for Previous Year (c)
1	GAS SERVICE REVENUES		
2	480 Residential Sales	18,296,074	20,525,942
3	481 Commercial & Industrial Sales		
4	Small (or Comm.) (See Instr. 6)	10,763,817	12,349,399
5	Large (or Ind.) (See Instr. 6)	1,280,502	2,075,931
6	482 Other Sales to Public Authorities		
7	484 Interdepartmental Sales		
8	TOTAL Sales to Ultimate Consumers	30,340,393	34,951,272
9	483 Sales for Resale		
10	TOTAL Nat. Gas Service Revenues	30,340,393	34,951,272
11	Revenues from Manufactured Gas		
12	TOTAL Gas Service Revenues	30,340,393	34,951,272
13	OTHER OPERATING REVENUES		
14	485 Intracompany Transfers		
15	487 Forfeited Discounts		
16	488 Misc. Service Revenues	152,009	110,376
17	489 Rev. from Trans. of Gas of Others	4,365,340	4,123,614
18	490 Sales of Prod. Ext. from Nat. Gas		
19	491 Rev. from Nat. Gas Proc. by Others		
20	492 Incidental Gasoline and Oil Sales		
21	493 Rent from Gas Property		
22	494 Interdepartmental Rents		
23	495 Other Gas Revenues		
24	TOTAL Other Operating Revenues	4,517,349	4,233,990
25	TOTAL Gas Operating Revenues	34,857,742	39,185,262
26	(Less) 496 Provision for Rate Refunds		
27	TOTAL Gas Operating Revenues Net of Provision for Refunds	34,857,742	
28	Dist. Type Sales by States (Incl. Main Line Sales to Resid. and Comm. Custrs.)	29,059,891	
29	Main Line Industrial Sales (Incl. Main Line Sales to Pub. Authorities)	1,280,502	
30	Sales for Resale		
31	Other Sales to Pub. Auth. (Local Dist. Only)		
32	Interdepartmental Sales		
33	TOTAL (Same as Line 10, Columns (b) and (d))	30,340,393	

Name of Respondent Delta Natural Gas Co., Inc.	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Rep. Dec. 31, 1998
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RESIDENTIAL AND COMMERCIAL SPACE HEATING CUSTOMERS

A residential space heating customer is a customer whose major fuel for heating is gas.

Line No.	Item (a)	Residential (b)	Commercial (c)
1	Average Number of Space Heating Customers for the Year (Estimate if not known. Designate with an asterisk if estimated.)	N/A	N/A
2	For Space Heating Only, Estimated Average Mcf (14.73 psia at 60°F) Per Customer for the Year	N/A	N/A
3	Number of Space Heating Customers Added During the Year	N/A	N/A
4	Number of Unfilled Applications for Space Heating at End of Year	N/A	N/A

INTERRUPTIBLE, OFF PEAK, AND FIRM SALES TO DISTRIBUTION SYSTEM INDUSTRIAL CUSTOMERS

1. Report below the average number of interruptible, off peak, and firm industrial customers on local distribution systems of the respondent, and the Mcf of gas sales to these customers for the year.

2. Interruptible customers are those to whom service may be interrupted under terms of the customer's gas contract, or to whom service is required to be interrupted, regardless of contractual arrangements in emergency periods, by law,

ordinance, directive, or other requirement of government authority. State in a footnote the basis on which interruptible customers are reported.

3. Off peak sales are seasonal and other sales which do not occur during wintertime demands.

4. Report pressure base of gas volumes at 14.73 psia at 60°F.

Line No.	Item (a)	Number/Amount (b)
1	Interruptible Customers	
2	Average Number of Customers for the Year	06
3	Mcf of Gas Sales for the Year	37,500
4	Off Peak Customers	
5	Average Number of Customers for the Year	
6	Mcf of Gas Sales for the Year	
7	Firm Customers	
8	Average Number of Customers for the Year	62
9	Mcf of Gas Sales for the Year	147,200
10	TOTAL Industrial Customers	
11	Average Number of Customers for the Year	68
12	Mcf of Gas Sales for the Year	184,700

Name of Respondent Delta Natural Gas Co., Inc.	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec. 31, 1998
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SALES FOR RESALE NATURAL GAS (Account 483)

1. Report particulars (details) concerning sales of natural gas during the year to other gas utilities and to pipeline companies for resale. Sales to each customer should be subdivided by service classifications, identified in column (c) where applicable, by rate schedule designation contained in the company's tariff.

2. Natural gas means either natural gas unmixed, or any mixture of natural and manufactured gas.

3. In either column a or b, provide separate subheadings and totals for each State in addition to a grand total for all sales to other gas utilities.

4. Enter in column b, point of delivery, the name of city or town and State, and such other designation necessary to enable identification on maps of respondent's pipeline system.

5. Designate with an asterisk and footnote any sales which are other than firm sales, i.e., sales for storage, etc.

6. Monthly billing demands, as used in column (g), are the number of Mcf in the respective months actually used in computing the demand portion of the customer's bills; such quantity of Mcf is multiplied by the demand portion of the tariff rate. Report in column (g) the sum of the monthly billing demands for the number of months the customer received service or was subject to demand changes.

7. Where consolidated bills for more than one point of delivery are rendered under a FERC rate schedule, indicate the several points of delivery in column (b) and report the remainder of the columns on a consolidated basis corresponding to the billing. Where, however, consolidated bills for more than one point of delivery are not rendered under a

Line No.	Name of Other Gas Utility (Designate associated companies with an asterisk) (a)	Point of Delivery (City, Town or State) (b)	FERC Tariff Rate Schedule Designation (c)	Mcf of Gas Sold (Approx. Btu per Cu. Ft.) (d)	Revenue for Year (See Instr. 5) (e)
1	NONE				
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
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19					
20					
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37					
38					
39					

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec. 31, 19 <u>98</u>
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SALES FOR RESALE-NATURAL GAS (Account 483) (Continued)

FERC rate schedule, the required information (columns) shall be furnished for each point of delivery.

8. Designate in a footnote if Btu per cubic foot of gas is different for any delivery point from that shown in the heading of column d.

9. For each firm sale of \$25,000 or more for the year at each point of delivery, shown in column (i) peak day volume of gas, at pressure base indicated in column (d), and in column (h) show the date of such peak delivery. If an estimate is used for any peak day delivery, state the basis for such estimate. If deliveries are made to one customer at more than one delivery point, show the peak day delivery and date thereof for each delivery point if billing is on a non-conjunctive basis, and show the total for

each such customer if billing is on a conjunctive basis.

10. Summarize total sales as follows: A. Field sales subdivided by deliveries to (i) interstate pipeline companies and (ii) others; B. Transmission system sales divided by deliveries to (i) interstate pipeline companies, (ii) intrastate pipeline companies and gas utilities for resale under FERC rate schedules, and (iii) others. "Field sales" means sales made from wells, from points along gathering lines in gas field or production areas or from points along transmission lines within fields or production areas. "Transmission sales" means sales made from points along transmission lines not within gas fields or production areas.

11. Enter Mcf at 14.73 psia at 60 °F.

Average Revenue per Mcf (In cents) (f)	Sum of Monthly Billing Demands Mcf (g)	Peak Day Delivery to Customers			Line No.
		Date (h)	Mcf		
			Noncoincidental (i)	Coincidental (j)	
	NONE				1
					2
					3
					4
					5
					6
					7
					8
					9
					10
					11
					12
					13
					14
					15
					16
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					37
					38
					39

Name of Respondent Delta Natural Gas Company, Inc	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec. 31, 1998
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No.	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
238	6. CUSTOMER SERVICE AND INFORMATIONAL EXPENSES		
239	Operation		
240	907 Supervision		
241	908 Customer Assistance Expenses		
242	909 Informational and Instructional Expenses		
243	910 Miscellaneous Customer Service and Informational Expenses		
244	TOTAL Customer Service and Information Expenses (Lines 240 thru 243)		
245	7. SALES EXPENSES		
246	Operation		
247	911 Supervision		
248	912 Demonstrating and Selling Expenses		
249	913 Advertising Expenses		
250	916 Miscellaneous Sales Expenses		
251	TOTAL Sales Expenses (Enter Total of lines 247 thru 250)		
252	8. ADMINISTRATIVE AND GENERAL EXPENSES		
253	Operation		
254	920 Administrative and General Salaries		
255	921 Office Supplies and Expenses		
256	(Less) (922) Administrative Expenses Transferred—Cr.		
257	923 Outside Services Employed		
258	924 Property Insurance		
259	925 Injuries and Damages		
260	926 Employee Pensions and Benefits		
261	927 Franchise Requirements		
262	928 Regulatory Commission Expenses		
263	(Less) (929) Duplicate Charges—Cr.		
264	930.1 General Advertising Expenses		
265	930.2 Miscellaneous General Expenses		
266	931 Rents		
267	TOTAL Operation (Enter Total of lines 254 thru 266)		
268	Maintenance		
269	935 Maintenance of General Plant		
270	TOTAL Administrative and General Exp (Total of lines 267 and 269)		
271	TOTAL Gas O. and M. Exp (Lines 97, 177, 201, 229, 237, 244, 251, and 270)		

NUMBER OF GAS DEPARTMENT EMPLOYEES

1. The data on number of employees should be reported for the payroll period ending nearest to October 31, or any payroll period ending 60 days before or after October 31.

2. If the respondent's payroll for the reporting period includes any special construction personnel, include such employees on line 3, and show the number of such special

construction employees in a footnote.

3. The number of employees assignable to the gas department from joint functions of combination utilities may be determined by estimate, on the basis of employee equivalents. Show the estimated number of equivalent employees attributed to the gas department from joint functions.

1. Payroll Period Ended (Date)	12/31/98
2. Total Regular Full-Time Employees	182
3. Total Part-Time and Temporary Employees	4
4. Total Employees	186

SEE ORIGINAL FILING PAGE 325 LINES 238-271

Name of Respondent Delta Natural Gas Co., Inc.	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec. 31, 1998
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GAS PURCHASES (Accounts 800, 800.1, 801, 802, 803, 804, 804.1, 805, 805.1)

1. Provide totals for the following accounts:
- 800 Natural Gas Well Head Purchases
 - 800.1 Natural Gas Well Head Purchases, Intracompany Transfers
 - 801 Natural Gas Field Line Purchases
 - 802 Natural Gas Gasoline Plant Outlet Purchases
 - 803 Natural Gas Transmission Line Purchases
 - 804 Natural Gas City Gate Purchases
 - 804.1 Liquefied Natural Gas Purchases
 - 805 Other Gas Purchases
 - 805.1 Purchase Gas Cost Adjustments

- The totals shown in columns (b) and (c) should agree with the books of account. Reconcile any differences in a footnote.
2. State in column (b) the volume of purchased gas as finally measured for the purpose of determining the amount payable for the gas. Include current year receipts of make-up gas that was paid for in prior years.
 3. State in column (c) the dollar amount (omit cents) paid and previously paid for the volumes of gas shown in column (b).
 4. State in column (d) the average cost per Mcf to the nearest hundredth of a cent. (Average means column (c) divided by column (b) multiplied by 100.)

Line No.	Account Title (a)	Gas Purchased-Mcf (14.73 psia 60°F) (b)	Cost of Gas (In dollars) (c)	Average Cost Per Mcf (To nearest .01 of a cent) (d)
01	800 — Natural Gas Well Head Purchases			
02	800.1 — Natural Gas Well Head Purchases, Intracompany Transf.			
03	801 — Natural Gas Field Line Purchases			
04	802 — Natural Gas Gasoline Plant Outlet Purchases			
05	803 — Natural Gas Transmission Line Purchases	3,702,257	16,260,037	4.3919
06	804 — Natural Gas City Gate Purchases			
07	804.1 — Liquefied Natural Gas Purchases			
08	805 — Other Gas Purchases			
09	805.1 — Purchased Gas Cost Adjustments			
10	TOTAL (Enter Total of lines 01 thru 9)			

Notes to Gas Purchases

Name of Respondent ta Natural Gas Co., Inc.	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec. 31, 19 <u>98</u>
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DEPRECIATION, DEPLETION, AND AMORTIZATION OF GAS PLANT (Accounts 403, 404.1, 404.2, 404.3, 405)
(Except Amortization of Acquisition Adjustments)

1. Report in Section A the amounts of depreciation expense, depletion and amortization for the accounts indicated and classified according to the plant functional groups shown.

2. Report all available information called for in Section B for the report year 1971, 1974 and every fifth year thereafter. Report only annual changes in the intervals between the report years (1971, 1974 and every fifth year thereafter).

Report in column (b) all depreciable plant balances to which rates are applied and show a composite total. (If more desirable, report by plant account, subaccount or functional classifications other than those pre-printed in column (a). Indicate at the bottom of Section B the

Section A. Summary of Depreciation, Depletion, and Amortization Charges

Line No.	Functional Classification (a)	Depreciation Expense (Account 403) (b)	Amortization and Depletion of Producing Natural Gas Land and Land Rights (Account 404.1) (c)	Amortization of Underground Storage Land and Land Rights (Account 404.2) (d)
1	Intangible plant			
2	Production plant, manufactured gas			
3	Production and gathering plant, natural gas			
4	Products extraction plant			
5	Underground gas storage plant			
6	Other storage plant			
7	Base load LNG terminating and processing plant			
	Transmission plant			
	Distribution plant			
	General plant			
11	Common plant-gas			
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25	TOTAL			

REFER TO ORIGINAL FILING PAGE 336

Name of Respondent Delta Natural Gas Co., Inc.	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec. 31, 19_98
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**DEPRECIATION, DEPLETION, AND AMORTIZATION OF GAS PLANT (Accounts 403, 404.1, 404.2, 404.3, 405)
(Except Amortization of Acquisition Adjustments) (Continued)**

manner in which column (b) balances are obtained. If average balances, state the method of averaging used. For column (c) report available information for each plant functional classification listed in column (a). If composite depreciation accounting is used, report available information called for in columns (b) and (c) on this basis. Where the unit-of-production method is used to determine

depreciation charges, show at the bottom of Section B any revisions made to estimated gas reserves.
3. If provisions for depreciation were made during the year in addition to depreciation provided by application of reported rates, state at the bottom of Section B the amounts and nature of the provisions and the plant items to which related.

Section A. Summary of Depreciation, Depletion, and Amortization Charges

Amortization of Other Limited-term Gas Plant (Account 404.3) (e)	Amortization of Other Gas Plant (Account 405) (f)	Total (b to f) (g)	Functional Classification (a)	Line No.
			Intangible plant	1
			Production plant, manufactured gas	2
			Production and gathering plant, natural gas	3
			Products extraction plant	4
			Underground gas storage plant	5
			Other storage plant	6
			Base load LNG terminating and processing plant	7
			Transmission plant	8
			Distribution plant	9
			General plant	10
			Common plant-gas	11
				12
				13
				14
				15
				16
				17
				18
				19
				20
				21
				22
				23
				24
			TOTAL	25

REFER TO ORIGINAL FILING PAGE 337

Name of Respondent Delta Natural Gas Co., Inc.	This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec. 31, 19_98
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GAS ACCOUNT — NATURAL GAS

1. The purpose of this page is to account for the quantity of natural gas received and delivered by the respondent, taking into consideration differences in pressure bases used in measuring Mcf of natural gas received and delivered.

2. Natural gas means either natural gas unmixed or any mixture of natural and manufactured gas.

3. Enter in column (c) the Mcf as reported in the schedules indicated for the items of receipts and deliveries.

4. In a footnote report the volumes of gas from respondent's own production delivered to respondent's transmission system and included in natural gas sale.

5. If the respondent operates two or more systems which are not interconnected, submit separate pages for this purpose. Use copies of pages 520 and 521.

6. Also indicate by footnote the volumes of gas not subject to Commission regulation which did not incur FERC regulatory costs by showing (1) the local distribution volumes delivered to the local distribution-company portion of the reporting pipeline by another jurisdictional pipeline; (2) the volumes which the reporting pipeline transported or sold

through its local distribution facilities or intrastate facilities, and which the reporting pipeline received through gathering facilities, distribution facilities or intrastate facilities, but not through any of the interstate portion of the reporting pipeline and, (3) the gathering line volumes which were not destined for interstate market or which were not transported through any interstate portion of the reporting pipeline.

7. Also indicate by footnote (1) the system supply volumes of gas which are stored by the reporting pipeline during the reporting year and also reported as sales, transportation and compression volumes by the reporting pipeline during the same reporting year, (2) the system supply volumes of gas which are stored by the reporting pipeline during the reporting year and which the reporting pipeline intends to sell or transport in a future reporting year, and (3) contract storage volumes.

8. Also indicate the volumes of pipeline production field sales which are included in both the company's total sales figure and the company's total transportation figure (lines 42 and 46 of page 521).

01 NAME OF SYSTEM

Line No.	Item (a)	Ref. Page No. (b)	Amount of Mcf (14.73 psia at 60°F) (c)
GAS RECEIVED			
3	Natural Gas Produced	506	
4	LPG Gas Produced and Mixed with Natural Gas	515	
5	Manufactured Gas Produced and Mixed with Natural Gas		
6	Purchased Gas		
7	Wellhead	327	
8	Field Lines	327	
9	Gasoline Plants	327	
10	Transmission Line	327	4,582,986
11	City Gate Under FERC Rate Schedules	327	
12	LNG	327	
13	Other	327	
14	TOTAL, Gas Purchased (Enter Total of lines 7 thru 13)	327	4,582,986
15	Gas of Others Received for Transportation	313	5,307,207
16	Receipts of Respondents' Gas Transported or Compressed by Others	333	
17	Exchange Gas Received	328	
18	Gas Withdrawn from Underground Storage	512	922,028
19	Gas Received from LNG Storage		
20	Gas Received from LNG Processing		
21	Other Receipts (Specify)		
22	TOTAL Receipts (Enter Total of lines 3 thru 5, 14, and 15 thru 21)		10,812,221

Name of Respondent Delta Natural Gas Co., Inc.		This Report Is: (1) <input type="checkbox"/> An Original (2) <input checked="" type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec. 31, 19_98
GAS ACCOUNT — NATURAL GAS (Continued)				
01 NAME OF SYSTEM				
Line No.	Item (a)	Ref. Page No. (b)	Amount of Mcf (14.73 psia at 60°F) (c)	
23	GAS DELIVERED			
24	Natural Gas Sales			
25	Field Sales			
26	To Interstate Pipeline Companies for Resale Pursuant to FERC Rate Schedules	310		
27	Retail Industrial Sales	309		
28	Other Field Sales	310		
29	TOTAL, Field Sales (Enter Total of lines 26 thru 28)			
30	Transmission Systems Sales			
31	To Interstate Pipeline Co. for Resale Under FERC Rate Sched.	310		
32	To Intrastate Pipeline Co. and Gas Utilities for Resale Under FERC Rate Schedules	310		
33	Mainline Industrial Sales Under FERC Certification	307		
34	Other Mainline Industrial Sales	307		
35	Other Transmission System Sales	310		
36	TOTAL, Transmission System Sales (Enter Total of lines 31 thru 35)			
37	Local Distribution by Respondent			
38	Retail Industrial Sales	303	184,674	
39	Other Distribution System Sales	303	3,517,583	
40	TOTAL, Distribution System Sales (Lines 38 + 39)		3,702,257	
41	Interdepartmental Sales			
42	TOTAL SALES (Enter Total of lines 29, 36, 40 and 41)		3,702,257	
43	Deliveries of Gas Transported or Compressed for:			
44	Other Interstate Pipeline Companies	313		
45	Others	313	5,307,207	
46	TOTAL, Gas Transported or Compressed for Others (Enter Total of lines 44 and 45)	313	5,307,207	
47	Deliveries of Respondent's Gas for Trans. or Compression by Others	333		
48	Exchange Gas Delivered	328		
49	Natural Gas Used by Respondent		86,729	
50	Natural Gas Delivered to Underground Storage	512	1,554,881	
51	Natural Gas Delivered to LNG Storage	512		
52	Natural Gas Delivered to LNG Processing			
53	Natural Gas for Franchise Requirements			
54	Other Deliveries (Specify): Net Unbilled		(30,364)	
55	TOTAL SALES & OTHER DELIVERIES (Lines 42, 46, 47 thru 54)		10,620,710	
56	UNACCOUNTED FOR			
57	Production System Losses			
58	Storage Losses			
59	Transmission System Losses			
60	Distribution System Losses			
61	Other Losses (Specify in so far as possible)			
62	TOTAL Unaccounted for (Enter Total of lines 57 thru 61)		191,511	
63	TOTAL SALES, OTHER DELIVERIES, AND UNACCOUNTED FOR (Enter Total of lines 55 and 62)		10,812,221	

PUBLIC SERVICE COMMISSION OF KENTUCKY
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
BUSINESS FOR THE YEAR ENDING DECEMBER 31, 1998

Delta Natural Gas Company, Winchester, Kentucky
(Utility Reporting) (Address)

(DO NOT INCLUDE TAXES COLLECTED)

- (1) Gross Revenues of Electric Utility.....\$ _____
- (2) Gross Revenues of Gas Utility.....\$ 34,857,742
- (3) Gross Revenues of Radio-Telephone Utility.....\$ _____
- (4) Gross Revenues of Cellular Telephone Utility...\$ _____
- (5) Gross Revenues of Telephone Utility.....\$ _____
- (6) Gross Revenues of Water Utility.....\$ _____
- (7) Gross Revenues of Sewer Utility.....\$ _____
- (8) Other Operating Revenues.....\$ _____
- *** TOTAL GROSS REVENUES.....\$ 34,857,742

State of Kentucky.....) O A T H
County of Clark.....) ss.

John F. Hall being duly sworn, states that he/she
(Officer)
is VP Finance-Secretary/Treasurer of the Delta Natural Gas Company, Inc.
(Official Title) (Utility Reporting)

that the above report of gross revenues is in exact accordance with
the books of accounts of:

Delta Natural Gas Company, Inc., and that such books
(Utility Reporting)
accurately show the gross revenues of:

Delta Natural Gas Company, Inc., derived from Intra-Kentucky
(Utility Reporting)

business for the year ending December 31, , 1998

John F. Hall VP-Finance, Secretary & Treasurer
(Officer) (Title)

This the 30th day of March, 1999

Emily P. Bennett Clark
(Notary Public) (County)

My Commission expires 3/8/2000

**NOTE: ANY DIFFERENCE BETWEEN THE AMOUNT OF THE GROSS REVENUES SHOWN
IN THE ANNUAL REPORT AND THE AMOUNT APPEARING ON THIS STATEMENT
MUST BE RECONCILED ON THE REVERSE SIDE OF THIS REPORT**

Check appropriate box:

Original signed form

Conformed copy

Form Approved
OMB No 1902-0028
(Expires 12/31/98)



FERC FORM NO. 2:
ANNUAL REPORT OF MAJOR NATURAL
GAS COMPANIES

This report is mandatory under the Natural Gas Act, Sections 10(a) and 16, and 18 CFR 260.1. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)

Delta Natural Gas Company, Inc.

Year of Report

Dec. 31, 98

TO BE COMPLETED AND RETURNED WITH ANNUAL REPORT

No. Line No.	Page No.	Line No.	YES	NO	IF NO, EXPLAIN WHY
BALANCE SHEET					
2	200	13 less 11	X		
3	200	11	X		
5	200	14 & 33	X		
6	200	15	X		
11	122-123	?? - ???	?		
12	220	5b	X		
14	220	5d	X		
15	220	5e	X		
19	222-223		X		
20	223-223		X		
46	227	?????	X		
47	220		X		
48	220		X		
49	230	Acct. 165	X		
58	230	Acct. 181.2	X		
59	230	Acct. 182.2	X		
60	232	Acct. 182.3	X		
65	233	Acct. 186	X		
69	234-235	Acct. 190	X		
2	251	-(f)	X		
3	251	-(f)	X		
4	252	-	X		
5	252	-	X		

No. Line No.	Page No.	Line No.	YES	NO	IF NOT EXPLAIN WHY
6	252	-	X		
7	253	40(b)	X		
8	252	(d)	X		
9	254	Acct. 213	X		
10	254	Acct. 214	X		
11	119	19	X		
12	119	24	X		
13	251 ?	Acct. 217	X		
16 & 23	256	-(d)	X		
17	257	Acct. 222	X		
18	256	Acct. 223	X		
19	256	Acct. 224	X		
39	263	Acct. 236	X		
45	268	45(b)	X		
52	269	47(f)	X		
53	278	-(f)	X		
54	260	Acct. 257	X		
INCOME STATEMENT					
2	300	17	X		
4 + 5	317-325		X		
6	336-338		X		
7	336-338		X		
13+14+15	262-263		X		
16	234 276	276 (D)	X		
17	234	(d)	X		

ADDITIONAL INFORMATION TO BE FURNISHED WITH

ANNUAL REPORT

1998

GAS PURCHASES

(Accounts 800, 801, 802, 803, 804, 804.1, 805, 805.1, 805.2)

<u>Name of Seller and Acct. No.</u>	<u>Gas Purchased - Mcf</u>	<u>Cost of Gas</u>
Columbia Gas Transmission	(1)	154,331
Columbia Gulf	(1)	192,592
(TGMC) Duke Energy (El Paso)	(1)	1,464,335
(NGC) Dynegy	567,735	1,404,772
Wiser Oil	443,632	1,492,142
Duke Energy (El Paso)	952,459	2,406,930
Delta Resources	2,396,097	6,034,773
Deltran	(2)	2,146,757
Enpro	223,063	524,198
Equitable Resources	(3)	(8,846)
SUB TOTAL	4,582,986	15,811,984
Storage - Pioneer	4,822	819
Storage - Canada Mountain	(639,029)	(1,510,520)
TOTAL	3,948,779	14,302,283

- (1) Transportation Fee
- (2) Reservation Charge
- (3) Adjustment for prior year

PUBLIC SERVICE COMMISSION OF KENTUCKY
PRINCIPAL PAYMENT AND INTEREST INFORMATION
FOR THE YEAR ENDING DECEMBER 31, 1998

1. Amount of Principal Payment during calendar year \$ 385,777
2. Is Principal current? (Yes) X (No) _____
3. Is Interest current? (Yes) X (No) _____

SERVICES PERFORMED BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

Are your financial statements examined by a Certified Public Accountant? YES X NO _____

If yes, which service is performed?

Audit X
Compilation _____
Review _____

Please enclose a copy of the accountant's report with annual report.

Check appropriate box:

Original signed form

Conformed copy

Form Approved
OMB No 1902-0028
(Expires 12/31/98)



FERC FORM NO. 2:
ANNUAL REPORT OF MAJOR NATURAL
GAS COMPANIES

This report is mandatory under the Natural Gas Act, Sections 10(a) and 16, and 18 CFR 260.1. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)

Delta Natural Gas Company, Inc.

Year of Report

Dec. 31, 1998

INSTRUCTIONS FOR FILING THE
FERC FORM NO. 2

GENERAL INFORMATION

I Purpose

This form is designed to collect financial and operational information from major interstate natural gas companies subject to the jurisdiction of the Federal Energy Regulatory Commission. This report is a nonconfidential public use form.

II Who Must Submit

Each Major natural gas company which meets the filing requirements of 18 CFR 260.1 must submit this form.

NOTE: Major means having combined gas transported or stored for a fee exceeding 50 million Dth in each of the 3 previous calendar years.

III What and Where to Submit

- (a) Submit the electronic medium in accordance with the procedures specified in 18 CFR § 385.2011 and an original and four (4) copies of this form to:

Office of the Secretary
Federal Energy Regulatory Commission
Washington, DC 20426

Retain one copy of this report for your files.

- (b) Submit immediately upon publication, four (4) copies of the latest annual report to stockholders and any *annual* financial or statistical report regularly prepared and distributed to bondholders, security analysts, or industry associations. (Do not include monthly and quarterly reports. Indicate by checking the appropriate box on page 3, List of Schedules, if the reports to stockholders will be submitted or if no annual report to stockholders is prepared.) Mail these reports to:

Chief Accountant
Federal Energy Regulatory Commission
Washington, DC 20426

- (c) For the CPA certification, submit with the original submission of this form, a letter or report (not applicable to respondents classified as Class C or Class D prior to January 1, 1984) prepared in conformity with current standards of reporting which will:

- (i) contain a paragraph attesting to the conformity, in all material respects, of the schedules listed below with the Commission's applicable Uniform System of Accounts (including applicable notes relating thereto and the Chief Accountant's published accounting releases), and

GENERAL INFORMATION

- (ii) be signed by independent certified public accountants or independent licensed public accountants, certified or licensed by a regulatory authority of a State or other political subdivision of the United States (See 18 CFR 158 10-158 12 for specific qualifications)

<u>Schedules</u>	<u>Reference Pages</u>
Comparative Balance Sheet	110-113
Statement of Income	114-116
Statement of Retained Earnings	118-119
Statement of Cash Flows	120-121
Notes to Financial Statements	122

Insert the letter or report immediately following the cover sheet of the original and each copy of this form

- (d) Federal, State and Local Governments and other authorized users may obtain additional blank copies to meet their requirement free of charge from:

Public Reference and Files Maintenance Branch
Washington, DC 20426
(202) 208-2356

IV. When to Submit

Submit this report form on or before April 30th of the year following the year covered by this report.

V. Where to Send Comments on Public Reporting Burden

The public reporting burden for this collection of information is estimated to average 2,475 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any aspect of this collection of information, including suggestions for reducing this burden, to the Federal Energy Regulatory Commission, Washington, DC 20426 (Attention: Michael Miller, ED-12 4), and to the Office of Information and Regulatory Affairs, Office of the Management and Budget, Washington, DC 20503 (Attention: Desk Officer for the Federal Energy Regulatory Commission).

You shall not be penalized for failure to respond to this collection of information unless the collection of information displays a valid OMB control number.

GENERAL INSTRUCTIONS

Prepare this report in conformity with the Uniform Systems of Accounts (18 CFR 201)(U S of A)
Interpret all accounting words and phrases in accordance with the U S of A.

- II Enter in whole numbers (dollars or Dth) only, except where otherwise noted (Enter cents for averages and figures per unit where cents are important) The truncating of cents is allowed except on the four basic financial statements where rounding to dollars is required The amounts shown on all supporting pages must agree with the amounts entered on the statements that they support. When applying thresholds to determine significance for reporting purposes, use for balance sheet accounts the balances at the end of the current reporting year, and use the current year amounts for statement of income accounts
- III. Complete each question fully and accurately, even if it has been answered in a previous annual report Enter the word "None" where it truly and completely states the fact.
- IV. For any page(s) that is not applicable to the respondent, either
- (a) Enter the words "Not Applicable" on the particular page(s), or
 - (b) Omit the page(s) and enter "NA," "NONE," or "Not Applicable" in column (d) on the List of Schedules, pages 2 and 3.
- V. Enter the month, day, and year for all dates. Use customary abbreviations The "Date of Report" at the top of each page is applicable only to resubmissions (see VII. below)
- VI Indicate negative amounts (such as decreases) by enclosing the figures in parentheses ()
- VII When making revisions, resubmit the electronic medium and only those pages that have been changed from the original submission. Submit the same number of copies as required for filing the form Include with the resubmission the Identification and Attestation, page 1 Mail dated resubmissions to:
Chief Accountant
Federal Energy Regulatory Commission
Washington, DC 20426
- VIII Provide a supplemental statement further explaining accounts or pages as necessary. Attach the supplemental statement (8 1/2 by 11 inch size) to the page being supplemented Provide the appropriate identification information, including the title(s) of the page and the page number supplemented
- IX Do not make references to reports of previous years or to other reports in lieu of required entries, except as specifically authorized
- X. Wherever (schedule) pages refer to figures from a previous year, the figures reported must be based upon those shown by the annual report of the previous year, or an appropriate explanation given as to why the different figures were used
- XI Report all gas volumes in MMBtu and Dth
- XII. Respondents may submit computer printed schedules (reduced to 8 1/2 x 11) instead of the schedules in the FERC Form 2 if they are in substantially the same format
- XIII Report footnotes on pages 551 and 552 Sort data on page 551 by page number. Sort data on page 552 by footnote number The page number component of the footnote reference is the first page of a schedule whether it is a single page schedule or a multi-page schedule Even if a footnote appears on a later page of a multi-page schedule the footnote will only reference the first page of the schedule. The first page of a multi-page schedule now becomes a proxy for the entire schedule. For example, Gas Plant in Service ranges across pages 204 through 209 A footnote on page 207 would contain a page reference of 204

DEFINITIONS

- I. Btu per cubic foot—The total heating value, expressed in Btu, produced by the combustion, at constant pressure, of the amount of the gas which would occupy a volume of 1 cubic foot at a temperature of 60°F if saturated with water vapor and under a pressure equivalent to that of 30 inches of mercury at 32°F, and under standard gravitational force (980.665 cm. per sec.) with air of the same temperature and pressure as the gas, when the products of combustion are cooled to the initial temperature of gas and air when the water formed by combustion is condensed to the liquid state (called gross heating value or total heating value)
- II. Commission Authorization—The authorization of the Federal Energy Regulatory Commission, or any other Commission Name the Commission whose authorization was obtained and give date of the authorization
- III. Dekatherm—A unit of heating value equivalent to 10 therms or 1,000,000 Btu
- IV Respondent—The person, corporation, licensee, agency, authority, or other legal entity or instrumentality on whose behalf the report is made

EXCERPTS FROM THE LAW

(Natural Gas Act, 15 U.S.C. 717-717w)

"Sec 10(a) Every natural-gas company shall file with the Commission such annual and other periodic or special reports as the Commission may by rules and regulations or order prescribe as necessary or appropriate to assist the Commission in the proper administration of this act The Commission may prescribe the manner and form in which such reports shall be made and require from such natural-gas companies specific answers to all questions upon which the Commission may need information The Commission may require that such reports shall include, among other things, full information as to assets and liabilities, capitalization, investment and reduction thereof, gross receipts, interest due and paid, depreciation, amortization, and other reserves, costs of facilities, cost of maintenance and operation of facilities for the production, transportation, delivery, use, or sale of natural gas, cost of renewal and replacement of such facilities, transportation, delivery, use, and sale of natural gas. "

"Sec. 16 The Commission shall have power to perform any and all acts, and to prescribe, issue, make, amend, and rescind such orders, rules, and regulations as it may find necessary or appropriate to carry out the provisions of this act Among other things, such rules and regulations may define accounting, technical, and trade terms used in this act; and may prescribe the form or forms of all statements declarations, applications, and reports to be filed with the Commission, the information which they shall contain, and time within which they shall be filed "

GENERAL PENALTIES

"Sec 21(b) Any person who willfully and knowingly violates any rule, regulation, restriction, condition, or order made or imposed by the Commission under authority of this act, shall, in addition to any other penalties provided by law, be punished upon conviction thereof by a fine of not exceeding \$500 for each and every day during which such offense occurs "

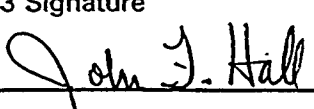
FERC FORM NO. 2:
ANNUAL REPORT OF MAJOR NATURAL GAS COMPANIES

IDENTIFICATION

01 Exact Legal Name of Respondent Delta Natural Gas Company, Inc.	02 Year of Report Dec. 31, <u>98</u>
03 Previous Name and Date of Change (If name changed during year)	
04 Address of Principal Office at End of Year (Street, City, State, Zip Code) 3617 Lexington Road Winchester, Kentucky 40391	
05 Name of Contact Person John F. Hall	06 Title of Contact Person VP Finance - Secretary/Treasurer
07 Address of Contact Person (Street, City, State, Zip Code) Same	
08 Telephone of Contact Person, Including Area Code 606 744-6171	09 This Report is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission
10 Date of Report (Mo, Da, Yr) 3-31-99	

ATTESTATION

The undersigned officer certifies that he/she has examined the accompanying report; that to the best of his/her knowledge, information, and belief, all statements of fact contained in the accompanying report are true and the accompanying report is a correct statement of the business and affairs of the above named respondent in respect to each and every matter set forth therein during the period from and including January 1 to and including December 31 of the year of the report

11 Name John F. Hall	12 Title VP Finance - Secretary/Treasurer
13 Signature 	14 Date Signed <u>March 30, 1999</u>

Title 18, U S C 1001, makes it a crime for any person knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction

Name of Respondent	This Report Is: <input type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr)	Year of Report Dec 31, ____
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LIST OF SCHEDULES (Natural Gas Company)(Continued)

Enter in column (d) the terms "none," "not applicable," or "NA" as appropriate, where no information or amounts have been reported for certain pages Omit pages where the responses are "none," "not applicable," or "NA"

Line No	Title of Schedule (a)	Reference Page No (b)	Date Revised (c)	Remarks (d)
BALANCE SHEET SUPPORTING SCHEDULES (Liabilities and Other Credits)(Continued)				
38	Taxes Accrued, Prepaid, and Charged During Year	262-263		
39	Miscellaneous Current and Accrued Liabilities	268		
40	Other Deferred Credits	269		
41	Accumulated Deferred Income Taxes-Other Property	274-275		
42	Accumulated Deferred Income Taxes-Other	276-277		
43	Other Regulatory Liabilities	278		
INCOME ACCOUNT SUPPORTING SCHEDULES				
44	Gas Operating Revenues	300-301		
45	Revenues from Transportation of Gas of Others Through Gathering Facilities	302-303		
46	Revenues from Transportation of Gas of Others Through Transmission Facilities	304-305		
47	Revenues from Storage Gas of Others	306-307		
48	Other Gas Revenues	308		
49	Gas Operation and Maintenance Expenses	317-325		
50	Exchange and Imbalance Transactions	328		
51	Gas Used in Utility Operations	331		
52	Transmission and Compression of Gas by Others	332		
53	Other Gas Supply Expenses	334		
54	Miscellaneous General Expenses-Gas	335		
55	Depreciation, Depletion, and Amortization of Gas Plant	336-338		
56	Particulars Concerning Certain Income Deduction and Interest Charges Accounts	340		
COMMON SECTION				
57	Regulatory Commission Expenses	350-351		
58	Distribution of Salaries and Wages	354-355		
59	Charges for Outside Professional and Other Consultative Services	357		
GAS PLANT STATISTICAL DATA				
60	Compressor Stations	508-509		
61	Gas Storage Projects	512-513		
62	Transmission Lines	514		
63	Transmission System Peak Deliveries	518		
64	Auxiliary Peaking Facilities	519		
65	Gas Account-Natural Gas	520		
66	System Map	522		
67	Footnote Reference	551		
68	Footnote Text	552		
69	Stockholders' Reports (check appropriate box)			
70	<input type="checkbox"/> Four copies will be submitted			
71	<input type="checkbox"/> No annual report to stockholders is prepared			

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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec. 31, 98
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GENERAL INFORMATION

1 Provide name and title of officer having custody of the general corporate books of account and address of office where the general corporate books are kept and address of office where any other corporate books of account are kept, if different from that where the general corporate books are kept

**John F. Hall
3617 Lexington Road
Winchester, Kentucky 40391**

2 Provide the name of the State under the laws of which respondent is incorporated and date of incorporation. If incorporated under a special law, give reference to such law. If not incorporated, state that fact and give the type of organization and the date organized.

Kentucky

3 If at any time during the year the property of respondent was held by a receiver or trustee, give (a) name of receiver or trustee, (b) date such receiver or trustee took possession, (c) the authority by which the receivership or trusteeship was created, and (d) date when possession by receiver or trustee ceased.

4 State the classes of utility and other services furnished by respondent during the year in each State in which the respondent operated.

NATURAL GAS DISTRIBUTOR, STORAGE AND TRANSPORTER

5 Have you engaged as the principal accountant to audit your financial statements an accountant who is not the principal accountant for your previous year's certified financial statements?

(1) Yes Enter the date when such independent accountant was initially engaged: _____
 (2) No

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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CONTROL OVER RESPONDENT

1 Report in column (a) the names of all corporations, partnerships, business trusts, and similar organizations that directly, indirectly, or jointly held control (see page 103 for definition of control) over the respondent at the end of the year. If control is in a holding company organization, report in a footnote the chain of organization.

2 If control is held by trustees, state in a footnote the names of trustees, the names of beneficiaries for whom the trust is maintained, and the purpose of the trust.

3 In column (b) designate type of control over the respondent. Report an "M" if the company is the main parent or controlling company having ultimate control over the respondent. Otherwise, report a "D" for direct, an "I" for indirect, or a "J" for joint control.

Line No	Company Name (a)	Type of Control (b)	State of Incorporation (c)	Percent Voting Stock Owned (d)
1				
2				
3				
4				
5				

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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CORPORATIONS CONTROLLED BY RESPONDENT

1 Report below the names of all corporations, business trusts, and similar organizations, controlled directly or indirectly by respondent at any time during the year. If control ceased prior to end of year, give particulars (details) in a footnote

2 If control was by other means than a direct holding of voting rights, state in a footnote the manner in which control was held, naming any intermediaries involved

3 If control was held jointly with one or more other interests, state the fact in a footnote and name the other interests

4 In column (b) designate type of control of the respondent as "D" for direct, an "I" for indirect, or a "J" for joint control

DEFINITIONS

1 See the Uniform System of Accounts for a definition of control

2 Direct control is that which is exercised without interposition of an intermediary

3 Indirect control is that which is exercised by the interposition of an intermediary that exercises direct control

4 Joint control is that in which neither interest can effectively control or direct action without the consent of the other, as where the voting control is equally divided between two holders, or each party holds a veto power over the other. Joint control may exist by mutual agreement or understanding between two or more parties who together have control within the meaning of the definition of control in the Uniform System of Accounts, regardless of the relative voting rights of each party

Line No	Name of Company Controlled (a)	Type of Control (b)	Kind of Business (c)	Percent Voting Stock Owned (d)	Footnote Reference (e)
1	Delta Resources, Inc.	Direct	Gas Broker	100%	
2	Delgasco, Inc.	"	Gas Broker	100%	
3	Deltran, Inc.	"	Transporter	100%	
4	Enpro, Inc.	"	Producer	100%	
5	Tranex Corp., Inc.	"	Transporter	100%	

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Name of Respondent Delta Natural Gas Co., Inc.	This Report Is <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3/31/99	Year of Report Dec 31, 1998
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SECURITY HOLDERS AND VOTING POWERS

1 Give the names and addresses of the 10 security holders of the respondent who, at the date of the latest closing of the stock book or compilation of list of stockholders of the respondent, prior to the end of the year, had the highest voting powers in the respondent, and state the number of votes that each could cast on that date if a meeting were held. If any such holder held in trust, give in a footnote the known particulars of the trust (whether voting trust, etc), duration of trust, and principal holders of beneficiary interests in the trust. If the company did not close the stock book or did not compile a list of stockholders within one year prior to the end of the year, or if since it compiled the previous list of stockholders, some other class of security has become vested with voting rights, then show such 10 security holders as of the close of the year. Arrange the names of the security holders in the order of voting power, commencing with the highest. Show in column (a) the titles of officers and directors included in such list of 10 security holders.

2 If any security other than stock carries voting rights, explain in a supplemental statement how such security became vested with voting rights and give other important details concerning the voting rights of such security. State whether voting rights are actual or contingent; if contingent, describe the contingency.

3 If any class or issue of security has any special privileges in the election of directors, trustees or managers, or in the determination of corporate action by any method, explain briefly in a footnote.

4 Furnish details concerning any options, warrants, or rights outstanding at the end of the year for others to purchase securities of the respondent or any securities or other assets owned by the respondent, including prices, expiration dates, and other material information relating to exercise of the options, warrants, or rights. Specify the amount of such securities or assets any officer, director, associated company, or any of the 10 largest security holders is entitled to purchase. This instruction is inapplicable to convertible securities or to any securities substantially all of which are outstanding in the hands of the general public where the options, warrants, or rights were issued on a prorata basis.

1 Give date of the latest closing of the stock book prior to end of year, and, in a footnote, state the purpose of such closing: November 19, 1998 - Annual Meeting	2 State the total number of votes cast at the latest general meeting prior to the end of year for election of directors of the respondent and number of such votes cast by proxy Total: 2,134,581 By Proxy: 2,134,581	3 Give the date and place of such meeting: Nov. 19, 1998 Delta Natural Gas Co., Inc., 3617 Lexington Rd, Winchester, KY 40391
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Line No	Name (Title) and Address of Security Holder (a)	VOTING SECURITIES			
		Total Votes (b)	Common Stock (c)	Preferred Stock (d)	Other (e)
4		4 Number of votes as of (date):			
5	TOTAL votes of all voting securities	2,387,989	2,387,989		
6	TOTAL number of security holders				
7	TOTAL votes of security holders listed below	1,763,572	1,763,572		
8	Cede & Co.	1,674,213	1,674,213		
9	% Depository Trust Co.				
10	Bowling Green Station				
11	P. O. Box 863				
12	New York, NY 10274				
13					
14	Harrison D. Peet	18,156	18,156		
15	(Director)				
16	374 Crescent Ave.				
17	Winchester, KY 40391				

(see attached sheet)

Name of Respondent Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec. 31, 98
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IMPORTANT CHANGES DURING THE YEAR

Give details concerning the matters indicated below. Make the statements explicit and precise, and number them in accordance with the inquiries. Answer each inquiry. Enter "none" or "not applicable" where applicable. If the answer is given elsewhere in the report, refer to the schedule in which it appears.

1 Changes in and important additions to franchise rights: Describe the actual consideration and state from whom the franchise rights were acquired. If the franchise rights were acquired without the payment of consideration, state that fact.

2 Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization.

3 Purchase or sale of an operating unit or system: Briefly describe the property, and the related transactions, and cite Commission authorization, if any was required. Give date journal entries called for by Uniform System of Accounts were submitted to the Commission.

4 Important leaseholds (other than leaseholds for natural gas lands) that have been acquired or given, assigned or surrendered: Give effective dates, lengths of terms, names of parties, rents, and other conditions. State name of Commission authorizing lease and give reference to such authorization.

5 Important extension or reduction of transmission or distribution system: State territory added or relinquished and date operations began. Also the approximate number of customers added or lost and approximate annual revenues of each class of service.

Each natural gas company must also state major new continuing sources of gas made available to it from purchases, development, purchase contract or otherwise, giving location and approximate total gas volumes available, period of contracts, and other parties to any such arrangements, etc.

6 Obligations incurred or assumed by respondent as guarantor for the performance by another of any agreement or obligation, including ordinary commercial paper maturing on demand or not later than one year after date of issue: State on behalf of whom the obligation was assumed and amount of the obligation. Cite Commission authorization if any was required.

7 Changes in articles of incorporation or amendments to charter: Explain the nature and purpose of such changes or amendments.

8 State the estimated annual effect and nature of any important wage scale changes during the year.

9 State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year.

10 Describe briefly any materially important transactions of the respondent not disclosed elsewhere in this report in which an officer, director, security holder, voting trustee, associated company or known associate of any of these persons was a party or in which any such person had a material interest.

11 Estimated increase or decrease in annual revenues caused by important rate changes: State effective date and approximate amount of increase or decrease for each revenue classification. State the number of customers affected.

NOTHING TO REPORT

Arthur E. Walker, Jr. 13,530
(Director)
P. O. Box 308
Mt. Sterling, KY 40353

Virgil E. Scott 12,542
(Director)
213 Ivy Lane
Winchester, KY 40391

John D. Harrison 11,012
(Director)
1106 Maple Street
Stanton, KY 40380

William S. Stewart 10,000
P. O. Box 980
Pineville, KY 40977

Jane Hylton Green 7,194
(Director)
103 Windridge Drive
Winchester, KY 40391

Glenn R. Jennings 6,616
(Director)
9 Fairway Drive
Berea, KY 40403

Roger A. Byron 5,893
(Director)
112 Court Street
Owingsville, KY 40360

Henry C. Thompson 4,416
(Director)
304 Beacon Hill Drive
Nicholasville, KY 40356

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Name of Respondent Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No	Title of Account (a)	Reference Page Number (b)	Balance at End of Current Year (in dollars) (c)	Balance at End of Previous Year (in dollars) (d)
1	UTILITY PLANT			
2	Utility Plant (101-106, 114)	200-201	119,758,525	106,251,873
3	Construction Work in Progress (107)	200-201	1,382,759	8,127,135
4	TOTAL Utility Plant (Total of lines 2 and 3)	200-201	121,141,284	114,379,008
5	(Less) Accum Provision for Depr, Amort, Depl (108, 111, 115)		33,459,760	30,066,390
6	Net Utility Plant (Total of line 4 less 5)		87,681,524	84,312,618
7	Nuclear Fuel (120 1 thru 120 4, and 120 6)			
8	(Less) Accum Provision for Amort, of Nuclear Fuel Assemblies (120 5)			
9	Nuclear Fuel (Total of line 7 less 8)			
10	Net Utility Plant (Total of lines 6 and 9)		87,681,524	84,312,618
11	Utility Plant Adjustments (116)	122		
12	Gas Stored-Base Gas (117 1)	220	4,046,127	4,046,127
13	System Balancing Gas (117 2)	220		
14	Gas Stored in Reservoirs and Pipelines—Noncurrent (117 3)	220		
15	Gas Owned to System Gas (117 4)	220		
16	OTHER PROPERTY AND INVESTMENTS			
	Nonutility Property (121)		18,592	18,592
	(Less) Accum Provision for Depreciation and Amortization (122)		(18,592)	(18,592)
19	Investments in Associated Companies (123)	222-223		
20	Investments in Subsidiary Companies (123 1)	224-225	1,131,650	960,351
21	(For Cost of Account 123 1 See Footnote Page 224, line 40)			
22	Noncurrent Portion of Allowances			
23	Other Investments (124)	222-223		
24	Special Funds (125 thru 128)		348,790	330,913
25	TOTAL Other Property and Investments (Total of lines 17-20, 22-24)		1,480,440	1,291,264
26	CURRENT AND ACCRUED ASSETS			
27	Cash (131)		415,054	413,078
28	Special Deposits (132-134)			
29	Working Funds (135)		7,325	31,325
30	Temporary Cash Investments (136)	222-223		
31	Notes Receivable (141)		134,000	122,000
32	Customer Accounts Receivable (142)		1,911,181	3,419,200
33	Other Accounts Receivable (143)			
34	(Less) Accum Provision for Uncollectible Accounts - Credit (144)		(155,773)	(83,647)
35	Notes Receivable from Associated Companies (145)			
36	Accounts Receivable from Associated Companies (146)		334,410	1,207,705
37	Fuel Stock (151)			
38	Fuel Stock Expenses Undistributed (152)			
39	Residuals (Elec) and Extracted Products (Gas) (153)			
	Plant Materials and Operating Supplies (154)		458,155	689,565
	Merchandise (155)			
42	Other Materials and Supplies (156)			
43	Nuclear Materials Held for Sale (157)			

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No	Title of Account (a)	Reference Page Number (b)	Balance at End of Current Year (in dollars) (c)	Balance at End of Previous Year (in dollars) (d)
44	Allowances (158 1 and 158 2)			
45	(Less) Noncurrent Portion of Allowances			
46	Stores Expense Undistributed (163)			
47	Gas Stored Underground—Current (164 1)	220	3,364,902	1,855,202
48	Liquefied Natural Gas Stored and Held for Processing (164 2 thru 164 3)	220		
49	Prepayments (165)	230	824,351	384,775
50	Advances for Gas (166 thru 167)			
51	Interest and Dividends Receivable (171)			
52	Rents Receivable (172)			
53	Accrued Utility Revenues (173)			
54	Miscellaneous Current and Accrued Assets (174)			
55	TOTAL Current and Accrued Assets (Total of lines 27 thru 54)		7,293,605	8,039,203
56	DEFERRED DEBITS			
57	Unamortized Debt Expense (181)		3,650,173	2,597,300
58	Extraordinary Property Losses (182 1)	230		
59	Unrecovered Plant and Regulatory Study Costs (182 2)	230		
	Other Regulatory Assets (182 3)	232		
61	Preliminary Survey and Investigation Charges (Electric)(183)			
62	Preliminary Survey and Investigation Charges (Gas)(183 1 and 183 2)			
63	Clearing Accounts (184)		(5,826)	24,468
64	Temporary Facilities (185)			
65	Miscellaneous Deferred Debits (186)	233	221,855	299,730
66	Deferred Losses from Disposition of Utility Plant (187)			
67	Research, Development, and Demonstration Expend (188)			
68	Unamortized Loss on Reacquired Debt (189)			
69	Accumulated Deferred Income Taxes (190)	234-235		
70	Unrecovered Purchased Gas Costs (191)		1,354,892	3,796,665
71	TOTAL Deferred Debits (Total of lines 57 thru 70)		5,221,094	6,718,163
72	TOTAL Assets and Other Debits (Total of lines 10-15,25,55,and 71)		105,722,790	104,407,375

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No	Title of Account (a)	Reference Page Number (b)	Balance at End of Current Year (in dollars) (c)	Balance at End of Previous Year (in dollars) (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	2,394,633	2,361,922
3	Preferred Stock Issued (204)	250-251		
4	Capital Stock Subscribed (202, 205)	252	28,068,588	27,528,243
5	Stock Liability for Conversion (203, 206)	252		
6	Premium on Capital Stock (207)	252	28,068,588	27,528,243
7	Other Paid-In Capital (208-211)	253		
8	Installments Received on Capital Stock (212)	252	59,484	58,907
9	(Less) Discount on Capital Stock (213)	254		
10	(Less) Capital Stock Expense (214)	254	(1,917,020)	(1,917,020)
11	Retained Earnings (215, 215 1, 216)	118-119	(326,040)	322,201
12	Unappropriated Undistributed Subsidiary Earnings (216 1)	118-119	131,651	(39,648)
13	(Less) Reacquired Capital Stock (217)	250-251		
14	TOTAL Proprietary Capital (Total of lines 2 thru 13)		28,411,296	28,314,605
15	LONG TERM DEBT			
	Bonds (221)	256-257	50,523,000	36,792,000
17	(Less) Reacquired Bonds (222)	256-257		
18	Advances from Associated Companies (223)	256-257		
19	Other Long-Term Debt (224)	256-257	1,400,000	1,400,000
20	Unamortized Premium on Long-Term Debt (225)	258-259		
21	(Less) Unamortized Discount on Long-Term Debt-Dr (226)	258-259	(165,155)	(248,404)
22	(Less) Current Portion of Long-Term Debt			
23	TOTAL Long-Term Debt (Total of lines 16 thru 22)		51,757,845	37,976,596
24	OTHER NONCURRENT LIABILITIES			
25	Obligations Under Capital Leases—Noncurrent (227)			
26	Accumulated Provision for Property Insurance (228 1)			
27	Accumulated Provision for Injuries and Damages (228 2)			
28	Accumulated Provision for Pensions and Benefits (228 3)			
29	Accumulated Miscellaneous Operating Provisions (228 4)			
30	Accumulated Provision for Rate Refunds (229)			
31	TOTAL Other Noncurrent Liabilities (Total of lines 25 thru 30)			

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec. 31, 98
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COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(Continued)

Line No	Title of Account (a)	Reference Page Number (b)	Balance at End of Current Year (in dollars) (c)	Balance at End of Previous Year (in dollars) (d)
32	CURRENT AND ACCRUED LIABILITIES			
33	Current Portion of Long-Term Debt		2,450,000	1,553,777
34	Notes Payable (231)		9,030,000	19,395,000
35	Accounts Payable (232)		1,749,574	3,660,494
36	Notes Payable to Associated Companies (233)			
37	Accounts Payable to Associated Companies (234)			
38	Customer Deposits (235)		594,863	498,566
39	Taxes Accrued (236)	262-263	(441,509)	501,518
40	Interest Accrued (237)		1,220,198	1,081,096
41	Dividends Declared (238)			
42	Matured Long-Term Debt (239)			
43	Matured Interest (240)			
44	Tax Collections Payable (241)		83,286	86,577
45	Miscellaneous Current and Accrued Liabilities (242)	268	739,088	726,249
46	Obligations Under Capital Leases—Current (243)			
	TOTAL Current and Accrued Liabilities (Total of lines 33 thru 46)		15,425,500	27,503,277
48	DEFERRED CREDITS			
49	Customer Advances for Construction (252)		220,060	217,575
50	Accumulated Deferred Investment Tax Credits (255)		602,550	673,500
51	Deferred Gains from Disposition of Utility Plant (256)			
52	Other Deferred Credits (253)	269	72,839	461,147
53	Other Regulatory Liabilities (254)	278	795,975	867,675
54	Unamortized Gain on Reacquired Debt (257)	260		
55	Accumulated Deferred Income Taxes (281-283)		8,436,725	8,393,000
56	TOTAL Deferred Credits (Total of lines 49 thru 55)		10,128,149	10,612,897
57	TOTAL Liabilities and Other Credits (Total of lines 14,23,31,47,and 56)		105,722,790	104,407,375

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec. 31, 98
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STATEMENT OF INCOME FOR THE YEAR

1 Report amounts for accounts 412 and 413, *Revenue and Expenses from Utility Plant Leased to Others*, in another utility column (i,j) in a similar manner to a utility department. Spread the amount(s) over lines 2 thru 24 as appropriate. Include these amounts in columns (c) and (d) totals.

2 Report amounts in discount 414, *Other Utility Operating Income*, in the same manner as accounts 412 and 413 above.

3 Report data for lines 7, 9, and 10 for Natural Gas companies using accounts 404 1, 404 2, 404 3, 407 1, and 407 2.

Line No	Title of Account (a)	Reference Page Number (b)	Total Current Year (in dollars) (c)	Total Previous Year (in dollars) (d)
1	UTILITY OPERATING INCOME			
2	Gas Operating Revenues (400)	300-301	34,857,742	39,185,262
3	Operating Expenses:			
4	Operation Expenses (401)	317-325	22,332,912	27,652,939
5	Maintenance Expenses (402)	317-325	542,182	590,629
6	Depreciation Expense (403)	336-338	3,569,401	3,134,647
7	Amortization and Depletion of Utility Plant (404-405)	336-338	953	740
8	Amortization of Utility Plant Acu Adjustment (406)	336-338		
9	Amort of Prop Losses, Unrecovered Plant and Reg Study Costs (407 1)			
10	Amortization of Conversion Expenses (407 2)			
11	Regulatory Debits (407 3)			
	(Less) Regulatory Credits (407 4)			
13	Taxes Other than Income Taxes (408 1)	262-263	1,223,848	1,151,827
14	Income Taxes—Federal (409 1)	262-263	875,125	491,915
15	Income Taxes—Other (409 1)	262-263	199,300	(31,740)
16	Provision of Deferred Income Taxes (410 1)	234-235	(29,700)	516,700
17	(Less) Provision for Deferred Income Taxes—Credit (411 1)	234-235		
18	Investment Tax Credit Adjustment—Net (411 4)		(70,950)	(70,400)
19	(Less) Gains from Disposition of Utility Plant (411 6)			
20	Losses from Disposition of Utility Plant (411 7)			
21	(Less) Gains from Disposition of Allowances (411 8)			
22	Losses from Disposition of Allowances (411 9)			
23	TOTAL Utility Operating Expenses (Total of lines 4 thru 22)		28,643,071	33,437,257
24	Net Utility Operating Income (Total of lines 2 less 23) (Carry forward to page 116, line 25)		6,214,671	5,748,005

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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STATEMENT OF INCOME FOR THE YEAR (Continued)

4 Explain in a footnote if the previous year's figures are different from those reported in prior reports

5 If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles, lines 2 to 23, and report the information in the blank space on page 122 or in a supplemental statement

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		Line No
Current Year (in dollars) (e)	Previous Year (in dollars) (f)	Current Year (in dollars) (g)	Previous Year (in dollars) (h)	Current Year (in dollars) (i)	Previous Year (in dollars) (j)	
						1
						2
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Name of Respondent Lta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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STATEMENT OF INCOME FOR THE YEAR (Continued)

Line No	Title of Account (a)	Reference Page Number (b)	Total Current Year (in dollars) (c)	Total Previous Year (in dollars) (d)
25	Net Utility Operating Income (Carried forward from page 114)		6,214,671	5,748,005
26	OTHER INCOME AND DEDUCTIONS			
27	Other Income			
28	Nonutility Operating Income			
29	Revenues form Merchandising, Jobbing and Contract Work (415)		66,638	64,802
30	(Less) Costs and Expense of Merchandising, Job & Contract Work		(46,153)	(47,859)
31	Revenues from Nonutility Operations (417)			
32	(Less) Expenses of Nonutility Operations (417 1)			
33	Nonoperating Rental Income			
34	Equity in Earnings of Subsidiary Companies (418 1)	119	455,184	410,857
35	Interest and Dividend Income (419)		78,078	21,503
36	Allowance for Other Funds Used During Construction (419 1)			
37	Miscellaneous Nonoperating Income (421)		6,594	(1,278)
38	Gain on Disposition of Property (421 1)			
39	TOTAL Other Income (Total of lines 29 thru 38)		560,341	448,025
40	Other Income Deductions			
41	Loss on Disposition of Property (421 2)			
42	Miscellaneous Amortization (425)			
	Miscellaneous Income Deductions (426 1 thru 426 5)	340	(9,302)	(8,426)
	TOTAL Other Income Deductions (Total of lines 41 thru 43)	340	(9,302)	(8,426)
45	Taxes Applicable to Other Income and Deductions			
46	Taxes Other than Income Taxes (406 2)	262-263		
47	Income Taxes—Federal (409 2)	262-263	33,900	13,400
48	Income Taxes—Other (409 2)	262-263	8,500	3,400
49	Provision for Deferred Income Taxes (410 2)	234-235		
50	(Less) Provision for Deferred Income Taxes-Credit (411 2)	234-235		
51	Investment Tax Credit Adjustments—Net (411 5)			
52	(Less) Investment Tax Credits (420)			
53	TOTAL Taxes on Other Income and Deductions (Total of lines 46-52)		42,400	16,800
54	Net Other Income and Deductions (Total of lines 39, 44, 53)		527,243	439,651
55	INTEREST CHARGES			
56	Interest on Long-Term Debt (427)		3,775,502	3,152,939
57	Amortization of Debt Disc and Expense (428)	258-259	149,332	111,600
58	Amortization of Loss on Reacquired Debt (428 1)			
59	(Less) Amortization of Premium on Debt-Credit (429)	258-259		
60	(Less) Amortization of Gain on Reacquired Debt-Credit (429 1)			
61	Interest on Debt to Associated Companies (430)	340		
62	Other Interest Expense (431)	340	584,640	884,879
63	(Less) Allowance for Borrowed Funds Used During Construction-Credit			
64	Net Interest Charges (Total of lines 56 thru 63)		4,509,474	4,149,418
65	Income Before Extraordinary Items (Total of lines 25,54 and 64)		2,232,440	2,038,238
66	EXTRAORDINARY ITEMS			
67	Extraordinary Income (434)			
68	(Less) Extraordinary Deductions (435)			
69	Net Extraordinary Items (Total of line 67 less line 68)			
	Income Taxes—Federal and Other (409 3)	262-263		
71	Extraordinary Items after Taxes (Total of line 69 less line 70)			
72	Net Income (Total of lines 65 and 71)		2,232,440	2,038,238

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Name of Respondent Elta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec. 31, 98
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STATEMENT OF RETAINED EARNINGS FOR THE YEAR

1 Report all changes in appropriated retained earnings, unappropriated retained earnings, and unappropriated undistributed subsidiary earnings for the year
 2 Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436-439 inclusive) Show the contra primary account affected in column (b)

3 State the purpose and amount for each reservation or appropriation of retained earnings
 4 List first Account 439, *Adjustments to Retained Earnings*, reflecting adjustments to the opening balance of retained earnings Follow by credit, then debit items, in that order
 5 Show dividends for each class and series of capital stock

Line No	Item (a)	Contra Primary Account Affected (b)	Current Year Amount (in dollars) (c)	Previous Year Amount (in dollars) (d)
UNAPPROPRIATED RETAINED EARNINGS				
1	Balance—Beginning of Year		322,201	(20,000)
2	Changes (Identify by prescribed retained earnings accounts)			
3	Adjustments to Retained Earnings (Account 439)			
3 01	Credit:		283,885	1,385,912
3 02	Credit:			
3 03	Credit:			
3 04	Credit:			
3 05	Credit:			
4	TOTAL Credits to Retained Earnings (Account 439) (Total of lines 3 01 thru 3 ?)			
4 01	Debit:			
4 02	Debit:			
4 03	Debit:			
4 04	Debit:			
4 05	Debit:			
5	TOTAL Debits to Retained Earnings (Account 439) (Total of lines 4 01 thru 4 ?)			
6	Balance Transferred from Income (Acct 433 less Acct 418 1)		1,777,256	1,627,381
7	Appropriations of Retained Earnings (Account 436)			
7 01				
7 02				
7 03				
7 04				
8	TOTAL Appropriations of Retained Earnings (Account 436) (Total of lines 7 01 thru 7 ?)			
9	Dividends Declared-Preferred Stock (Account 437)			
9 01				
9 02				
9 03				
9 04				
10	TOTAL Dividends Declared-Preferred Stock (Account 437) (Total of lines 9 01 thru 9 ?)			
11	Dividends Declared-Common Stock (Account 438)			
11 01				
11 02				
11 03				
11 04				
12	TOTAL Dividends Declared-Common Stock (Account 438) (Total of lines 11 01 thru 11 ?)		2,709,382	2,671,092
13	Transfers from Account 216 1, Unappropriated Undistributed Subsidiary Earnings			
14	Balance-End of Year (Total of lines 1, 4, 5, 6, 8,10,12,and13)		(326,040)	322,201

Name of Respondent Sta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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STATEMENT OF RETAINED EARNINGS FOR THE YEAR

6 Show separately the State and Federal income tax effect of items shown in Account 439, *Adjustments to Retained Earnings*

7 Explain in a footnote the basis for determining the amount reserved or appropriated. If such reservation or appropriation is to be recurrent; state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated.

8 At lines 3, 4, 7, 9, 11, and 15, add rows as necessary to report all data. When rows are added, the additional row numbers should follow in sequence, e.g., 3 01, 3 02, etc.

Line No	Item (a)	Current Year Amount (in dollars) (b)	Previous Year Amount (in dollars) (c)
APPROPRIATED RETAINED EARNINGS (Account 215) State balance and purpose of each appropriated retained earnings amount at end of year and give accounting entries for any applications of appropriated retained earnings during the year			
15 01			
15 02			
15 03			
15 04			
15 05			
15 06			
15 07			
15 08			
	TOTAL Appropriated Retained Earnings (Account 215)		
APPROPRIATED RETAINED EARNINGS-AMORTIZATION RESERVE, FEDERAL (Account 215.1) State below the total amount set aside through appropriations of retained earnings, as of the end of the year, in compliance with the provisions of Federally granted hydroelectric project licenses held by the respondent. If any reductions or changes other than the normal annual credits hereto have been made during the year, explain such items in a footnote.			
17	TOTAL Appropriated Retained Earnings-Amortization Reserve, Federal (Account 215 1)		
18	TOTAL Appropriated Retained Earnings (Accounts 215, 215 1) (Total of lines 16 and 17)		
19	TOTAL Retained Earnings (Accounts 215, 215 1, 216) (Total of lines 14 and 18)	(326,040)	322,201
UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS (Account 216 1)			
20	Balance-Beginning of Year (Debit or Credit)	(39,648)	935,407
21	Equity in Earnings for Year (Credit) (Account 418 1)	455,184	410,857
22	(Less) Dividends Received (Debit)		
23	Other Changes (Explain)	283,885	1,385,912
24	Balance-End of Year	131,651	(39,648)

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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STATEMENT OF CASH FLOWS

1 Information about noncash investing and financing activities should be provided on page 122. Provide also on page 122 a reconciliation between "Cash and Cash Equivalents at End of Year" with related amounts on the balance sheet.

3 Operating Activities-Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show on page 122 the amounts of interest paid (net of amounts capitalized) and income taxes paid.

2 Under "Other" specify significant amounts and group others.

Line No	DESCRIPTION (See Instructions for Explanation of Codes) (a)	Current Year Amount (b)	Previous Year Amount (c)
1	Net Cash Flow from Operating Activities		
2	Net Income (Line 72(c) on page 116)	2,232,440	2,038,238
3	Noncash Charges (Credits) to Income:		
4	Depreciation and Depletion	3,570,354	3,135,387
5	Amortization of (Specify) Debt Expense	149,332	111,600
5 01			
5 02			
6	Deferred Income Taxes (Net)	98,925	(473,275)
7	Investment Tax Credit Adjustments (Net)		
8	Net (Increase) Decrease in Receivables	1,580,145	(1,144,532)
9	Net (Increase) Decrease in Inventory	1,278,290	(1,511,663)
10	Net (Increase) Decrease in Allowances Inventory		
11	Net Increase (Decrease) in Payables and Accrued Expenses	(1,431,448)	935,582
12	Net (Increase) Decrease in Other Regulatory Assets		
13	Net Increase (Decrease) in Other Regulatory Liabilities		
14	(Less) Allowance for Other Funds Used During Construction		
15	(Less) Undistributed Earnings from Subsidiary Companies		
16	Other: Unrecovered gas cost	(2,441,773)	2,054,488
16 01			
16 02			
17	Net Cash Provided by (Used in) Operating Activities		
18	(Total of Lines 2 thru 16 ?)	5,036,265	5,145,825
19			
20	Cash Flows from Investment Activities:		
21	Construction and Acquisition of Plant (including land):		
22	Gross Additions to Utility Plant (less nuclear fuel)	13,506,652	6,037,839
23	Gross Additions to Nuclear Fuel		
24	Gross Additions to Common Utility Plant		
25	Gross Additions to Nonutility Plant		
26	(Less) Allowance for Other Funds Used During Construction		
27	Other: Construction work in progress	(6,744,376)	5,593,542
27 01			
27 02			
28	Cash Outflows for Plant (Total of lines 22 thru 27 ?)	6,762,276	11,631,381
29			
30	Acquisition of Other Noncurrent Assets (d)		
31	Proceeds from Disposal of Noncurrent Assets (d)		
32			
33	Investments in and Advances to Assoc and Subsidiary Companies	(873,295)	2,693,663
34	Contributions and Advances from Assoc and Subsidiary Companies		
35	Disposition of Investments in (and Advances to)		
36	Associated and Subsidiary Companies		
37			
38	Purchase of Investment Securities (a)		
39	Proceeds from Sales of Investment Securities (a)		

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, 98
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STATEMENT OF CASH FLOWS (Continued)

4 Investing Activities: Include at Other (Line 27) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed on page 122. Do not include on this statement the dollar amount of leases capitalized per U S of A General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost on page 122.

- 5 Codes used:
 (a) Net Proceeds or payments
 (b) Bonds, Debentures, and other long-term debt
 (c) Include commercial paper
 (d) Identify separate such items as investments fixed assets, intangibles, etc
- 6 Enter on page 122 clarifications and explanations
 7 At lines 5, 16, 27, 47, 56, 58, and 65, add rows as necessary to report all data. Number the extra rows in sequence, 5 01, 5 02, etc

Line No	DESCRIPTION (See Instructions for Explanation of Codes) (a)	Current Year Amount (b)	Previous Year Amount (c)
40	Loans Made or Purchased	36,000	32,000
41	Collections on Loans	24,000	24,000
42			
43	Net (Increase) Decrease in Receivables		
44	Net (Increase) Decrease in Inventory		
45	Net (Increase) Decrease in Allowances Held for Speculation		
46	Net Increase (Decrease) in Payables and Accrued Expenses		
47	Other:		
47 01			
47 02			
48	Net Cash Provided by (Used in) Investing Activities		
49	(Total of lines 28 thru 47 ?)	5,948,981	14,333,044
	Cash Flows from Financing Activities:		
52	Proceeds from Issuance of:		
53	Long-Term Debt (b)	23,797,796	
54	Preferred Stock		
55	Common Stock	573,055	640,335
56	Other:		
56 01			
57	Net Increase in Short-term Debt (c)		11,605,000
58	Other:		
58 01			
58 02			
59	Cash Provided by Outside Sources (Total of lines 53 thru 58 ?)	24,370,851	12,245,335
60			
61	Payments for Retirement of:		
62	Long-Term Debt (b)	10,405,777	813,321
63	Preferred Stock		
64	Common Stock		
65	Other:		
65 01			
66	Net Decrease in Short-Term Debt (c)	10,365,000	
67			
68	Dividends on Preferred Stock		
69	Dividends on Common Stock	2,709,382	2,671,092
70	Net Cash Provided by (Used in) Financing Activities		
71	(Total of lines 59 thru 69)	890,692	8,760,922
72			
73	Net Increase (Decrease) in Cash and Cash Equivalents (Total of line 18, 49 and 71)	(22,024)	426,297
76	Cash and Cash Equivalents at Beginning of Year	444,403	18,106
77			
78	Cash and Cash Equivalents at End of Year	422,379	444,403

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year of Report Dec 31, <u>98</u>
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NOTES TO FINANCIAL STATEMENTS

1 Provide important disclosures regarding the Balance Sheet, Statement of Income for the Year, Statement of Retained Earnings for the Year, and Statement of Cash Flow, or any account thereof. Classify the disclosures according to each financial statement, providing a subheading for each statement except where a disclosure is applicable to more than one statement. The disclosures must be on the same subject matters and in the same level of detail that would be required if the respondent issued general purpose financial statements to the public or shareholders.

2 Furnish details as to any significant contingent assets or liabilities existing at year end, and briefly explain any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or a claim for refund of income taxes of a material amount initiated by the utility. Also, briefly explain any dividends in arrears on cumulative preferred stock.

3 Furnish details on the respondent's pension plans, post-retirement benefits other than pensions (PBOP) plans, and post-employment benefit plans as required by instruction no. 1 and, in addition, disclose for each individual plan the current year's cash contributions. Furnish details on the accounting for the plans and any changes in the method of accounting for them. Include details on the accounting for transition obligations or assets, gains or losses, the amounts deferred and the expected recovery periods. Also, disclose any current year's plan or trust curtailments, terminations, transfers, or reversions of assets.

4 Where Account 189, *Unamortized Loss on Recquired Debt*, and 257, *Unamortized Gain on Recquired Debt*, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.

5 Explain concisely any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.

6 Disclose details on any significant financial changes during the reporting year to the respondent or the respondent's consolidated group that directly affect the respondent's gas pipeline operations, including: sales, transfers or mergers of affiliates, investments in new partnerships, sales of gas pipeline facilities or the sale of ownership interests in the gas pipeline to limited partnerships, investments in related industries (i.e., production, gathering), major pipeline investments, acquisitions by the parent corporation(s), and distributions of capital.

7 Explain concisely unsettled rate proceedings where a contingency exists such that the company may need to refund a material amount to the utility's customers or that the utility may receive a material refund with respect to power or gas purchases. State for each year affected the gross revenues or costs to which the contingency relates and the tax effects and explain the major factors that affect the rights of the utility to retain such revenues or to recover amounts paid with respect to power and gas purchases.

8 Explain concisely significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purchases, and summarize the adjustments made to balance sheet, income, and expense accounts.

9 Explain concisely only those significant changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also give the approximate dollar effect of such changes.

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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 1998
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**SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS
FOR DEPRECIATION, AMORTIZATION AND DEPLETION**

Line No.	Item (a)	ALL GAS Total (b)
1	UTILITY PLANT	
2	In Service	
3	Plant in Service (Classified)	119,758,525
4	Property Under Capital Leases	
5	Plant Purchased or Sold	
6	Completed Construction not Classified	
7	Experimental Plant Unclassified	
8	TOTAL Utility Plant (Total of lines 3 thru 7)	119,758,525
9	Leased to Others	
10	Held for Future Use	
11	Construction Work in Progress	1,382,759
12	Acquisition Adjustments	
13	TOTAL Utility Plant (Total of lines 8 thru 12)	121,141,284
14	Accumulated Provisions for Depreciation, Amortization, & Depletion	33,459,760
15	Net Utility Plant (Total of lines 13 and 14)	87,681,524
16	DETAIL OF ACCUMULATED PROVISIONS FOR DEPRECIATION, AMORTIZATION AND DEPLETION	
17	In Service:	
18	Depreciation	33,459,760
19	Amortization and Depletion of Producing Natural Gas Land and Land Rights	
20	Amortization of Underground Storage Land and Land Rights	
21	Amortization of Other Utility Plant	
22	TOTAL In Service (Total of lines 18 thru 21)	33,459,760
23	Leased to Others	
24	Depreciation	
25	Amortization and Depletion	
26	TOTAL Leased to Others (Total of lines 24 and 25)	
27	Held for Future Use	
28	Depreciation	
29	Amortization	
30	TOTAL Held for Future Use (Total of lines 28 and 29)	
31	Abandonment of Leases (Natural Gas)	
32	Amortization of Plant Acquisition Adjustment	
33	TOTAL Accum. Provisions (Should agree with line 14 above)(Total of lines 22, 26, 30, 31, and 32)	33,459,760

Name of Respondent

DELTA NATURAL GAS COMPANY, INC.

This Report Is:

An Original

A Resubmission

Date of Report
(Mo, Da, Yr)

03/31/99

Year Ending

Dec 31, 1998

SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS
FOR DEPRECIATION, AMORTIZATION AND DEPLETION (Continued)

Electric (c)	Gas (d)	Other (Specify) (e)	Common (f)	Line No
				1
				2
				3
				4
				5
				6
				7
				8
				9
				10
				11
				12
				13
				14
				15
				16
				17
				18
				19
				20
				21
				22
				23
				24
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				26
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				29
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				31
				32
				33

Name of Respondent IN A NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report <i>(Mo, Da, Yr)</i> 03/31/99	Year Ending Dec 31, 1998
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GAS PLANT IN SERVICE (ACCOUNTS 101, 102, 103, AND 106)

1 Report below the original cost of gas plant in service according to the prescribed accounts

2 In addition to Account 101, *Gas Plant in Service (Classified)*, this page and the next include Account 102, *Gas Plant Purchased or Sold*, Account 103, *Experimental Gas Plant Unclassified*, and Account 106, *Completed Construction Not Classified-Gas*

3 Include in column (c) and (d), as appropriate corrections of additions and retirements for the current or preceding year

4 Enclose in parenthesis credit adjustments of plant accounts to indicate the negative effect of such accounts

5. Classify Account 106 according to prescribed accounts, on an estimated basis if necessary, and include the entries in column (c) Also to be included in column (c) are entries for reversals of tentative distributions of prior year reported in column (b) Likewise, if the respondent has a significant amount of plant retirements which have not been classified to primary accounts at the end of the year, include in column (d) a tentative distribution of such retirements, on an estimated basis, with appropriate contra entry to the account for accumulated depreciation provision Include also in column (d) reversals of tentative distributions of prior year's unclassified retirements Attach supplemental statement showing the account distributions of these tentative classifications in columns (c) and (d).

Line No	Account (a)	Balance at Beginning of Year (b)	Additions (c)
1	INTANGIBLE PLANT		
2	301 Organization	53,151	
3	302 Franchises and Consents	2,739	
4	303 Miscellaneous Intangible Plant		
5	TOTAL Intangible Plant (Enter Total of lines 2 thru 4)	55,890	
6	PRODUCTION PLANT		
7	Natural Gas Production and Gathering Plant		
8	325.1 Producing Lands		
9	325.2 Producing Leaseholds		
10	325.3 Gas Rights		
11	325.4 Rights-of-Way	75,975	
12	325.5 Other Land and Land Rights		
13	326 Gas Well Structures		
14	327 Field Compressor Station Structures	42,950	
15	328 Field Measuring and Regulating Station Equipment		
16	329 Other Structures		
17	330 Producing Gas Wells-Well Construction		
18	331 Producing Gas Wells-Well Equipment	13,392	
19	332 Field Lines	1,815,170	22,148
20	333 Field Compressor Station Equipment	800,454	
21	334 Field Measuring and Regulating Station Equipment	82,734	
22	335 Drilling and Cleaning Equipment		
23	336 Purification Equipment		
24	337 Other Equipment		
25	338 Unsuccessful Exploration and Development Costs		
26	TOTAL Production and Gathering Plant (Enter Total of lines 8 thru 25)	2,830,675	22,148
27	PRODUCTS EXTRACTION PLANT		
28	340 Land and Land Rights		
29	341 Structures and Improvements		
30	342 Extraction and Refining Equipment		
31	343 Pipe Lines		
32	344 Extracted Products Storage Equipment		
33	345 Compressor Equipment		

Name of Respondent ATA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 1998
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GAS PLANT IN SERVICE (ACCOUNTS 101, 102, 103, AND 106)(Continued)

including the reversals of the prior years tentative account distributions of these amounts Careful observance of the above instructions and the texts of Account 101 and 106 will avoid serious omissions of respondent's reported amount for plant actually in service at end of year

6 Show in column (f) reclassifications or transfers within utility plant accounts Include also in column (f) the additions or reductions of primary account classifications arising from distribution of amounts initially recorded in Account 102 In showing the clearance of Account 102, include in column (e) the amounts with respect to accumulated provision for depreciation, acquisition adjustments, etc.,

and show in column (f) only the offset to the debits or credits to primary account classifications

7 For Account 399, state the nature and use of plant included in this account and if substantial in amount submit a supplementary statement showing subaccount classification of such plant conforming to the requirements of these pages

8 For each amount comprising the reported balance and changes in Account 102, state the property purchased or sold, name of vendor or purchaser, and date of transaction If proposed journal entries have been filed with the Commission as required by the Uniform System of Accounts, give date of such filing.

Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)	Line No
				1
			53,151	2
	(953)		1,786	3
				4
	(953)		54,937	5
				6
				7
				8
				9
				10
			75,975	11
				12
				13
			42,950	14
				15
				16
				17
			13,392	18
1,435			1,835,883	19
			800,454	20
			82,734	21
				22
				23
				24
				25
1,435			2,851,388	26
				27
				28
				29
				30
				31
				32
				33

Name of Respondent ATA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec. 31, 1998
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GAS PLANT IN SERVICE (ACCOUNTS 101, 102, 103, AND 106)(Continued)

Line No	Account (a)	Balance at Beginning of Year (b)	Additions (c)
34	346 Gas Measuring and Regulating Equipment		
35	347 Other Equipment		
36	TOTAL Products Extraction Plant (Enter Total of lines 28 thru 35)		
37	TOTAL Natural Gas Production Plant (Enter Total of lines 26 and 36)	2,830,675	22,148
38	Manufactured Gas Production Plant (Submit Supplementary Statement)	95,981	
39	TOTAL Production Plant (Enter Total of lines 37 and 38)	2,926,656	22,148
40	NATURAL GAS STORAGE AND PROCESSING PLANT		
41	Underground Storage Plant		
42	350.1 Land	14,142	
43	350.2 Rights-of-Way	116,030	13,395
44	351 Structures and Improvements	56,072	13,415
45	352 Wells		226,147
46	352.1 Storage Leaseholds and Rights	828,956	250,000
47	352.2 Reservoirs	1,881,731	
48	352.3 Non-recoverable Natural Gas	294,307	
49	353 Lines	780,093	4,235,996
50	354 Compressor Station Equipment	1,132,139	2,587
51	355 Measuring and Regulating Equipment	263,154	90,031
52	356 Purification Equipment	87,073	233,152
53	357 Other Equipment	47,209	
54	TOTAL Underground Storage Plant (Enter Total of lines 42 thru 53)	5,500,906	5,064,723
55	Other Storage Plant		
56	360 Land and Land Rights		
57	361 Structures and Improvements		
58	362 Gas Holders		
59	363 Purification Equipment		
60	363.1 Liquefaction Equipment		
61	363.2 Vaporizing Equipment		
62	363.3 Compressor Equipment		
63	363.4 Measuring and Regulating Equipment		
64	363.5 Other Equipment		
65	TOTAL Other Storage Plant (Enter Total of lines 56 thru 64)		
66	Base Load Liquefied Natural Gas Terminating and Processing Plant		
67	364.1 Land and Land Rights		
68	364.2 Structures and Improvements		
69	364.3 LNG Processing Terminal Equipment		
70	364.4 LNG Transportation Equipment		
71	364.5 Measuring and Regulating Equipment		
72	364.6 Compressor Station Equipment		
73	364.7 Communications Equipment		
74	364.8 Other Equipment		
75	TOTAL Base Load Liquefied Nat'l Gas, Terminating and Processing Plant (lines 67-74)		
76	TOTAL Nat'l Gas Storage and Processing Plant (Total of lines 54, 65 and 75)	5,500,906	5,064,723
77	TRANSMISSION PLANT		
78	365.1 Land and Land Rights	43,284	
79	365.2 Rights-of-Way	577,635	14,199
80	366 Structures and Improvements	145,444	

Name of Respondent LTA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 1998
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GAS PLANT IN SERVICE (ACCOUNTS 101, 102, 103, AND 106)(Continued)

Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)	Line No
				34
				35
				36
1,435			2,851,388	37
			95,981	38
1,435			2,947,369	39
				40
				41
			14,142	42
			129,425	43
			69,487	44
			226,147	45
			1,078,956	46
			1,881,731	47
			294,307	48
2,603			5,013,486	49
			1,134,726	50
			353,185	51
			320,225	52
			47,209	53
2,603			10,563,026	54
				55
				56
				57
				58
				59
				60
				61
				62
				63
				64
				65
				66
				67
				68
				69
				70
				71
				72
				73
				74
				75
2,603			10,563,026	76
				77
			43,284	78
			591,834	79
			145,444	80

Name of Respondent ATA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 1998
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GAS PLANT IN SERVICE (ACCOUNTS 101, 102, 103, AND 106)(Continued)

Line No	Account (a)	Balance at Beginning of Year (b)	Additions (c)
81	367 Mains	19,960,221	1,073,527
82	368 Compressor Station Equipment	1,267,850	8,439
83	369 Measuring and Regulating Station Equipment	880,470	198,341
84	370 Communication Equipment		
85	371 Other Equipment	418,719	19,174
86	TOTAL Transmission Plant (Enter Totals of lines 78 thru 85)	23,293,623	1,313,680
87	DISTRIBUTION PLANT		
88	374 Land and Land Rights	242,871	5,607
89	375 Structures and Improvements	101,108	2,265
90	376 Mains	42,377,397	4,460,036
91	377 Compressor Station Equipment		
92	378 Measuring and Regulating Station Equipment-General	906,431	62,585
93	379 Measuring and Regulating Station Equipment-City Gate	390,893	
94	380 Services	6,824,533	853,325
95	381 Meters	4,647,146	828,908
96	382 Meter Installations	2,199,091	172,094
97	383 House Regulators	1,850,373	340,732
98	384 House Regulator Installations		
99	385 Industrial Measuring and Regulating Station Equipment	1,113,345	91,758
100	386 Other Property on Customers' Premises		
101	387 Other Equipment		
102	TOTAL Distribution Plant (Enter Total of lines 88 thru 101)	60,653,188	6,817,310
103	GENERAL PLANT		
104	389 Land and Land Rights	840,112	25,417
105	390 Structures and Improvements	2,882,115	33,458
106	391 Office Furniture and Equipment	619,091	7,807
107	392 Transportation Equipment	2,718,779	396,088
108	393 Stores Equipment	41,199	1,267
109	394 Tools, Shop, and Garage Equipment	948,156	42,278
110	395 Laboratory Equipment	159,584	25,146
111	396 Power Operated Equipment	1,409,458	149,919
112	397 Communication Equipment	599,872	22,249
113	398 Miscellaneous Equipment	97,209	5,924
114	Subtotal (Enter Total of lines 104 thru 113)	10,315,575	709,553
115	399 Other Tangible Property	3,506,035	461,817
116	TOTAL General Plant (Enter Total of lines 114 and 115)	13,821,610	1,171,370
117	TOTAL (Accounts 101 and 106)	106,251,873	14,389,231
118	Gas Plant Purchased (See Instruction 8)		
119	(Less) Gas Plant Sold (See Instruction 8)		
120	Experimental Gas Plant Unclassified		
121	TOTAL Gas Plant In Service (Enter Total of lines 117 thru 120)	106,251,873	14,389,231

Name of Respondent ATA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec. 31, 1998
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GAS PLANT IN SERVICE (ACCOUNTS 101, 102, 103, AND 106)(Continued)

Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)	Line No
22,418			21,011,330	81
			1,276,289	82
			1,078,811	83
			437,893	84
				85
22,418			24,584,885	86
			248,478	87
			103,373	88
338,435			46,498,998	89
				90
3,424			965,592	91
			390,893	92
43,205			7,634,653	93
21,341		(295)	5,454,418	94
6,031			2,365,154	95
822		295	2,190,578	96
				97
2,732			1,202,371	98
				99
				100
				101
415,990		0	67,054,508	102
				103
20,212			845,317	104
32,969			2,882,604	105
7,267		8,727	628,358	106
270,492			2,844,375	107
			42,466	108
4,321			986,113	109
44,818			139,912	110
34,613			1,524,764	111
13,454			608,667	112
1,138			101,995	113
429,284		8,727	10,604,571	114
9,896		(8,727)	3,949,229	115
439,180		0	14,553,800	116
881,626	(953)	0	119,758,525	117
				118
				119
				120
881,626	(953)	0	119,758,525	121

Name of Respondent TA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 1998
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GAS PROPERTY AND CAPACITY LEASED FROM OTHERS

1 Report below the information called for concerning gas property and capacity leased from others for gas operations

2 For all leases in which the average annual lease payment over the initial term of the lease exceeds \$500,000, describe in column (c), if applicable: the property or capacity leased. Designate associated companies with an asterisk in column (b).

Line No	Name of Lessor (a)	• (b)	Description of Lease (c)	Lease Payments For Current Year (d)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
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31				
32				
33				
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36				
37				
38				
39				
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41				
42				
43				
44				
45	TOTAL			

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report <i>(Mo, Da, Yr)</i> 3-31-99	Year Ending Dec 31, 98
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GAS PROPERTY AND CAPACITY LEASED TO OTHERS

1 For all leases in which the average lease income over the initial term of the lease exceeds \$500,000 provide in column (c), a description of each facility or leased capacity that is classified as gas plant in service, and is leased to others for gas operations.

2 In column (d) provide the lease payments received from others

3 Designate associated companies with an asterisk in column (b)

Line No	Name of Lessor (a)	* (b)	Description of Lease (c)	Lease Payments For Current Year (d)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
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31				
32				
33				
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39				
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41				
42				
43				
44				
45	TOTAL			

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, <u>98</u>
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GAS PLANT HELD FOR FUTURE USE (ACCOUNT 105)

1 Report separately each property held for future use at end of the year having an original cost of \$1,000,000 or more Group other items of property held for future use

2 For property having an original cost of \$1,000,000 or more previously used in utility operations, now held for future use, give in column (a), in addition to other required information, the date that utility use of such property was discontinued, and the date the original cost was transferred to Account 105.

Line No	Description and Location of Property (a)	Date Originally Included in this Account (b)	Date Expected to be Used in Utility Service (c)	Balance at End of Year (d)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
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44				
45	TOTAL			

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Name of Respondent LTA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 1998
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CONSTRUCTION WORK IN PROGRESS-GAS (ACCOUNT 107)

1 Report below descriptions and balances at end of year of projects in process of construction (Account 107) and Demonstration (see Account 107 of the Uniform System of Accounts)
 2 Show items relating to "research, development, and demonstration" projects last, under a caption Research, Development, and Demonstration (see Account 107 of the Uniform System of Accounts)
 3 Minor projects (less than \$1,000,000) may be grouped

Line No	Description of Project (a)	Construction Work in Progress-Gas (Account 107) (b)	Estimated Additional Cost of Project (c)
1			
2			
3	STRUCTURE		
4	Owingsville Office	276,118	500
5			
6			
7	DISTRIBUTION EXTENSION		
8	Boone Trace	329,583	1,000
9			
10			
11			
12	DISTRIBUTION EXTENSION		
13	Keavy	300,763	3,000
14			
15			
16			
17	STORAGE IMPROVEMENTS		
18	Road to Canada Mountain	158,758	50,000
19			
20			
21			
22	MISC UNFINISHED JOBS	317,537	390,000
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
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36			
37			
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44			
45	TOTAL	1,382,759	354,500

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Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 1998
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GENERAL DESCRIPTION OF CONSTRUCTION OVERHEAD PROCEDURE

1 For each construction overhead explain: (a) the nature and extent of work, etc., the overhead charges are intended to cover, (b) the general procedure for determining the amount capitalized, (c) the method of distribution to construction jobs, (d) whether different rates are applied to different types of construction, (e) basis of differentiation in rates for different types of construction, and (f) whether the overhead is directly or indirectly assigned.

2 Show below the computation of allowance for funds used during construction rates, in accordance with the provisions of Gas Plant Instructions 3 (17) of the Uniform System of Accounts

3 Where a net-of-tax rate for borrowed funds is used, show the appropriate tax effect adjustment to the computations below in a manner that clearly indicates the amount of reduction in the gross rate for tax effects.

Payroll and associated cost plus other applicable expenses of engineering, accounting and administrative functions are allocated to construction work.

The allocation is based upon periodic time studies.

COMPUTATION OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION RATES

For line (5), column (d) below, enter the rate granted in the last rate proceeding. If not available, use the average rate earned during the preceding 3 years

Components of Formula (Derived from actual book balances and actual cost rates):

Title (a)	Amount (b)	Capitalization Ratio (Percent) (c)	Cost Rate Percent (d)
(1) Average Short-Term Debt	S		
(2) Short-Term Interest			s
(3) Long-Term Debt	D		d
(4) Preferred Stock	P		p
(5) Common Equity	C		c
(6) Total Capitalization		100%	
(7) Average Construction Work In Progress Balance	W		
2 Gross Rate for Borrowed Funds $s(S/W) + d\{(D/(D+P+C))\}(1-(S/W))$			
3 Rate for Other Funds $[1-(S/W)]\{p(P/(D+P+C)) + c(C/(D+P+C))\}$			
4 Weighted Average Rate Actually Used for the Year: a. Rate for Borrowed Funds - b. Rate for Other Funds -			

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 1998
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ACCUMULATED PROVISION FOR DEPRECIATION OF GAS UTILITY PLANT (ACCOUNT 108)

1 Explain in a footnote any important adjustments during year
2 Explain in a footnote any difference between the amount for book cost of plant retired, line 10, column (c), and that reported for gas plant in service, page 204-209, column (d), excluding retirements of nondepreciable property
3 The provisions of Account 108 in the Uniform System of Accounts require that retirements of depreciable plant be recorded when such plant is removed from service If the respondent has a

significant amount of plant retired at year end which has not been recorded and/or classified to the various reserve functional classifications, make preliminary closing entries to tentatively functionalize the book cost of the plant retired In addition, include all costs included in retirement work in progress at year end in the appropriate functional classifications
4 Show separately interest credits under a sinking fund or similar method of depreciation accounting
5 At lines 7 and 14, add rows as necessary to report all data Additional rows should be numbered in sequence, e g , 7 01, 7 02, etc.

Line No	Item (a)	Total (c+d+e) (b)	Gas Plant in Service (c)	Gas Plant Held for Future Use (d)	Gas Plant Leased to Others (e)
Section A. BALANCES AND CHANGES DURING YEAR					
1	Balance Beginning of Year	30,066,390			
2	Depreciation Provisions for Year, Charged to				
3	(403) Depreciation Expense	3,570,354			
4	(413) Expense of Gas Plant Leased to Others				
5	Transportation Expenses - Clearing	415,800			
6	Other Clearing Accounts	144,000			
	Other Clearing (Specify):				
8	TOTAL Deprec. Prov. for Year (Total of lines 3 thru 7.?)	4,130,154			
9	Net Charges for Plant Retired:				
10	Book Cost of Plant Retired	882,578			
11	Cost of Removal	10,528			
12	Salvage (Credit)	156,322			
13	TOTAL Net Chrgs for Plant Ret. (Total of lines 10 thru 12)	736,784			
14	Other Debit or Credit Items (Describe):				
14.01					
15	Balance End of Year (Total of lines 1,8,13, 14 to 14.?)	33,459,760			
Section B. BALANCES AT END OF YEAR ACCORDING TO FUNCTIONAL CLASSIFICATIONS					
16	Productions-Manufactured Gas	1,240,574			
17	Production and Gathering-Natural Gas				
18	Products Extraction-Natural Gas				
19	Underground Gas Storage	911,302			
20	Other Storage Plant				
21	Base Load LNG Terminaling and Processing Plant				
22	Transmission	7,547,922			
23	Distribution	16,184,415			
24	General	7,575,547			
25	TOTAL (Total of lines 16 thru 24)	33,459,760			

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, <u>98</u>
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GAS STORED (ACCOUNTS 117.1, 117.2, 117.3, 117.4, 164.1, 164.2, AND 164.3)

1 If during the year adjustments were made to the stored gas inventory reported in columns (d), (f), (g), and (h) (such as to correct cumulative inaccuracies of gas measurements), explain in a footnote the reason for the adjustments, the Dth and dollar amount of adjustment, and account charged or credited

2 Report in column (e) all encroachments during the year upon the volumes designated as base gas, column (b), and system balancing gas, column (c), and gas property recordable in the plant accounts

3 State in a footnote the basis of segregation of inventory between current and noncurrent portions Also, state in a footnote the method used to report storage (i.e., fixed asset method or inventory method).

Line No	Description (a)	(Account 117 1) (b)	(Account 117 2) (c)	Noncurrent (Account 117 3) (d)	(Account 117 4) (e)	Current (Account 164 1) (f)	LNG (Account 164 2) (g)	LNG (Account 164 3) (h)	Total (i)
1	Balance at Beginning of Year	4,046,127				1,855,202			
2	Gas Delivered to Storage					4,074,382			
3	Gas Withdrawn from Storage					2,564,682			
4	Other Debits and Credits								
5	Balance at End of Year	4,046,127				3,364,902			
6	577 mcf					632,853			
7	Amount Per 577 mcf					5.3170			

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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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INVESTMENTS (ACCOUNT 123, 124, AND 136)

1 Report below investments in Accounts 123, *Investments in Associated Companies*, 124, *Other Investments*, and 136, *Temporary Cash Investments*

2 Provide a subheading for each account and list thereunder the information called for:

(a) Investment in Securities—List and describe each security owned, giving name of issuer, date acquired and date of maturity. For bonds, also give principal amount, date of issue, maturity, and interest rate. For capital stock (including capital stock of respondent reacquired under a definite plan for resale pursuant

to authorization by the Board of Directors, and included in Account 124, *Other Investments*) state number of shares, class, and series of stock. Minor investments may be grouped by classes. Investments included in Account 136, *Temporary Cash Investments*, also may be grouped by classes.

(b) Investment Advances—Report separately for each person or company the amounts of loans or investment advances that are properly includable in Account 123. Include advances subject to current repayment in Account 145 and 146. With respect to each advance, show whether the advance is a note or open account.

Line No	Description of Investment (a)	• (b)	Book Cost at Beginning of Year (If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference) (c)	Purchases or Additions During Year (d)
1				
2				
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7				
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9				
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14				
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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INVESTMENTS (ACCOUNT 123, 124, AND 136) (Continued)

List each note, giving date of issuance, maturity date, and specifying whether note is a renewal. Designate any advances due from officers, directors, stockholders, or employees.

3 Designate with an asterisk in column (b) any securities, notes or accounts that were pledged, and in a footnote state the name of pledges and purpose of the pledge.

4 If Commission approval was required for any advance made or security acquired, designate such fact in a footnote and cite Commission, date of authorization, and case or docket number.

5 Report in column (h) interest and dividend revenues from investments including such revenues from securities disposed of during the year.

6 In column (i) report for each investment disposed of during the year the gain or loss represented by the difference between cost of the investment (or the other amount at which carried in the books of account if different from cost) and the selling price thereof, not including any dividend or interest adjustment includible in column (h).

Sales or Other Dispositions During Year (e)	Principal Amount or No of Shares at End of Year (f)	Book Cost at End of Year (If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference) (g)	Revenues for Year (h)	Gain or Loss from Investment Disposed of (i)	Line No
					1
					2
					3
					4
					5
					6
					7
					8
					9
					10
					11
					12
					13
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, ⁹⁸ _____
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INVESTMENTS IN SUBSIDIARY COMPANIES (ACCOUNT 123.1)

1 Report below investments in Account 123 1, *Investments in Subsidiary Companies*
 2 Provide a subheading for each company and list thereunder the information called for below Sub-total by company and give a total in columns (e), (f), (g) and (h)
 (a) Investment in Securities—List and describe each security owned For bonds give also principal amount, date of issue, maturity, and interest rate

(b) Investment Advances - Report separately the amounts of loans or investment advances which are subject to repayment, but which are not subject to current settlement With respect to each advance show whether the advance is a note or open account List each note giving date of issuance, maturity date, and specifying whether note is a renewal
 3 Report separately the equity in undistributed subsidiary earnings since acquisition The total in column (e) should equal the amount entered for Account 418.1.

Line No	Description of Investment (a)	Date Acquired (b)	Date of Maturity (c)	Amount of Investment at Beginning of Year (d)
1				
2				
3	ALL COMMON STOCK OF			
4				
5				
6				
7	Delta Resources, Inc.	4/84		(18,052)
8				
9	Delgasco, Inc.	5/86		3,769
10				
11	Deltran, Inc.	5/86		1,000
12				
13				
14				
15	Enpro, Inc.	5/86		18,919
16				
17	Tranex Corporation, Inc.	6/97		954,715
18				
19				
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22				
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26				
27				
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29				
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39				
40	TOTAL Cost of Account 123 1 \$_____		TOTAL	960,351

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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INVESTMENTS IN SUBSIDIARY COMPANIES (ACCOUNT 123.1)(Continued)

4 Designate in a footnote, any securities, notes, or accounts that were pledged, and state the name of pledgee and purpose of the pledge

5 If Commission approval was required for any advance made or security acquired, designate such fact in a footnote and give name of Commission, date of authorization, and case or docket number

6 Report in column (f) interest and dividend revenues from investments, including such revenues from securities disposed of during the year.

7 In column (h) report for each investment disposed of during the year, the gain or loss represented by the difference between cost of the investment (or the other amount at which carried in the books of account if different from cost), and the selling price thereof, not including interest adjustments includible in column (f)

8 Report on Line 40, column (a) the total cost of Account 123 1

Equity in Subsidiary Earnings for Year (e)	Revenues for Year (f)	Amount of Investment at End of Year (g)	Gain or Loss from Investment Disposed of (h)	Line No
				1
				2
				3
				4
				5
				6
280,500	237,582	24,866		7
				8
				9
46,607	46,303	4,073		10
				11
-	-	1,000		12
				13
197,317	-	216,236		14
				15
				16
(69,240)	-	885,475		17
				18
				19
				20
				21
				22
				23
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				27
				28
				29
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455,184	283,885	1,131,650		40

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, ⁹⁸
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PREPAYMENTS (ACCOUNT 165)

1. Report below the particulars (details) on each prepayment.

Line No	Nature of Prepayment (a)	Balance at End of Year (in dollars) (b)
1	Prepaid Insurance	105,568
2	Prepaid Rents	
3	Prepaid Taxes	
4	Prepaid Interest	
5	Miscellaneous Prepayments Primarily pension costs	718,783
6	TOTAL	824,351

EXTRAORDINARY PROPERTY LOSSES (ACCOUNT 182.1)

Line No	Description of Extraordinary Loss (Include the date of loss, the date of Commission authorization to use Account 182 1 and period of amortization (mo, yr, to mo, yr)) Add rows as necessary to report all data (a)	Balance at Beginning of Year (b)	Total Amount of Loss (c)	Losses Recognized During Year (d)	WRITTEN OFF DURING YEAR		Balance at End of Year (g)
					Account Charged (e)	Amount (f)	
7							
8							
11							
12							
13							
14							
15	TOTAL						

UNRECOVERED PLANT AND REGULATORY STUDY COSTS (ACCOUNT 182.2)

Line No	Description of Unrecovered Plant and Regulatory Study Costs (Include in the description of costs, the date of Commission authorization to use Account 182 2 and period of amortization (mo, yr, to mo, yr)) Add rows as necessary to report all data Number rows in sequence beginning with the next row number after the last row number used for extraordinary property losses (a)	Balance at Beginning of Year (b)	Total Amount of Charges (c)	Costs Recognized During Year (d)	WRITTEN OFF DURING YEAR		Balance at End of Year (g)
					Account Charged (e)	Amount (f)	
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
	TOTAL						

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OTHER REGULATORY ASSETS (ACCOUNT 182.3)

1 Report below the details called for concerning other regulatory assets which are created through the ratemaking actions of regulatory agencies (and not includable in other accounts)

2 For regulatory assets being amortized, show period of amortization in column (a)

3 Minor items (5% of the Balance at End of Year for Account 182.3 or amounts less than \$250,000, whichever is less) may be grouped by classes

4 Report separately any "Deferred Regulatory Commission Expenses" that are also reported on pages 350-351, Regulatory Commission Expenses.

Line No	Description and Purpose of Other Regulatory Assets (a)	Balance at Beginning of Year (b)	Debits (c)	WRITTEN OFF DURING YEAR		Balance at End of Year (f)
				Account Charged (d)	Amount (e)	
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2						
3						
4						
5						
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9						
10						
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12						
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40	TOTAL					

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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MISCELLANEOUS DEFERRED DEBITS (ACCOUNT 186)

1 Report below the details called for concerning miscellaneous deferred debits

2. For any deferred debit being amortized, show period of amortization in column (a)

3. Minor items (less than \$250,000) may be grouped by classes.

Line No	Description of Miscellaneous Deferred Debits (a)	Balance at Beginning of Year (b)	Debits (c)	CREDITS		Balance at End of Year (f)
				Account Charged (d)	Amount (e)	
1						
2						
3	Management Audit Costs	182,700		921	62,640	120,060
4						
5						
6	Rate Gas Expenses	117,030	9,725	921	24,960	101,795
7						
8						
9						
10						
11						
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16						
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28						
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38						
39	Miscellaneous Work in Progress					
40	TOTAL	299,730			87,600	221,855

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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ACCUMULATED DEFERRED INCOME TAXES (ACCOUNT 190)

1 Report the information called for below concerning the respondent's accounting for deferred income taxes

2 At Other (Specify), include deferrals relating to other income and deductions

3 At lines 4 and 6, add rows as necessary to report all data. Number the additional rows in sequence 4 01, 4 02, etc and 6 01, 6.02, etc.

Line No	Account Subdivisions (a)	Balance at Beginning of Year (b)	CHANGES DURING YEAR	
			Amounts Debited to Account 410 1 (c)	Amounts Credited to Account 411 1 (d)
1	Account 190			
2	Electric			
3	Gas			
4	Other (Define)			
5	Total (Total of lines 2 thru 4)			
6	Other (Specify)			
6.01				
7	TOTAL Account 190 (Total of lines 5 thru 6.?)			
8	Classification of TOTAL			
9	Federal Income Tax			
10	State Income Tax			
11	Local Income Tax			

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report <i>(Mo, Da, Yr)</i> 3-31-99	Year Ending Dec 31, 98
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ACCUMULATED DEFERRED INCOME TAXES (ACCOUNT 190) (Continued)

4 If more space is needed, use separate pages as required

5 In the space provided below, identify by amount and classification, significant items for which deferred taxes are being provided. Indicate insignificant amounts listed under "Other."

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No
Amounts Debited to Account 410.2 (e)	Amounts Credited to Account 411 2 (f)	DEBITS		CREDITS			
		Acct No (g)	Amount (h)	Acct No (i)	Amount (j)		
							1
							2
							3
							4
							5
							6
							6.01
							6.02
							7
							8
							9
							10
							11

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending 98 Dec 31, ___
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CAPITAL STOCK (ACCOUNTS 201 AND 204)

1 Report below the details called for concerning common and preferred stock at end of year, distinguishing separate series of any general class Show separate totals for common and preferred stock

2 Entries in column (b) should represent the number of shares authorized by the articles of incorporation as amended to end of year
3 Give details concerning shares of any class and series of stock authorized to be issued by a regulatory commission which have not yet been issued

Line No	Class and Series of Stock and Name of Stock Exchange (a)	Number of Shares Authorized by Charter (b)	Par or Stated Value Per Share (c)	Call Price at End of Year (d)
1				
2				
3				
4				
5	COMMON STOCK	6,000,000	\$1.00	
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
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17				
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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CAPITAL STOCK (ACCOUNTS 201 AND 204) (Continued)

4 The identification of each class of preferred stock should show the dividend rate and whether the dividends are cumulative or noncumulative
 5 State in a footnote if any capital stock that has been nominally issued is nominally outstanding at end of year.

6 Give particulars (details) in column (a) of any nominally issued capital stock, reacquired stock, or stock in sinking and other funds which is pledged, stating name of pledgee and purpose of pledge

OUTSTANDING PER BALANCE SHEET (Total amount outstanding without reduction for amounts held by respondent)		HELD BY RESPONDENT				Line No
		AS REQUIRED STOCK (Account 217)		IN SINKING AND OTHER FUNDS		
Shares (e)	Amount (f)	Shares (g)	Cost (h)	Shares (i)	Amount (j)	
2,394,633	2,394,633					1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, <u>98</u>
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**CAPITAL STOCK SUBSCRIBED, CAPITAL STOCK LIABILITY FOR CONVERSION,
PREMIUM ON CAPITAL STOCK, AND INSTALLMENTS RECEIVED ON CAPITAL STOCK
(ACCOUNTS 202, 203, 205, 206, 207, and 212)**

1 Show for each of the above accounts the amounts applying to each class and series of capital stock
2 For Account 202, *Common Stock Subscribed*, and Account 205, *Preferred Stock Subscribed*, show the subscription price and the balance due on each class at the end of year

3 Describe in a footnote the agreement and transactions under which a conversion liability existed under Account 203, *Common Stock Liability for Conversion*, or Account 206, *Preferred Stock Liability for Conversion*, at the end of year
4 For Premium on Account 207, *Capital Stock*, designate with an asterisk in column (b), any amounts representing the excess of consideration received over stated values of stocks without par value.

Line No	Name of Account and Description of Item (a)	(b)	Number of Shares (c)	Amount (d)
1				
2				
3	A/C 207			
4				
5	Premiums Paid on Capital Stock		N/A	28,068,588
6				
7				
8				
9				
10	A/C 212			
11				
12	Installments Received on Common Stock thru Employee Stock Plan		N/A	59,484
13				
14				
15				
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19				
20				
21				
22				
23				
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25				
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40	TOTAL			

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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OTHER PAID-IN CAPITAL (ACCOUNTS 208-211)

1 Report below the balance at the end of the year and the information specified below for the respective other paid-in capital accounts. Provide a subheading for each account and show a total for the account, as well as a total of all accounts for reconciliation with the balance sheet, page 112. Explain changes made in any account during the year and give the accounting entries effecting such change.

(a) *Donations Received from Stockholders (Account 208)* - State amount and briefly explain the origin and purpose of each donation.

(b) *Reduction in Par or Stated Value of Capital Stock (Account 209)* - State amount and briefly explain the capital changes that gave rise to amounts reported under this caption including identification with the class and series of stock to which related.

(c) *Gain or Resale or Cancellation of Acquired Capital Stock (Account 210)* - Report balance at beginning of year, credits, debits, and balance at end of year with a designation of the nature of each credit and debit identified by the class and series of stock to which related.

(d) *Miscellaneous Paid-In Capital (Account 211)* - Classify amounts included in this account according to captions that, together with brief explanations, disclose the general nature of the transactions that gave rise to the reported amounts.

Line No.	Item (a)	Amount (b)
1		
2		
3		
4		
5		
6		
7		
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12		
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15		
16		
17		
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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DISCOUNT ON CAPITAL STOCK (ACCOUNT 213)

1 Report the balance at end of year of discount on capital stock for each class and series of capital stock Use as many rows as necessary to report all data

2 If any change occurred during the year in the balance with respect to any class or series of stock, attach a statement giving details of the change State the reason for any charge-off during the year and specify the account charged.

Line No.	Class and Series of Stock (a)	Balance at End of Year (b)
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15	TOTAL	

CAPITAL STOCK EXPENSE (ACCOUNT 214)

Report the balance at end of year of capital stock expenses for each class and series of capital stock Use as many rows as necessary to report all data Number the rows in sequence starting from the last row number used for Discount on Capital Stock above.

2 If any change occurred during the year in the balance with respect to any class or series of stock, attach a statement giving details of the change State the reason for any charge-off of capital stock expense and specify the account charged.

Line No.	Class and Series of Stock (a)	Balance at End of Year (b)
16		
17		
18		
19	COMMON STOCK \$1.00 Par Value	1,917,020
20		
21		
22		
23		
24		
25		
26		
27		
28		
29	TOTAL	1,917,020

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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**SECURITIES ISSUED OR ASSUMED AND
SECURITIES REFUNDED OR RETIRED DURING THE YEAR**

1 Furnish a supplemental statement briefly describing security financing and refinancing transactions during the year and the accounting for the securities, discounts, premiums, expenses, and related gains or losses. Identify as to Commission authorization numbers and dates.

2 Provide details showing the full accounting for the total principal amount, par value, or stated value of each class and series of security issued, assumed, retired, or refunded and the accounting for premiums, discounts, expenses, and gains or losses relating to the securities. Set forth the facts of the accounting clearly with regard to redemption premiums, unamortized discounts, expenses, and gain or losses relating to securities retired or refunded, including the accounting for such amounts carried in the respondent's accounts at the date of the refunding or refinancing transactions with respect to securities previously refunded or retired.

3 Include in the identification of each class and series of security, as appropriate, the interest or dividend rate, nominal date of issuance, maturity date, aggregate principal amount, par value or stated value, and number of shares. Give also the issuance of redemption price and name of the principal underwriting firm through which the security transactions were consummated.

4 Where the accounting for amounts relating to securities refunded or retired is other than that specified in General Instruction 17 of the Uniform System of Accounts, cite the Commission authorization for the different accounting and state the accounting method.

5 For securities assumed, give the name of the company for which the liability on the securities was assumed as well as details of the transactions whereby the respondent undertook to pay obligations of another company. If any unamortized discount, premiums, expenses, and gains or losses were taken over onto the respondent's books, furnish details of these amounts with amounts relating to refunded securities clearly earmarked.

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, <u>98</u>
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LONG-TERM DEBT (ACCOUNTS 221, 222, 223, AND 224)

1 Report by Balance Sheet Account the details concerning long-term debt included in Account 221, *Bonds*, 222, *Reacquired Bonds*, 223, *Advances from Associated Companies*, and 224, *Other Long-Term Debt*
2 For bonds assumed by the respondent, include in column (a) the name of the issuing company as well as a description of the bonds

3 For Advances from Associated Companies, report separately advances on notes and advances on open accounts. Designate demand notes as such. Include in column (a) names of associated companies from which advances were received
4 For receivers' certificates, show in column (a) the name of the court and date of court order under which such certificates were issued

Line No	Class and Series of Obligation and Name of Stock Exchange (a)	Nominal Date of Issue (b)	Date of Maturity (c)	Outstanding (Total amount outstanding without reduction for amounts held by respondent) (d)
1				
2				
3				
4				
5				
6	DEBENTURES	4/91	4/11	-
7				
8	DEBENTURES	10/93	10/23	12,973,000
9				
10	DEBENTURES	7/96	7/26	15,000,00
11				
12				
13				
14	PROMISSORY NOTE - CANADA MOUNTAIN	11/95	11/01	1,400,000
15				
16	DEBENTURES	4/98	4/26	25,000,000
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
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39				
	TOTAL			54,373,000

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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LONG-TERM DEBT (ACCOUNT 221, 222, 223, and 224)(Continued)

5 In a supplemental statement, give explanatory details for Accounts 223 and 224 of net changes during the year. With respect to long-term advances, show for each company: (a) principal advanced during year (b) interest added to principal amount, and (c) principal repaid during year. Give Commission authorization numbers and dates.

6 If the respondent has pledged any of its long-term debt securities, give particulars (details) in a footnote, including name of the pledgee and purpose of the pledge.

7 If the respondent has any long-term securities that have been nominally issued and are nominally outstanding at end of year, describe such securities in a footnote.

8 If interest expense was incurred during the year on any obligations retired or reacquired before end of year, include such interest expense in column (f). Explain in a footnote any difference between the total of column (f) and the total Account 427, *Interest on Long-Term Debt* and Account 430, *Interest on Debt to Associated Companies*.

9 Give details concerning any long-term debt authorized by a regulatory commission but not yet issued.

INTEREST FOR YEAR		HELD BY RESPONDENT		Redemption Price Per \$100 at End of Year (i)	Line No
Rate (in %) (e)	Amount (f)	Reacquired Bonds (Account 222) (g)	Sinking and Other Funds (h)		
	300,000				1
	871,304				2
	1,245,000				3
	-				4
	1,359,198				5
					6
					7
					8
					9
					10
					11
					12
					13
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	3,775,502				40

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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UNAMORTIZED DEBT EXPENSE, PREMIUM AND DISCOUNT ON LONG-TERM DEBT (ACCOUNTS 181,225,226)

1 Report under separate subheadings for Unamortized Debt Expense, Unamortized Premium on Long-Term Debt and Unamortized Discount on Long-Term Debt, details of expense, premium or discount applicable to each class and series of long-term debt

2 Show premium amounts by enclosing the figures in parentheses
3 In column (b) show the principal amount of bonds or other long-term debt originally issued
4 In column (c) show the expense, premium or discount with respect to the amount of bonds or other long-term debt originally issued.

Line No	Designation of Long-Term Debt (a)	Principal Amount of Debt Issued (b)	Total Expense Premium or Discount (c)	AMORTIZATION PERIOD	
				Date From (d)	Date To (e)
1					
2	DEBENTURES	10,000,000	514,176	4/91	4/11
3					
4	DEBENTURES	15,000,000	1,874,508	10/93	10/23
5					
6	DEBENTURES	15,000,000	689,666	7/96	7/26
7					
8	DEBENTURES	25,000,000	1,534,405	4/98	4/18
9					
10	DEBENTURES	25,000,000	1,534,405	4/98	4/18
11					
12	TOTAL	40,000,000	4,617,155		
13					
14					
15					
16					
17					
18					
19					
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21					
22					
23					
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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UNAMORTIZED DEBT EXPENSE, PREMIUM AND DISCOUNT ON LONG-TERM DEBT (Accts.181,225,226)(Cont.)

5 Furnish in a footnote details regarding the treatment of unamortized debt expense, premium or discount associated with issues redeemed during the year. Also, give in a footnote the date of the Commission's authorization of treatment other than as specified by the Uniform System of Accounts.

6 Identify separately undisposed amounts applicable to issues which were redeemed in prior years
 7 Explain any debits and credits other than amortization debited to Account 428, *Amortization of Debt Discount and Expense*, or credited to Account 429, *Amortization of Premium on Debt-Credit*

Balance at Beginning of Year. (f)	Debits During Year (g)	Credits During Year (h)	Balance at End of Year (i)	Line No
338,800		6,600		1
		332,200		2
1,606,800		62,400 (A)	1,544,400	3
651,700		22,800	628,900	4
	1,202,205			5
	332,200 (A)	57,532	1,476,873	6
2,597,300	1,534,405	481,532	3,650,173	7
				8
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(A) Cleared to expense of new issue due to early retirement

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending 98 Dec 31, ____
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UNAMORTIZED LOSS AND GAIN ON REACQUIRED DEBT (ACCOUNTS 189, 257)

1 Report under separate subheadings for Unamortized Loss and Unamortized Gain on Reacquired Debt, details of gain and loss, including maturity date, on reacquisition applicable to each class and series of long-term debt. If gain or loss resulted from a refunding transaction, include also the maturity date of the new issue.

2 In column (c) show the principal amount of bonds or other long-term debt reacquired.

3 In column (d) show the net gain or net loss realized on each debt reacquisition as computed in accordance with General Instruction 17 of the Uniform Systems of Accounts.

4 Show loss amounts by enclosing the figures in parentheses.

5 Explain in a footnote any debits and credits other than amortization debited to Account 428 1, *Amortization of Loss on Reacquired Debt*, or credited to Account 429 1, *Amortization of Gain on Reacquired Debt-Credit*.

Line No	Designation of Long-Term Debt (a)	Date Reacquired (b)	Principal of Debt Reacquired (c)	Net Gain or Net Loss (d)	Balance at Beginning of Year (e)	Balance at End of Year (f)
1						
2						
3						
4						
5						
6						
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, ⁹⁸ _____
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RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME FOR FEDERAL INCOME TAXES

1 Report the reconciliation of reported net income for the year with taxable income used in computing Federal Income Tax accruals and show computation of such tax accruals. Include in the reconciliation, as far as practicable, the same detail as furnished on Schedule M-1 of the tax return for the year. Submit a reconciliation even though there is no taxable income for the year. Indicate clearly the nature of each reconciling amount.

2 If the utility is a member of a group that files consolidated Federal tax return, reconcile reported net income with taxable net income as if a separate return were to be filed, indicating, however, intercompany amounts to be eliminated in such a consolidated return. State names of group members, tax assigned to each group member, and basis of allocation, assignments, or sharing of the consolidated tax among the group members.

Line No.	DETAILS (a)	Amount (b)
1	Net Income for the Year (Page 116)	2,232,400
2	Reconciling Items for the Year	
3		
4	Taxable Income Not Reported on Books	
5	Unbilled revenue	
6	Deferred gas cost	3,328,624
7	Book/tax retirements	45,541
8	Bad debt and miscellaneous	8,651
9	Deductions Recorded on Books Not Deducted for Return	
10	Self construction interest	491,072
11	Employee plans	28,500
12	Meals & entertainment & lobbying	18,399
13	Amortize Ferrin note	14,900
14	Income Recorded on Books Not Included in Return	
15	CSV of life insurance	9,302
16	Net income from subsidiaries	455,184
17		
18		
19	Deductions on Return Not Charged Against Book Income	
20	Tax depreciation vs book depreciation	2,400,000
21	Accrued pension	344,466
22	Other reconciling	(253,891)
23	Unbilled revenue	279,532
24	Debt expense	259,891
25		
26		
27	Federal Tax Net Income	2,673,603
28	Show Computation of Tax:	@ 34%
29	Delta's fiscal year ends June 30. For interim periods,	909,025
30	in accordance with APB#28, Delta estimates an effective	
31	tax rate which is used to record total tax expense.	
32		
35		

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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TAXES ACCRUED, PREPAID AND CHARGED DURING YEAR

1 Give details of the combined prepaid and accrued tax accounts and show the total taxes charged to operations and other accounts during the year. Do not include gasoline and other sales taxes which have been charged to the accounts to which the taxed material was charged. If the actual or estimated amounts of such taxes are known, show the amounts in a footnote and designate whether estimated or actual amounts.

2 Include on this page, taxes paid during the year and charged direct to final accounts, (not charged to prepaid or accrued taxes) Enter the amounts in both columns (d) and (e). The balancing of this

page is not affected by the inclusion of these taxes

3 Include in column (d) taxes charged during the year, taxes charged to operations and other accounts through (a) accruals credited to taxes accrued, (b) amounts credited to the portion of prepaid taxes charged to current year, and (c) taxes paid and charged direct to operations or accounts other than accrued and prepaid tax accounts

4 List the aggregate of each kind of tax in such manner that the total tax for each State and subdivision can readily be ascertained

Line No	Kind of Tax (See Instruction 5) (a)	BALANCE AT BEGINNING OF YEAR	
		Taxes Accrued (b)	Prepaid Taxes (c)
1	Sales & Utility & Franchise	368,222	
2	Mineral Severance	4,450	
3	Payroll	19,349	
4	License	-	
5	State Income	(279,244)	
6	Federal Income	(276,745)	
7	Property	665,486	
8			
9			
10			
11			
12			
13			
14			
15	TOTAL	501,518	

DISTRIBUTION OF TAXES CHARGED (Show utility department where applicable and account charged.)

Line No	Electric (Account 408 1, 409 1) (i)	Gas (Account 408 1, 409 1) (j)	Other Utility Department (Account 408 1, 409 1) (k)	Other Income and Deductions (Account 408 2, 409 2) (l)
1				
2				
3		480,841		
4		423		
5		199,300		8,500
6		875,125		33,900
7		742,584		
8				
9				
10				
11				
12				
13				
14				
15	TOTAL	2,298,273		42,400

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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TAXES ACCRUED, PREPAID AND CHARGED DURING YEAR (Continued)

5 If any tax (exclude Federal and State income taxes) covers more than one year, show the required information separately for each tax year, identifying the year in column (a)

6 Enter all adjustments of the accrued and prepaid tax accounts in column (f) and explain each adjustment in a footnote. Designate debit adjustments by parentheses

7 Do not include on this page entries with respect to deferred income taxes or taxes collected through payroll deductions or otherwise pending transmittal of such taxes to the taxing authority

8 Show in columns (i) thru (p) how the taxes accounts were distributed. Show both the utility department and number of account charged. For taxes charged to utility plant, show the number of the appropriate balance sheet plant account or subaccount

9 For any tax apportioned to more than one utility department or account, state in a footnote the basis (necessity) of apportioning such tax

10 Items under \$250,000 may be grouped

Taxes Charged During Year (d)	Taxes Paid During Year (e)	Adjustments (f)	BALANCE AT END OF YEAR		Line No
			Taxes Accrued (Account 236) (g)	Prepaid Taxes (Included in Acct 165) (h)	
1,405,518	1,616,432		157,308		1
49,213	49,320		4,343		2
480,841	481,532		18,658		3
423	423		-		4
207,800	29,700	(1) 31,700	(69,444)		5
909,025	1,457,000	(1) (3,725)	(828,445)		6
42,584	1,131,999		276,071		7
					8
					9
					10
					11
					12
					13
					14
3,795,404	4,766,406	27,975	(441,509)		15

(1) Primarily applicable to Subs

DISTRIBUTION OF TAXES CHARGED (Show utility department where applicable and account charged.)

Extraordinary Items (Account 409 3) (m)	Other Utility Opn Income (Account 408 1, 409 1) (n)	Adjustment to Ret Earnings (Account 439) (o)	Other (p)	Line No
			1,405,518	1
			49,213	2
				3
				4
				5
				6
				7
				8
				9
				10
				11
				12
				13
				14
			1,454,731	15

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES (ACCOUNT 242)

1 Describe and report the amount of other current and accrued liabilities at the end of year.

2 Minor items (less than \$250,000) may be grouped under appropriate title.

Line No.	Item (a)	Balance at End of Year (b)
1	Accrued Medical - Self Insured	126,000
2	Accrued Vacation & Annual Leave	528,952
3	Miscellaneous	84,136
4		
5		
6		
7		
8		
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44		
45	TOTAL	739,088

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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OTHER DEFERRED CREDITS (ACCOUNT 253)

1 Report below the details called for concerning other deferred credits
 2 For any deferred credit being amortized, show the period of amortization
 3. Minor items (less than \$250,000) may be grouped by classes.

Line No	Description of Other Deferred Credits (a)	Balance at Beginning of Year (b)	DEBITS		Credits (e)	Balance at End of Year (f)
			Contra Account (c)	Amount (d)		
1						
2						
3						
4						
5	Purchase Gas Cost					
6	Refunds	461,147				
7						
8						
9						
10						
11						
12						
13						
14	Refund to Customers via GCR Filings		803	403,594		
15						
16						
17						
18						
19						
20						
21						
22	Refunds Received					
23	Plus Interest Net					
24	of Refunds Transferred					
25	per GCR Filings				15,286	
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
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41						
42						
43						
44						
45	TOTAL	461,147				72,839

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report <i>(Mo, Da, Yr)</i> 3-31-99	Year Ending Dec 31, 98
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ACCUMULATED DEFERRED INCOME TAXES-OTHER PROPERTY (ACCOUNT 282)

1 Report the information called for below concerning the respondent's accounting for deferred income taxes relating to property not subject to accelerated amortization.

2 For Other, include deferrals relating to other income and deductions

Line No	Account Subdivisions (a)	Balance at Beginning of Year (b)	Amounts Debited to Account 410 1 (c)	Amounts Credited to Account 411 1 (d)
1	Account 282			
2	Electric			
3	Gas			
4	Other (Define)			
5	Total (Enter Total of lines 2 thru 4)			
6	Other (Specify)			
6.01				
	TOTAL Account 282 (Enter Total of lines 5 thru 6.?)			
8	Classification of TOTAL			
9	Federal Income Tax			
10	State Income Tax			
11	Local Income Tax			

Name of Respondent

Alta Natural Gas Company, Inc.

This Report Is:

An Original

A Resubmission

Date of Report
(Mo, Da, Yr)

3-31-99

Year Ending

Dec. 31, 98

ACCUMULATED DEFERRED INCOME TAXES-OTHER PROPERTY (ACCOUNT 282)(Continued)

3 Add rows as necessary to report all data When rows are added, the additional row numbers should follow in sequence, 4 01, 4 02 and 6 01, 6 02, etc Use separate pages as required

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of Year (k)	Line No
Amounts Debited to Account 410 2 (e)	Amounts Credited to Account 411 2 (f)	Debits		Credits			
		Acct No (g)	Amount (h)	Acct No (i)	Amount (j)		
							1
							2
							3
							4
							5
							6
							6.01
							6.02
							7
							8
							9
							10
							11

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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ACCUMULATED DEFERRED INCOME TAXES-OTHER (ACCOUNT 283)

1 Report the information called for below concerning the respondent's accounting for deferred income taxes relating to amounts recorded in Account 283

2 For Other, include deferrals relating to other income and deductions

Line No	Account Subdivisions (a)	Balance at Beginning of Year (b)	CHANGES DURING YEAR	
			Amounts Debited to Account 410 1 (c)	Amounts Credited to Account 411 1 (d)
1	Account 283			
2	Electric			
3	Gas	8,393,000		29,700
4	Other (Define)			
5	Total (Total of lines 2 thru 4)			
6	Other (Specify)			
6.01				
7	TOTAL Account 283 (Total of lines 5 thru 6.?)	8,393,000		29,700
8	Classification of TOTAL			
9	Federal Income Tax			
10	State Income Tax			
11	Local Income Tax			

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 19 <u>98</u>
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ACCUMULATED DEFERRED INCOME TAXES-OTHER (ACCOUNT 283)(Continued)

3 Provide in a footnote explanations for pages 276 and 277 Include amounts relating to insignificant items listed under Other

4 Add additional rows as necessary to report all data When rows are added, the additional row numbers should follow in sequence, 4.01, 4.02, and 6.01, 6.02, etc. Use separate pages as required.

CHANGES DURING YEAR		ADJUSTMENTS				Balance at End of year (k)	Line No
Amounts Debited to Account 410 2 (e)	Amounts Credited to Account 411 2 (f)	Debits		Credits			
		Account No (g)	Amount (h)	Account No (i)	Amount (j)		
							1
							2
				236/254	14,025	8,436,725	3
							4
							5
							6
							6.01
							6.02
					14,025	8,436,725	7
							8
							9
							10
							11

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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OTHER REGULATORY LIABILITIES (ACCOUNT 254)

1 Report below the details called for concerning other regulatory liabilities which are created through the ratemaking actions of regulatory agencies (and not includable in other amounts)

2 For regulatory liabilities being amortized, show period of amortization in column (a)

3 Minor items (5% of the Balance at End of Year for Account 254 or amounts less than \$250,000, whichever is less) may be grouped by classes.

Line No	Description and Purpose of Other Regulatory Liabilities (a)	Balance at Beginning of Year (b)	DEBITS		Credits (e)	Balance at End of Year (f)
			Account Credited (c)	Amount (d)		
1	Regulatory Liability as a Result of Income Tax Differences	428,975	410	25,500		403,475
2						
3						
4						
5						
6						
7	Regulatory Liability on Unamortized ITC	438,700	411	46,200		392,500
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
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40						
41						
42						
43						
45	TOTAL	867,675		71,700		795,975

Supplemental Gas Information

Customers and MCF Sales

YE 12-31-98

For Reporting Year

	<u>MCF of Natural Gas Sold</u>	<u>Customers average</u>
480 Residential	<u>2,142,319</u>	<u>32,111</u>
481 Commercial & Industrial Sales		
Small (or Commercial)	<u>1,375,264</u>	<u>4,894</u>
Large (or Industrial)	<u>184,674</u>	<u>69</u>
482 Other Sales To Public Authorities	<u> </u>	<u> </u>
484 Interdepartmental Sales	<u> </u>	<u> </u>
TOTAL Sales to Ultimate Customers	<u>3,702,257</u>	<u>37,074</u>
483 Sales for Resale	<u> </u>	<u> </u>
TOTAL Natural Gas Service	<u>3,702,257</u>	<u>37,074</u>

Dist. Type Sales by States (Incl. Main
Line Sales to residential and
Commercial Customers)

All KY

Main Line Industrial Sales (Incl. Main
Line Sales to Public Authorities)

Sales For Resale

Other Sales to Public Authorities
(Local Distribution Only)

Interdepartmental Sales

TOTAL

Blank Page
[Next page is 300]

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending 98 Dec 31, ___
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GAS OPERATING REVENUES

1 Report below natural gas operating revenues for each prescribed account total. The amounts must be consistent with the detailed data on succeeding pages.

3 Other Revenues in columns (f) and (g) include reservation charges received by the pipeline plus usage charges, less revenues reflected in columns (b) through (e). Include in columns (f) and (g) revenues for Accounts 480-495.

2 Revenues in columns (b) and (c) include transition costs from upstream pipelines.

Line No	Title of Account (a)	REVENUES for Transition Costs and Take-or-Pay		REVENUES for GRI and ACA	
		Amount for Current Year (b)	Amount for Previous Year (c)	Amount for Current Year (d)	Amount for Previous Year (e)
1	480-484 Sales				
2	485 Intracompany Transfers				
3	487 Forfeited Discounts				
4	488 Miscellaneous Service Revenues				
5	489 1 Revenues from Transportation of Gas of Others Through Gathering Facilities				
	489 2 off system Revenues from Transportation of Gas of Others Through Transmission Facilities				
7	489 3 on system Revenues from Transportation of Gas of Others Through Distribution Facilities				
8	489.4 Revenues from Storing Gas of Others				
9	490 Sales of Prod. Ext. from Natural Gas				
10	491 Revenues from Natural Gas Proc by Others				
11	492 Incidental Gasoline and Oil Sales				
12	493 Rent from Gas Property				
13	494 Interdepartmental Rents				
14	495 Other Gas Revenues				
15	Subtotal:				
16	496 (Less) Provision for Rate Refunds				
17	TOTAL:				

Name for Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, ⁹⁸ ___
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GAS OPERATING REVENUES (Continued)

4 If increases or decreases from previous year are not derived from previously reported figures, explain any inconsistencies in a footnote

6 Report the revenue from transportation services that are bundled with storage services as transportation service revenue

5 On Page 108, include information on major changes during the year, new service, and important rate increases or decreases.

OTHER REVENUES		Same as other Revenue TOTAL OPERATING REVENUES		mcf DETERMINED OF NATURAL GAS	
Amount for Current Year (f)	Amount for Previous Year (g)	Amount for Current Year (h)	Amount for Previous Year (i)	Amount for Current Year (j)	Amount for Previous Year (k)
30,340,393	34,951,272			3,702,257	4,408,165
152,009	110,376				
451,990	438,191			1,404,111	1,372,205
3,913,350	3,685,423			3,903,096	3,294,047
34,857,742	39,185,262				

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report <i>(Mo, Da, Yr)</i> 3-31-99	Year Ending Dec 31, 98
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REVENUES FROM TRANSPORTATION OF GAS OF OTHERS THROUGH GATHERING FACILITIES (ACCOUNT 489.1)

1 Report revenues and Dth of gas delivered through gathering facilities by zone of receipt (i.e. state in which gas enters respondent's system)

2 Revenues for penalties including penalties for unauthorized overruns must be reported on page 308

Line No	Rate Schedule and Zone of Receipt (a)	REVENUES for Transition Costs and Take-or-Pay		REVENUES for GRI and ACA	
		Amount for Current Year (b)	Amount for Previous Year (c)	Amount for Current Year (d)	Amount for Previous Year (e)
1					
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Name of Respondent ... Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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REVENUES FROM TRANSPORTATION OF GAS OF OTHERS THROUGH GATHERING FACILITIES (Continued)

3 Other Revenues in columns (f) and (g) include reservation charges received by the pipeline plus usage charges, less revenues reflected in columns (b) through (e)

4 Delivered Dth of gas must not be adjusted for discounting

OTHER REVENUES		TOTAL OPERATING REVENUES		DEKATHERM OF NATURAL GAS		Line No
Amount for Current Year (f)	Amount for Previous Year (g)	Amount for Current Year (h)	Amount for Previous Year (i)	Amount for Current Year (j)	Amount for Previous Year (k)	
						1
						2
						3
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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REVENUES FROM TRANSPORTATION OF GAS OF OTHERS THROUGH TRANSMISSION FACILITIES (ACCOUNT 489.2)

1 Report revenues and Dth of gas delivered by Zone of Delivery by Rate Schedule Total by Zone of Delivery and for all zones If respondent does not have separate zones, provide totals by rate schedule

overruns must be reported on page 308

3 Other Revenues in columns (f) and (g) include reservation charges received by the pipeline plus usage charges for transportation and hub services, less revenues reflected in columns (b) through (e)

2. Revenues for penalties including penalties for unauthorized

Line No	Zone of Delivery, Rate Schedule (a)	REVENUES for Transition Costs and Take-or-Pay		REVENUES for GRI and ACA	
		Amount for Current Year (b)	Amount for Previous Year (c)	Amount for Current Year (d)	Amount for Previous Year (e)
1	Delta's transportation rate schedule-same information as on page 300				
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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REVENUES FROM TRANSPORTATION OF GAS OF OTHERS THROUGH TRANSMISSION FACILITIES (Continued)

- 4 Delivered Dth of gas must not be adjusted for discounting
 5 Each incremental rate schedule and each individually certificated rate schedule must be separately reported
 6 Where transportation services are bundled with storage services, report total revenues but only transportation Dth

OTHER REVENUES		TOTAL OPERATING REVENUES		DEKATHERM OF NATURAL GAS		Line No
Amount for Current Year (f)	Amount for Previous Year (g)	Amount for Current Year (h)	Amount for Previous Year (i)	Amount for Current Year (j)	Amount for Previous Year (k)	
						1
						2
						3
						4
						5
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Name of Respondent ...ta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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REVENUES FROM STORING GAS OF OTHERS (ACCOUNT 489.4)

1 Report revenues and Dth of gas withdrawn from storage by Rate Schedule and in total
 2 Revenues for penalties including penalties for unauthorized overruns must be reported on page 308.
 3 Other revenues in columns (f) and (g) include reservation charges, deliverability charges, injection and withdrawal charges, less revenues reflected in columns (b) through (e)

Line No	Rate Schedule (a)	REVENUES for Transition Cost and Take-or-Pay		REVENUES for GRI and ACA	
		Amount for Current Year (b)	Amount for Previous Year (c)	Amount for Current Year (d)	Amount for Previous Year (e)
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 98
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REVENUES FROM STORING GAS OF OTHERS (ACCOUNT 489.4)(Continued)

4 Dth of gas withdrawn from storage must not be adjusted for discounting

5 Where transportation services are bundled with storage services, report only Dth withdrawn from storage

OTHER REVENUES		TOTAL OPERATING REVENUES		DEKATHERM OF NATURAL GAS		Line No
Amount for Current Year (f)	Amount for Previous Year (g)	Amount for Current Year (h)	Amount for Previous Year (i)	Amount for Current Year (j)	Amount for Previous Year (k)	
						1
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						3
						4
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						6
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						9
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						11
						12
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						14
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						25

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report <i>(Mo, Da, Yr)</i> 03/31/99	Year Ending Dec 31, 98
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OTHER GAS REVENUES (ACCOUNT 495)

1 For transactions with annual revenues of \$250,000 or more, describe, for each transaction, commissions on sales of distributions of gas of others, compensation for minor or incidental services provided for others, penalties, profit or loss on sales of material and supplies, sales of steam, water, or electricity, miscellaneous royalties, revenues from dehydration, other processing of gas of others, and gains on settlements of imbalance receivables. Separately report revenues from cash-out penalties.

Line No	Description of Transaction (a)	Revenues (in dollars) (b)
1		
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12		
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24		
TOTAL		

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, <u>98</u>
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GAS OPERATION AND MAINTENANCE EXPENSES

1 Report operation and maintenance expenses. If the amount for previous year is not derived from previously reported figures, explain in footnotes.

2 Provide in footnotes the source of the index used to determine the price for gas supplied by shippers as reflected on line 74

Line No	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
1	1. PRODUCTION EXPENSES		
2	A. Manufactured Gas Production		
3	Manufactured Gas Production (Submit Supplemental Statement)		
4	B. Natural Gas Production		
5	B1. Natural Gas Production and Gathering		
6	Operation		
7	750 Operation Supervision and Engineering		
8	751 Production Maps and Records		
9	752 Gas Well Expenses		
10	753 Field Lines Expenses	12,504	13,169
11	754 Field Compressor Station Expenses	62,844	83,806
12	755 Field Compressor Station Fuel and Power		
13	756 Field Measuring and Regulating Station Expenses		
14	757 Purification Expenses		
15	758 Gas Well Royalties		
16	759 Other Expenses		
17	760 Rents		
18	TOTAL Operation (Total of lines 7 thru 17)	75,348	96,975
19	Maintenance		
20	761 Maintenance Supervision and Engineering		
21	762 Maintenance of Structures and Improvements		
22	763 Maintenance of Producing Gas Wells		
23	764 Maintenance of Field Lines	5,207	3,956
24	765 Maintenance of Field Compressor Station Equipment	17,781	16,377
25	766 Maintenance of Field Measuring and Regulating Station Equipment		
26	767 Maintenance of Purification Equipment		
27	768 Maintenance of Drilling and Cleaning Equipment		
28	769 Maintenance of Other Equipment		
29	TOTAL Maintenance (Total of lines 20 thru 28)	22,988	20,333
30	TOTAL Natural Gas Production and Gathering (Total of lines 18 and 29)	98,336	117,308

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 98
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
31	82. Products Extraction		
32	Operation		
33	770 Operation Supervision and Engineering		
34	771 Operation Labor		
35	772 Gas Shrinkage		
36	773 Fuel		
37	774 Power		
38	775 Materials		
39	776 Operation Supplies and Expenses		
40	777 Gas Processed by Others		
41	778 Royalties on Products Extracted		
42	779 Marketing Expenses		
43	780 Products Purchased for Resale		
44	781 Variation in Products Inventory		
45	(Less) 782 Extracted Products Used by the Utility-Credit		
46	783 Rents		
47	TOTAL Operation (Total of lines 33 thru 46)		
48	Maintenance		
49	784 Maintenance Supervision and Engineering		
50	785 Maintenance of Structures and Improvements		
51	786 Maintenance of Extraction and Refining Equipment		
52	787 Maintenance of Pipe Lines		
53	788 Maintenance of Extracted Products Storage Equipment		
54	789 Maintenance of Compressor Equipment		
55	790 Maintenance of Gas Measuring and Regulating Equipment		
56	791 Maintenance of Other Equipment		
57	TOTAL Maintenance (Total of lines 49 thru 56)		
58	TOTAL Products Extraction (Total of lines 47 and 57)		

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 98
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
59	C. Exploration and Development		
60	Operation		
61	795 Delay Rentals		
62	796 Nonproductive Well Drilling		
63	797 Abandoned Leases		
64	798 Other Exploration		
65	TOTAL Exploration and Development (Total of lines 61 thru 64)		
66	D. Other Gas Supply Expenses		
67	Operation		
68	800 Natural Gas Well Head Purchases		
69	800.1 Natural Gas Well Head Purchases, Intracompany Transfers		
70	801 Natural Gas Field Line Purchases		
71	802 Natural Gas Gasoline Plant Outlet Purchases		
72	803 Natural Gas Transmission Line Purchases	16,260,037	20,839,565
73	804 Natural Gas City Gate Purchases		
74	804.1 Liquefied Natural Gas Purchases		
75	805 Other Gas Purchases		
76	(Less) 805.1 Purchases Gas Cost Adjustments		
77	TOTAL Purchased Gas (Total of lines 68 thru 76)	16,260,037	20,839,565
78	806 Exchange Gas		
79	Purchased Gas Expenses		
80	807.1 Well Expense-Purchased Gas		
81	807.2 Operation of Purchased Gas Measuring Stations		
82	807.3 Maintenance of Purchased Gas Measuring Stations		
83	807.4 Purchased Gas Calculations Expenses		
84	807.5 Other Purchased Gas Expenses		
85	TOTAL Purchased Gas Expenses (Total of lines 80 thru 84)	16,260,037	20,839,565

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 98
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
86	808.1 Gas Withdrawn from Storage-Debit		
87	(Less) 808.2 Gas Delivered to Storage-Credit		
88	809.1 Withdrawals of Liquefied Natural Gas for Processing-Debit		
89	(Less) 809.2 Deliveries of Natural Gas for Processing-Credit		
90	Gas used in Utility Operation-Credit		
91	810 Gas Used for Compressor Station Fuel-Credit		
92	811 Gas Used for Products Extraction-Credit		
93	812 Gas Used for Other Utility Operations-Credit		
94	TOTAL Gas Used in Utility Operations-Credit (Total of lines 91 thru 93)		
95	813 Other Gas Supply Expenses		
96	TOTAL Other Gas Supply Exp. (Total of lines 77,78,85,86 thru 89,94,95)		
	TOTAL Production Expenses (Total of lines 3, 30, 58, 65, and 96)		
98	2. NATURAL GAS STORAGE, TERMINALING AND PROCESSING EXPENSES		
99	A. Underground Storage Expenses		
100	Operation		
101	814 Operation Supervision and Engineering		
102	815 Maps and Records		
103	816 Wells Expenses	24,890	27,893
104	817 Lines Expense		
105	818 Compressor Station Expenses	26,676	21,213
106	819 Compressor Station Fuel and Power		
107	820 Measuring and Regulating Station Expenses		
108	821 Purification Expenses	1,761	
109	822 Exploration and Development		
110	823 Gas Losses		
111	824 Other Expenses	5,484	887
112	825 Storage Well Royalties	54,064	62,113
113	826 Rents		
	TOTAL Operation (Total of lines of 101 thru 113)	112,875	112,106

Name of Respondent

Delta Natural Gas Company, Inc.

This Report Is:

An Original

A Resubmission

Date of Report
(Mo, Da, Yr)

03/31/99

Year Ending

Dec 31, 98

GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
115	Maintenance		
116	830 Maintenance Supervision and Engineering		
117	831 Maintenance of Structures and Improvements	609	688
118	832 Maintenance of Reservoirs and Wells	1,548	701
119	833 Maintenance of Lines	110	1,928
120	834 Maintenance of Compressor Station Equipment	7,206	853
121	835 Maintenance of Measuring and Regulating Station Equipment	3,704	1,945
122	836 Maintenance of Purification Equipment		
123	837 Maintenance of Other Equipment	1,052	989
124	TOTAL Maintenance (Total of lines 116 thru 123)	14,229	7,104
125	TOTAL Underground Storage Expenses (Total of lines 114 and 124)	127,104	119,210
	B. Other Storage Expenses		
127	Operation		
128	840 Operation Supervision and Engineering		
129	841 Operation Labor and Expenses		
130	842 Rents		
131	842.1 Fuel		
132	842.2 Power		
133	842.3 Gas Losses		
134	TOTAL Operation (Total of lines 128 thru 133)		
135	Maintenance		
136	843.1 Maintenance Supervision and Engineering		
137	843.2 Maintenance of Structures and Improvements		
138	843.3 Maintenance of Gas Holders		
139	843.4 Maintenance of Purification Equipment		
140	843.5 Maintenance of Liquefaction Equipment		
141	843.6 Maintenance of Vaporizing Equipment		
142	843.7 Maintenance of Compressor Equipment		
	843.8 Maintenance of Measuring and Regulating Equipment		
144	843.9 Maintenance of Other Equipment		
145	TOTAL Maintenance (Total of lines 136 thru 144)		
146	TOTAL Other Storage Expenses (Total of lines 134 and 145)		

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 98
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
147	C. Liquefied Natural Gas Terminating and Processing Expenses		
148	Operation		
149	844.1 Operation Supervision and Engineering		
150	844.2 LNG Processing Terminal Labor and Expenses		
151	844.3 Liquefaction Processing Labor and Expenses		
152	844.4 Liquefaction Transportation Labor and Expenses		
153	844.5 Measuring and Regulating Labor and Expenses		
154	844.6 Compressor Station Labor and Expenses		
155	844.7 Communication System Expenses		
156	844.8 System Control and Load Dispatching		
157	845.1 Fuel		
158	845.2 Power		
159	845.3 Rents		
160	845.4 Demurrage Charges		
161	(less) 845.5 Wharfage Receipts-Credit		
162	845.6 Processing Liquefied or Vaporized Gas by Others		
163	846.1 Gas Losses		
164	846.2 Other Expenses		
165	TOTAL Operation (Total of lines 149 thru 164)		
166	Maintenance		
167	847.1 Maintenance Supervision and Engineering		
168	847.2 Maintenance of Structures and Improvements		
169	847.3 Maintenance of LNG Processing Terminal Equipment		
170	847.4 Maintenance of LNG Transportation Equipment		
171	847.5 Maintenance of Measuring and Regulating Equipment		
172	847.6 Maintenance of Compressor Station Equipment		
173	847.7 Maintenance of Communication Equipment		
174	847.8 Maintenance of Other Equipment		
175	TOTAL Maintenance (Total of lines 167 thru 174)		
176	TOTAL Liquefied Nat Gas Terminating and Proc Exp (Total of lines 165 and 175)		
177	TOTAL Natural Gas Storage (Total of lines 125, 146, and 176)		

Name of Respondent Jelta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 98
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)			
Line No	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
178	3. TRANSMISSION EXPENSES		
179	Operation		
180	850 Operation Supervision and Engineering		
181	851 System Control and Load Dispatching		
182	852 Communication System Expenses		
183	853 Compressor Station Labor and Expenses		
184	854 Gas for Compressor Station Fuel		
185	855 Other Fuel and Power for Compressor Stations		
186	856 Mains Expenses R/W CLEARING	54,869	30,467
187	857 Measuring and Regulating Station Expenses		
188	858 Transmission and Compression of Gas by Others		
	859 Other Expenses		
190	860 Rents		
191	TOTAL Operation (Total of lines 180 thru 190)	54,869	30,467
192	Maintenance		
193	861 Maintenance Supervision and Engineering		
194	862 Maintenance of Structures and Improvements		
195	863 Maintenance of Mains		
196	864 Maintenance of Compressor Station Equipment		
197	865 Maintenance of Measuring and Regulating Station Equipment		
198	866 Maintenance of Communication Equipment		
199	867 Maintenance of Other Equipment		
200	TOTAL Maintenance (Total of lines 193 thru 199)		
201	TOTAL Transmission Expenses (Total of lines 191 and 200)		
202	4. DISTRIBUTION EXPENSES		
203	Operation		
204	870 Operation Supervision and Engineering P/R & TRANSP	2,548,914	2,502,175
205	871 Distribution Load Dispatching	35,141	33,611
	872 Compressor Station Labor and Expenses		
207	873 Compressor Station Fuel and Power		

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec. 31, 98
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
208	874 Mains and Services Expenses		
209	875 Measuring and Regulating Station Expenses-General		
210	876 Measuring and Regulating Station Expenses-Industrial		
211	877 Measuring and Regulating Station Expenses-City Gas Check Station		
212	878 Meter and House Regulator Expenses		
213	879 Customer Installations Expenses		
214	880 Other Expenses	346,556	406,180
215	881 Rents	18,174	5,819
216	TOTAL Operation (Total of lines 204 thru 215)	2,948,785	2,947,785
217	Maintenance		
218	885 Maintenance Supervision and Engineering T/E & W/E	44,769	46,544
219	886 Maintenance of Structures and Improvements	2,103	1,472
	887 Maintenance of Mains	142,295	144,938
221	888 Maintenance of Compressor Station Equipment		
222	889 Maintenance of Measuring and Regulating Station Equipment-General	4,221	5,754
223	890 Maintenance of Meas. and Reg. Station Equipment-Industrial		
224	891 Maintenance of Meas. and Reg. Station Equip-City Gate Check Station		
225	892 Maintenance of Services		
226	893 Maintenance of Meters and House Regulators	84,997	71,889
227	894 Maintenance of Other Equipment	86,614	105,463
228	TOTAL Maintenance (Total of lines 218 thru 227)	364,999	376,060
229	TOTAL Distribution Expenses (Total of lines 216 and 228)	3,313,784	3,323,845
230	5. CUSTOMER ACCOUNTS EXPENSES		
231	Operation		
232	901 Supervision		
233	902 Meter Reading Expenses (1)	200,000	200,000
234	903 Customer Records and Collection Expenses	709,942	733,813

(1) amount estimated

Name of Respondent Ata Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 98
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GAS OPERATION AND MAINTENANCE EXPENSES (Continued)

Line No	Account (a)	Amount for Current Year (b)	Amount for Previous Year (c)
235	904 Uncollectible Accounts	345,870	310,000
236	905 Miscellaneous Customer Accounts Expenses		
237	TOTAL Customer Accounts Expenses (Total of lines 232 thru 236)	1,255,812	1,243,813
238	6. CUSTOMER SERVICE AND INFORMATIONAL EXPENSES		
239	Operation		
240	907 Supervision		
241	908 Customer Assistance Expenses		
242	909 Informational and Instructional Expenses		
243	910 Miscellaneous Customer Service and Informational Expenses		
244	TOTAL Customer Service and Information Expenses (Total of lines 240 thru 243)		
245	7. SALES EXPENSES		
246	Operation		
247	911 Supervision		
248	912 Demonstrating and Selling Expenses		
249	913 Advertising Expenses	10,775	15,669
250	916 Miscellaneous Sales Expenses		
251	TOTAL Sales Expenses (Total of lines 247 thru 250)	10,775	15,669
252	8. ADMINISTRATIVE AND GENERAL EXPENSES		
253	Operation		
254	920 Administrative and General Salaries & T/E	2,096,502	2,027,447
255	921 Office Supplies and Expenses	553,711	510,511
256	(Less) 922 Administrative Expenses Transferred-Credit	(4,159,439)	(3,407,988)
257	923 Outside Services Employed	343,948	309,586
258	924 Property Insurance	419,058	447,103
259	925 Injuries and Damages		
260	926 Employee Pensions and Benefits	1,815,233	1,981,745
261	927 Franchise Requirements		
262	928 Regulatory Commission Expenses	104,940	62,853
263	(Less) 929 Duplicate Charges-Credit		
264	930.1 General Advertising Expenses		
265	930.2 Miscellaneous General Expenses	440,458	435,302
266	931 Rents		
267	TOTAL Operation (Total of lines 254 thru 266)	1,614,411	2,366,559
268	Maintenance		
269	935 Maintenance of General Plant	139,966	187,132
270	TOTAL Administrative and General Expenses (Total of lines 267 and 269)	1,754,377	2,553,691
271	TOTAL Gas O&M Expenses (Total of lines 97, 177, 201, 229, 237, 244, 251, and 270)	22,875,094	28,243,568

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 98
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EXCHANGE AND IMBALANCE TRANSACTIONS

1 Report below details by zone and rate schedule concerning the gas quantities and related dollar amount of imbalances associated with system balancing and no-notice service. Also, report certificated natural gas exchange transactions during the year. Provide subtotals for imbalance and no-notice quantities for exchanges.

If respondent does not have separate zones, provide totals by rate schedule. Minor exchange transactions (less than 100,000 Dth) may be grouped.

Line No	Zone/Rate Schedule (a)	Gas Received from Others		Gas Delivered to Others	
		Amount (b)	Dth (c)	Amount (d)	Dth (e)
1					
2					
3					
4					
5					
6					
7					
8					
10					
11					
12					
13					
14					
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17					
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19					
20					
21					
22					
23					
24					
25	TOTAL				

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, <u>98</u>
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GAS USED IN UTILITY OPERATIONS

1 Report below details of credits during the year to Accounts 810, 811, and 812

2 If any natural gas was used by the respondent for which a charge was not made to the appropriate operating expense or other account, list separately in column (c) the Dth of gas used, omitting entries in column (d).

Line No	Purpose for Which Gas Was Used (a)	Account Charged (b)	Natural Gas		Manufactured Gas	
			Gas Used (Dth) (c)	Amount of Credit (in dollars) (d)	Gas Used (Dth) (e)	Amount of Credit (f)
1	810 Gas Used for Compressor Station Fuel - Credit					
2	811 Gas Used for Products Extraction - Credit					
3	Gas Shrinkage and Other Usage in Respondent's Own Processing					
4	Gas Shrinkage, etc for Respondent's Gas Processed by Others					
5	812 Gas Used for Other Utility Operations - Credit (Report separately for each principal use. Group minor uses.)					
6						
7						
8						
9						
10						
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13						
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22						
23						
24						
25	TOTAL					

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report <i>(Mo, Da, Yr)</i> 03/31/99	Year Ending Dec 31, 98
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TRANSMISSION AND COMPRESSION OF GAS BY OTHERS (ACCOUNT 858)

1 Report below details concerning gas transported or compressed for respondent by others equalling more than 1,000,000 Dth and amounts of payments for such services during the year. Minor items (less than 1,000,000) Dth may be grouped. Also, include in column (c) amounts paid as transition costs to an upstream pipeline.

2 In column (a) give name of companies, points of delivery and receipt of gas. Designate points of delivery and receipt so that they can be identified readily on a map of respondent's pipeline system.
 3 Designate associated companies with an asterisk in column (b).

Line No	Name of Company and Description of Service Performed (a)	• (b)	Amount of Payment (in dollars) (c)	Dth of Gas Delivered (d)
1				
2				
3				
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23				
		TOTAL		

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Name of Respondent  Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending 98 Dec 31, ____
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OTHER GAS SUPPLY EXPENSES (ACCOUNT 813)

1 Report other gas supply expenses by descriptive titles that clearly indicate the nature of such expenses Show maintenance expenses, revaluation of monthly encroachments recorded in Account

117 4, and losses on settlements of imbalances and gas losses not associated with storage separately Indicate the functional classification and purpose of property to which any expenses relate List separately items of \$250,000 or more.

Line No	Description (a)	Amount (in dollars) (b)
1		
2		
3		
4		
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7		
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10		
11		
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24		
	TOTAL	

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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MISCELLANEOUS GENERAL EXPENSES (ACCOUNT 930.2)

1 Provide the information requested below on miscellaneous general expenses

2 For Other Expenses, show the (a) purpose, (b) recipient and (c) amount of such items List separately amounts of \$250,000 or more however, amounts less than \$250,000 may be grouped if the number of items of so grouped is shown.

Line No	Description (a)	Amount (in dollars) (b)
1	Industry association dues.	45,776
2	Experimental and general research expenses a Gas Research Institute (GRI) b. Other	
3	Publishing and distributing information and reports to stockholders, trustee, registrar, and transfer agent fees and expenses, and other expenses of servicing outstanding securities of the respondent	109,405
4	Other expenses	
5	Director's Fees & Expenses	88,800
6	Fees - Conventions & Meetings	4,930
8	Marketing	37,869
9	Company Relations - Employees	32,496
10	Customer & Public Information	51,114
11	Public & Community Relations	16,885
12	Conservation Program	48,914
14	Lobbying Expenditures	4,269
15		
16		
17		
18		
19		
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21		
22		
24		
25	TOTAL	440,458

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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DEPRECIATION, DEPLETION, AND AMORTIZATION OF GAS PLANT (ACCOUNTS 403,404 1,404 2,404 3,405)
(Except Amortization of Acquisition Adjustments)

1 Report in Section A the amounts of depreciation expense, depletion and amortization for the accounts indicated and classified according to the plant functional groups shown

2 Report in Section B, column (b) all depreciable or amortizable plant balances to which rates are applied and show a composite total (if more desirable, report by plant account, subaccount or functional classifications other than those pre-printed in column (a) Indicate in a footnote the manner in which column (b) balances are

Section A. Summary of Depreciation, Depletion, and Amortization Charges

Line No	Functional Classification (a)	Depreciation Expense (Account 403) (b)	Amortization and Depletion of Producing Natural Gas Land and Land Rights (Account 404 1) (c)	Amortization of Underground Storage Land and Land Rights (Account 404 2) (d)
1	Intangible plant			
2	Production plant, manufactured gas			
3	Production and gathering plant, natural gas	116,000		
4	Products extraction plant			
5	Underground gas storage plant	343,000		
6	Other storage plant			
7	Base load LNG terminaling and processing plant			
8	Transmission plant	631,600		
9	Distribution plant	1,626,000		
10	General plant	852,801		
11	Common plant—gas			
12	TOTAL	3,569,401		

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 1998
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DEPRECIATION, DEPLETION, AND AMORTIZATION OF GAS PLANT (ACCOUNTS 403,404 1,404 2,404 3,405)
(Except Amortization of Acquisition Adjustments) (Continued)

obtained If average balances are used, state the method of averaging used For column (c) report available information for each plant functional classification listed in column (a) If composite depreciation accounting is used, report available information called for in columns (b) and (c) on this basis Where the unit-of-production method is used

to determine depreciation charges, show in a footnote any revisions made to estimated gas reserves

3 If provisions for depreciation were made during the year in addition to depreciation provided by application of reported rates, state in a footnote the amounts and nature of the provisions and the plant items to which related.

Section A. Summary of Depreciation, Depletion, and Amortization Charges

Amortization of Other Limited-term Gas Plant (Account 404 3)	Amortization of Other Gas Plant (Account 405)	Total (b to f)	Functional Classification	Line No
(e)	(f)	(g)	(a)	
953		953	Intangible plant	1
			Production plant, manufactured gas	2
		116,000	Production and gathering plant, natural gas	3
			Products extraction plant	4
		343,000	Underground gas storage plant	5
			Other storage plant	6
			Base load LNG terminaling and processing plant	7
		631,600	Transmission plant	8
		1,626,000	Distribution plant	9
		852,801	General plant	10
			Common plant - gas	11
953		3,570,354	TOTAL	12

Name of Respondent DELTA NATURAL GAS COMPANY, INC.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, ⁹⁸ ___
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DEPRECIATION, DEPLETION, AND AMORTIZATION OF GAS PLANT (Continued)

4 Add rows as necessary to completely report all data. Number the additional rows in sequence as 2.01, 2.02, 3.01, 3.02, etc.

Section B. Factors Used in Estimating Depreciation Charges

Line No	Functional Classification (a)	Plant Bases (thousands) (b)	Applied Depreciation or Amortization Rates (percent) (c)
1	Production and Gathering Plant		
2	Offshore		
3	Onshore		
4	Underground Gas Storage Plant		
5	Transmission Plant		
6	Offshore		
7	Onshore		
8	General Plant		
10			
11			
12			
13			
14			
15			

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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PARTICULARS CONCERNING CERTAIN INCOME DEDUCTIONS AND INTEREST CHARGES ACCOUNTS

Report the information specified below, in the order given, for the respective income deduction and interest charges accounts
 (a) *Miscellaneous Amortization* (Account 425)—Describe the nature of items included in this account, the contra account charged, the total of amortization charges for the year, and the period of amortization
 (b) *Miscellaneous Income Deductions*—Report the nature, payee, and amount of other income deductions for the year as required by Accounts 426 1, *Donations*; 426 2, *Life Insurance*; 426 3, *Penalties*; 426 4, *Expenditures for Certain Civic, Political and Related Activities*; and 426 5, *Other Deductions*, of the Uniform System of Accounts

Amounts of less than \$250,000 may be grouped by classes within the above accounts

(c) *Interest on Debt to Associated Companies* (Account 430)—For each associated company that incurred interest on debt during the year, indicate the amount and interest rate respectively for (a) advances on notes, (b) advances on open account, (c) notes payable, (d) accounts payable, and (e) other debt, and total interest. Explain the nature of other debt on which interest was incurred during the year

(d) *Other Interest Expense* (Account 431) - Report details including the amount and interest rate for other interest charges incurred during the year.

Line No.	Item (a)	Amount (b)
1		
2		
3	Cash Surrender Value of Officer's Life Insurance	(9,302)
4		
5		
6		
7	Customer Deposit Interest	30,637
8	Short - Term Notes Interest	<u>554,003</u>
9		
		<u>584,640</u>
12		
13		
14		
15		
16		
17		
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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REGULATORY COMMISSION EXPENSES (Account 928)

1 Report below details of regulatory commission expenses incurred during the current year (or in previous years, if being amortized) relating to formal cases before a regulatory body, or cases in which such a body was a party.

2 In column (b) and (c), indicate whether the expenses were assessed by a regulatory body or were otherwise incurred by the utility

Line No	Description <i>(Furnish name of regulatory commission or body the docket number, and a description of the case)</i>	Assessed by Regulatory Commission	Expenses of Utility	Total Expenses to Date	Deferred in Account 182 3 at Beginning of Year					
	(a)	(b)	(c)	(d)	(e)					
1	PUBLIC SERVICE COMMISSION OF KY	104,940								
2										
3										
4										
5										
6										
8										
9										
10										
11										
12										
13										
14										
15										
16										
17										
18										
19										
20										
21										
22										
24							104,940			
25						TOTAL				

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report <i>(Mo, Da, Yr)</i> 3-31-99	Year Ending Dec 31, 98
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REGULATORY COMMISSION EXPENSES (Continued)

3 Show in column (k) any expenses incurred in prior years that are being amortized List in column (a) the period of amortization
 4 Identify separately all annual charge adjustments (ACA)

5 List in column (f), (g), and (h) expenses incurred during year which were charges currently to income, plant, or other accounts
 6 Minor items (less than \$250,000) may be grouped

EXPENSES INCURRED DURING YEAR			AMORTIZED DURING YEAR			Deferred in Account 182 3 End of Year (l)	Line No
CHARGED CURRENTLY TO			Deferred to Account 182 3 (i)	Contra Account (j)	Amount (k)		
Department (f)	Account No (g)	Amount (h)					
							1
							2
							3
							4
							5
							6
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report <i>(Mo, Da, Yr)</i> 3-31-99	Year Ending Dec 31, 98
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DISTRIBUTION OF SALARIES AND WAGES

Report below the distribution of total salaries and wages for the year. Segregate amounts originally charged to clearing accounts to *Utility Departments, Construction, Plant Removals, and Other Accounts*, and enter such amounts in the appropriate lines and columns provided.

In determining this segregation of salaries and wages originally charged to clearing accounts, a method of approximation giving substantially correct results may be used. When reporting detail of other accounts, enter as many rows as necessary numbered sequentially starting with 74.01, 74.02, etc.

Line No	Classification (a)	Direct Payroll Distribution (b)	Allocation of Payroll Charged for Clearing Accounts (c)	Total (d)
1	Electric			
2	Operation			
3	Production			
4	Transmission			
5	Distribution			
6	Customer Accounts			
7	Customer Service and Informational			
8	Sales			
9	Administrative and General			
10	TOTAL Operation (Total of lines 3 thru 9)			
11	Maintenance			
12	Production			
13	Transmission			
14	Distribution			
15	Administrative and General			
16	TOTAL Maintenance (Total of lines 12 thru 15)			
17	Total Operation and Maintenance			
18	Production (Total of lines 3 and 12)			
19	Transmission (Total of lines 4 and 13)			
20	Distribution (Total of lines 5 and 14)			
21	Customer Accounts (line 6)			
22	Customer Service and Informational (line 7)			
23	Sales (line 8)			
24	Administrative and General (Total of lines 9 and 15)			
25	TOTAL Operation and Maintenance (Total of lines 18 thru 24)			
26	Gas			
27	Operation			
28	Production - Manufactured Gas			
29	Production - Natural Gas(Including Exploration and Development)	54,974		
30	Other Gas Supply			
31	Storage, LNG Terminaling and Processing	39,707		
32	Transmission			
33	Distribution	2,652,113		
34	Customer Accounts	495,671		
35	Customer Service and Informational			
36	Sales			
37	Administrative and General	1,985,724		
38	TOTAL Operation (Total of lines 28 thru 37)	5,228,189		
39	Maintenance			
40	Production - Manufactured Gas			
41	Production - Natural Gas(Including Exploration and Development)	4,403		
42	Other Gas Supply			
43	Storage, LNG Terminaling and Processing	4,852		
44	Transmission			
45	Distribution	109,275		
46	Admin & General			
47	TOTAL Maintenance	118,530		

46	Administrative and General			
47	TOTAL Maintenance (Total of lines 40 thru 46)			
Name of Respondent		This Report Is:	Date of Report (Mo, Da, Yr)	Year Ending
Delta Natural Gas Company, Inc.		<input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	03/31/99	Dec 31, 98

DISTRIBUTION OF SALARIES AND WAGES (Continued)

Line No	Classification (a)	Direct Payroll Distribution (b)	Allocation of Payroll Charged for Clearing Accounts (c)	Total (d)
48	Gas (Continued)			
49	Total Operation and Maintenance			
50	Production - Manufactured Gas (Total of lines 28 and 40)			
51	Production - Natural Gas (Including Expl. and Dev.)(lines 29 and 41)	59,377		
52	Other Gas Supply (Total of lines 30 and 42)			
53	Storage, LNG Terminating and Processing (Total of lines 31 and 43)	44,559		
54	Transmission (Total of lines 32 and 44)			
55	Distribution (Total of lines 33 and 45)	2,761,388		
56	Customer Accounts (Total of line 34)	495,671		
57	Customer Service and Informational (Total of line 35)			
58	Sales (Total of line 36)			
59	Administrative and General (Total of lines 37 and 46)	1,985,724		
60	Other Utility Departments			
61	Operation and Maintenance			
62	TOTAL ALL Utility Dept. (Total of lines 25, 59, and 61)	5,346,719	(815,000)	4,531,719
63	Utility Plant			
64	Construction (By Utility Departments)			
65	Electric Plant			
66	Gas Plant	767,796	809,000	1,576,796
67	Other			
68	TOTAL Construction (Total of lines 65 thru 67)	767,796	809,000	1,576,796
69	Plant Removal (By Utility Departments)			
70	Electric Plant			
71	Gas Plant			
72	Other			
73	TOTAL Plant Removal (Total of lines 70 thru 72)			
74	Other Accounts (Specify)			
74 01				
74 02				
74 03	Merchandising	2,162		2,162
74 04				
74 05	Subsidiaries	8,656	6,000	14,656
74 06				
74 07				
74 08				
74 09				
74 10				
74 11				
74 12				
74 13				
74 14				
74 15				
74 16				
74 17				
74 18				
74.19				
75	TOTAL Other Accounts	10,818	6,000	16,818
	TOTAL SALARIES AND WAGES	6,125,333	-0-	6,125,333

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original. <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, <u>98</u>
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CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES

1 Report the information specified below for all charges made during the year included in any account (including plant accounts) for outside consultative and other professional services. These services include rate, management, construction, engineering, research, financial, valuation, legal, accounting, purchasing, advertising, labor relations, and public relations, rendered for the respondent under written or oral arrangement, for which aggregate payments were made during the year to any corporation partnership, organization of

any kind, or individual (other than for services as an employee or for payments made for medical and related services) amounting to more than \$250,000, including payments for legislative services, except those which should be reported in Account 426 4 Expenditures for Certain Civic, Political and Related Activities

(a) Name of person or organization rendering services

(b) Total charges for the year

2. Designate associated companies with an asterisk in column (b).

Line No	Description (a)	• (b)	Amount (in dollars) (c)
1	Not Applicable		
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
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Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, <u>98</u>
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COMPRESSOR STATIONS

1 Report below details concerning compressor stations Use the following subheadings: field compressor stations, products extraction compressor stations, underground storage compressor stations, transmission compressor stations, distribution compressor stations, and other compressor stations

2 For column (a), indicate the production areas where such stations are used Group relatively small field compressor stations by production areas Show the number of stations grouped Identify any station held under a title other than full ownership State in a footnote the name of owner or co-owner, the nature of respondent's title, and percent of ownership if jointly owned.

Line No	Name of Station and Location (a)	Number of Units at Station (b)	Certificated Horsepower for Each Station (c)	Plant Cost (d)
1				
2				
3				
4				
5				
6				
7				
9				
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Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, <u>98</u>
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COMPRESSOR STATIONS (Continued)

Designate any station that was not operated during the past year. State in a footnote whether the book cost of such station has been retired in the books of account, or what disposition of the station and its book cost are contemplated. Designate any compressor units in transmission compressor stations installed and put into operation during the year and show in a footnote each unit's size

and the date the unit was placed in operation. For column (e), include the type of fuel or power, if other than natural gas. If two types of fuel or power are used, show separate entries for natural gas and the other fuel or power.

Expenses (Except depreciation and taxes)		Gas for Compressor Fuel in Dth	Operation Data			Line No
Fuel or Power	Other		Total Compressor Hours of Operation During Year	Number of Compressors Operated at Time of Station Peak	Date of Station Peak	
(e)	(f)	(g)	(h)	(i)	(j)	
						1
						2
						3
						4
						5
						6
						7
						8
						9
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						25

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 03/31/99	Year Ending Dec 31, 98
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GAS STORAGE PROJECTS

1. Report injections and withdrawals of gas for all storage projects used by respondent.

Line No	Item (a)	Gas Belonging to Respondent (Dth) (b)	Gas Belonging to Others (Dth) (c)	Total Amount (Dth) (d)
	STORAGE OPERATIONS (in Dth)			
1	Gas Delivered to Storage			
2	January			
3	February			
4	March	1,499		1,499
5	April	46,502		46,502
6	May	303,501		303,501
7	June	281,444		281,444
8	July	288,007		288,007
9	August	275,499		275,499
10	September	261,093		261,093
11	October	97,336		97,336
12	November			
13	December			
14	TOTAL (Total of lines 2 thru 13)	1,554,881		1,554,881
15	Gas Withdrawn from Storage			
16	January	186,435		186,435
17	February	202,835		202,835
18	March	134,760		134,760
19	April	1,991		1,991
20	May			
21	June			
22	July			
23	August			
24	September			
25	October	950		950
26	November	132,114		132,114
27	December	262,943		262,943
28	TOTAL (Total of lines 16 thru 27)	922,028		922,028

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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GAS STORAGE PROJECTS (Continued)

1 On line 4, enter the total storage capacity certificated by FERC

2 Report total amount in Dth or other unit, as applicable on lines 2, 3, 4, 7 If quantity is converted from Mcf to Dth, provide conversion factor in a footnote.

Line No.	Item (a)	Total Amount (b)
STORAGE OPERATIONS		
1	Top or Working Gas End of Year	
2	Cushion Gas (Including Native Gas)	
3	Total Gas in Reservoir (Total of line 1 and 2)	
4	Certificated Storage Capacity	
5	Number of Injection - Withdrawal Wells	
6	Number of Observation Wells	
7	Maximum Days' Withdrawal from Storage	
8	Date of Maximum Days' Withdrawal	
9	LNG Terminal Companies (in Dth)	
	Number of Tanks	
1	Capacity of Tanks	
12	LNG Volume	
13	Received at "Ship Rail"	
14	Transferred to Tanks	
15	Withdrawn from Tanks	
16	"Boil Off" Vaporization Loss	

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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TRANSMISSION LINES

1 Report below, by state, the total miles of transmission lines of each transmission system operated by respondent at end of year
2 Report separately any lines held under a title other than full ownership. Designate such lines with an asterisk, in column (b) and in a footnote state the name of owner, or co-owner, nature of respondent's title, and percent ownership if jointly owned.

3 Report separately any line that was not operated during the past year. Enter in a footnote the details and state whether the book cost of such a line, or any portion thereof, has been retired in the books of account, or what disposition of the line and its book costs are contemplated
4. Report the number of miles of pipe to one decimal point.

Line No	Designation (Identification) of Line or Group of Lines (a)	• (b)	Total Miles of Pipe (c)
1			
2			
3			
4			
5			
6			
7			
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TRANSMISSION SYSTEM PEAK DELIVERIES

1 Report below the total transmission system deliveries of gas (in Dth), excluding deliveries to storage, for the period of system peak deliveries indicated below, during the 12 months embracing the

heating season overlapping the year's end for which this report is submitted. The season's peak normally will be reached before the due date of this report, April 30, which permits inclusion of the peak information required on this page. Add rows as necessary to report all data. Number additional rows 6.01, 6.02, etc.

Line No	Description	Dth of Gas Delivered to Interstate Pipelines (b)	Dth of Gas Delivered to Others (c)	Total (b) + (c) (d)
SECTION A: SINGLE DAY PEAK DELIVERIES				
1	Date:			
2	Volumes of Gas Transported			
3	No-Notice Transportation			
4	Other Firm Transportation			
5	Interruptible Transportation			
6	Other (Describe)			
6.01				
7	TOTAL			
8	Volumes of gas Withdrawn form Storage under Storage Contracts			
9	No-Notice Storage			
10	Other Firm Storage			
11	Interruptible Storage			
12	Other (Describe)			
13	TOTAL			
14	Other Operational Activities			
15	Gas Withdrawn from Storage for System Operations			
16	Reduction in Line Pack			
17	Other (Describe)			
18	TOTAL			
SECTION B: CONSECUTIVE THREE-DAY PEAK DELIVERIES				
20	Dates:			
21	Volumes of Gas Transported			
22	No-Notice Transportation			
23	Other Firm Transportation			
24	Interruptible Transportation			
25	Other (Describe)			
25.01				
26	TOTAL			
27	Volumes of Gas Withdrawn from Storage under Storage Contracts			
28	No-Notice Storage			
29	Other Firm Storage			
30	Interruptible Storage			
31	Other (Describe)			
31.01				
32	TOTAL			
33	Other Operational Activities			
34	Gas Withdrawn from Storage for System Operations			
35	Reduction in Line Pack			
36	Other (Describe)			
37	TOTAL			

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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AUXILIARY PEAKING FACILITIES

1 Report below auxiliary facilities of the respondent for meeting seasonal peak demands on the respondent's system, such as underground storage projects, liquefied petroleum gas installations, gas liquefaction plants, oil gas sets, etc

2 For column (c), for underground storage projects, report the delivery capacity on February 1 of the heating season overlapping the year-end for which this report is submitted.

For other facilities, report the rated maximum daily delivery capacities

3 For column (d), include or exclude (as appropriate) the cost of any plant used jointly with another facility on the basis of predominant use, unless the auxiliary peaking facility is a separate plant as contemplated by general instruction 12 of the Uniform System of Accounts

Line No	Location of Facility	Type of Facility	Maximum Daily Delivery Capacity of Facility Dth	Cost of Facility (in dollars)	Was Facility Operated on Day of Highest Transmission Peak Delivery?	
					Yes (e)	No (f)
	(a)	(b)	(c)	(d)		
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Name of Respondent alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, <u>98</u>
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GAS ACCOUNT - NATURAL GAS

- 1 The purpose of this schedule is to account for the quantity of natural gas received and delivered by the respondent
- 2 Natural gas means either natural gas unmixed or any mixture of natural and manufactured gas
- 3 Enter in column (c) the Dth as reported in the schedules indicated for the items of receipts and deliveries
- 4 Indicate in a footnote the quantities of bundled sales and transportation gas and specify the line on which such quantities are listed
- 5 If the respondent operates two or more systems which are not interconnected, submit separate pages for this purpose Use copies of pages 520
- 6 Also indicate by footnote the quantities of gas not subject to Commission regulation which did not incur FERC regulatory costs by showing (1) the local distribution volumes another jurisdictional pipeline delivered to the local distribution company portion of the reporting pipeline (2) the quantities that the reporting pipeline

transported or sold through its local distribution facilities or intrastate facilities and which the reporting pipeline received through gathering facilities or intrastate facilities, but not through any of the interstate portion of the reporting pipeline, and (3) the gathering line quantities that were not destined for interstate market or that were not transported through any interstate portion of the reporting pipeline

7 Also indicate in a footnote (1) the system supply quantities of gas that are stored by the reporting pipeline, during the reporting year and also reported as sales, transportation and compression volumes by the reporting pipeline during the same reporting year, (2) the system supply quantities of gas that are stored by the reporting pipeline during the reporting year which the reporting pipeline intends to sell or transport in a future reporting year, and (3) contract storage quantities

8 Also indicate the volumes of pipeline production field sales that are included in both the company's total sales figure and the company's total transportation figure Add additional rows as necessary to report all data, numbered 14.01, 14.02, etc.

01 NAME OF SYSTEM

Line No	Item (a)	Ref Page No (b)	Amount of ^{XXX} Btu mcf (c)
	GAS RECEIVED		
2	Gas Purchases (Accounts 800-805)		4,582,986
	Gas of Others Received for Gathering (Account 489.1)	303	
5	Gas of Others Received for Transmission (Account 489.2)	305	5,307,207
6	Gas of Others Received for Distribution (Account 489.3)	301	
7	Gas of Others Received for Contract Storage (Account 489.4)	307	
8	Exchanged Gas Received from Others (Account 806)	328	
9	Gas Received as Imbalances (Account 806)	328	
10	Receipts of Respondent's Gas Transported by Others (Account 858)	332	
11	Other Gas Withdrawn from Storage (Explain)		
12	Gas Received from Shippers as Compressor Station Fuel		
13	Gas Received from Shippers as Lost and Unaccounted for		
14	Other Receipts (Specify) <u>storage-withdrawn</u>		922,028
15	Total Receipts (Total of lines 3 thru 14.?)		10,812,221
	GAS DELIVERED		
17	Gas Sales (Accounts 480-484)		3,702,257
18	Deliveries of Gas Gathered for Others (Account 489.1)	303	
19	Deliveries of Gas Transported for Others (Account 489.2)	305	5,307,207
20	Deliveries of Gas Distributed for Others (Account 489.3)	301	
21	Deliveries of Contract Storage Gas (Account 489.4)	307	
22	Exchange Gas Delivered to Others (Account 806)	328	
23	Gas Delivered as Imbalances (Account 806)	328	
24	Deliveries of Gas to Others for Transportation (Account 858)	332	
25	Other Gas Delivered to Storage (Explain)		
26	Gas of Others Received for Distribution (Account 489.3) <u>net-unbilled</u>	509	(30,364)
27	Other Deliveries (Specify) <u>storage-delivered</u>		1,554,881
28	Total Deliveries (Total of lines 17 thru 27.?)		10,533,981
	GAS UNACCOUNTED FOR		
30	Production System Losses		
	Gathering System Losses		
	Transmission System Losses		
33	Distribution System Losses		
34	Storage System Losses		
35	Other Losses (Specify)		
36	Total Unaccounted For (Total of lines 30 thru 35)		278,240
37	Total Deliveries & Unaccounted For (Total of lines 28 and 36)		10,812,221

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[Next page is 522]

Name of Respondent Delta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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SYSTEM MAPS

1 Furnish five copies of a system map (one with each filed copy of this report) of the facilities operated by the respondent for the production, gathering, transportation, and sale of natural gas. New maps need not be furnished if no important change has occurred in the facilities operated by the respondent since the date of the maps furnished with a previous year's annual report. If, however, maps are not furnished for this reason, reference should be made in the space below to the year's annual report with which the maps were furnished.

2 Indicate the following information on the maps:

- (a) Transmission lines
- (b) Incremental facilities
- (c) Location of gathering areas
- (d) Location of zones and rate areas
- (e) Location of storage fields
- (f) Location of natural gas fields.

- (g) Location of compressor stations
- (h) Normal direction of gas flow (indicated by arrows)
- (i) Size of pipe
- (j) Location of products extraction plants, stabilization plants, purification plants, recycling areas, etc
- (k) Principal communities receiving service through the respondent's pipeline

3 In addition, show on each map: graphic scale of the map; date of the facts the map purports to show; a legend giving all symbols and abbreviations used; designations of facilities leased to or from another company, giving name of such other company

4 Maps not larger than 24 inches square are desired. If necessary, however, submit larger maps to show essential information. Fold the maps to a size not larger than this report. Bind the maps to the report.

Name of Respondent Alta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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FOOTNOTE REFERENCE

Page No (a)	Line or Item No (b)	Column No (c)	Footnote No (d)

Name of Respondent ta Natural Gas Company, Inc.	This Report Is: <input checked="" type="checkbox"/> An Original <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 3-31-99	Year Ending Dec 31, 98
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2. Please provide Delta's Form 10-K submitted to the SEC and Delta's Annual Report to the Stockholders for the years 1997 and 1998.

RESPONSE:

See attached.

WITNESS: John Hall

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 1998.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 0-8788.

DELTA NATURAL GAS COMPANY, INC.
(Exact name of registrant as specified in its charter)

KENTUCKY 61-0458329
(State of Incorporation) (IRS Employer Identification Number)

3617 Lexington Road, Winchester, Kentucky 40391
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 606-744-6171.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
<u>None</u>	<u>None</u>

Securities registered pursuant to Section 12(g) of the Act:

Common Stock \$1 Par Value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

As of August 11, 1998, Delta Natural Gas Company, Inc. had outstanding 2,382,084 shares of common stock \$1 Par Value, and the aggregate market value of the voting stock held by non-affiliates was approximately \$40,495,428.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive proxy statement to be filed with the Commission not later than 120 days after June 30, 1998, is incorporated by reference in Part III of this Report.

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PART I

Item 1. Business

General

Delta Natural Gas Company, Inc. ("Delta" or "the Company"), a regulated public utility, was organized in 1949. Delta established its first retail gas distribution system in 1951, which provided service to 300 customers in Owingsville and Frenchburg, Kentucky. As a result of acquisitions and expansions of its customer base within its existing service areas, Delta provides retail gas distribution service to 38,000 customers in central and southeastern Kentucky and, additionally, provides transportation service to industrial customers and interconnected pipelines located in the area.

Gas Operations and Supply

The Company purchases and produces gas for distribution to its retail customers and also provides transportation service to industrial customers and inter-connected pipelines through facilities located in 20 predominantly rural counties in central and southeastern Kentucky. The economy of Delta's service area is based principally on light industry, farming and coal mining. The communities in Delta's service area typically contain populations of less than 20,000. The four largest service areas are Nicholasville, Corbin, Berea and Middlesboro, where Delta serves 6,600, 6,300, 3,800 and 3,500 customers, respectively.

The communities served by Delta continue to expand, resulting in growth opportunities for the Company. Industrial parks have been developed in certain areas and have resulted in new industrial customers, some of which are on-system transportation customers. As a result of this growth, Delta's total average customer count increased by 2.6% in 1998.

Currently, over 99% of Delta's customers are residential and commercial. Delta's remaining, light industrial customers purchased 6% of the total volume of gas sold by Delta at retail during 1998.

The Company's revenues are affected by various factors, including rates billed to customers, the cost of natural gas, economic conditions in the areas that the Company serves, weather conditions and competition. Delta competes for customers and sales with alternative sources of energy, including electricity, coal, oil, propane and wood. The Company's marketing subsidiaries, which purchase gas and resell it to various industrial customers and others, also compete for their customers with producers and marketers of natural gas. Gas costs, which the Company is generally able to pass through to customers, may influence customers to conserve, or, in the case of industrial customers, to use alternative energy sources. Also, the potential bypass of Delta's system by industrial customers and others is a competitive concern that Delta has addressed and will continue to address as the need arises.

Delta's retail sales are seasonal and temperature-sensitive as the majority of the gas sold by Delta is used for heating. This seasonality impacts Delta's liquidity position and its management of its working capital requirements during each twelve month period, and changes in the average temperature during the winter months impacts its revenues year-to-year (see Management's Discussion and Analysis of Financial Condition and Results of Operations).

Retail gas sales in 1998 were 4,112,000 Mcf, generating \$33,435,000 in revenues, as compared to 4,299,000 Mcf and \$33,561,000 in revenues for 1997. Heating degree days billed during 1998 were 93.5% of normal as compared with 103.5% in 1997. Sales volumes decreased by 187,000 Mcf, or 4.4%, in 1998 as compared to 1997.

Delta's transportation of natural gas during 1998 generated revenues of \$4,360,000 as compared with \$3,596,000 during 1997. Of the total transportation in 1998, \$3,877,000 (3,467,000 Mcf) and \$483,000 (1,489,000 Mcf) were earned for transportation for on-system and off-system customers, respectively. Of the total transportation for 1997, \$3,214,000 (2,863,000 Mcf) and \$382,000 (1,205,000 Mcf) were earned for transportation for on-system and off-system customers, respectively.

As an active participant in many areas of the natural gas industry, Delta plans to continue its efforts to expand its gas distribution system. Delta continues to consider acquisitions of other gas systems, some of which are contiguous to its existing service areas, as well as expansion within its existing service areas. During November, 1996, Delta acquired the City of North Middletown gas system in Bourbon County, consisting of 180 primarily residential customers. During July, 1997, Delta purchased the gas system of Annville Gas & Transmission Corporation in Jackson County, which serves several industrial and residential customers. This system was expanded by Delta during 1998 to provide gas service to customers in the City of Annville.

The Company also anticipates continuing activity in gas production and transportation and plans to pursue and increase these activities wherever practicable. The Company will continue to consider the construction or acquisition of additional transmission, storage and gathering facilities to provide for increased transportation, enhanced supply and system flexibility. During June, 1997, Delta acquired TranEx Corporation, which owns a 43 mile, 8 inch diameter steel pipeline that extends from Clay County to Madison County. During 1998, the TranEx pipeline was connected to Delta's system in the Richmond area. It also interconnects with a pipeline of Columbia Gulf Transmission Company ("Columbia Gulf") in Madison County as well as Delta's transmission pipeline system in Clay County. Delta is utilizing the pipeline to deliver natural gas for injection into the Company's Canada Mountain storage field as well as for system supply and transportation.

Some producers in Delta's service area can access certain pipeline delivery systems other than Delta, which provides competition from others for transportation of such gas. Delta will continue its efforts to purchase or transport any natural gas available that is produced in reasonable proximity to its facilities.

Delta receives its gas supply from a combination of interstate and Kentucky sources.

Delta's interstate gas supply is transported and/or stored by Tennessee Gas Pipeline Company ("Tennessee"), Columbia Gas Transmission Corporation ("Columbia"), Columbia Gulf and Texas Eastern Transmission Corporation. Delta acquires its interstate gas supply from gas marketers.

Delta's agreements with Tennessee extend until 2000 and thereafter continue on a year-to-year basis until terminated by either party. Tennessee is obligated under the agreements to transport up to 17,600 Mcf per day for Delta. Delta acquires its gas for transportation by Tennessee under an agreement with a gas marketer. During 1998, Delta purchased 1,290,000 Mcf from the gas marketer under an agreement that extends through April, 1999. The Company expects to extend the terms of these agreements.

Delta's agreements with Columbia and Columbia Gulf extend until 2008 and thereafter continue on a year-to-year basis until terminated by one of the parties to the particular agreement. Columbia and Columbia Gulf are obligated under the agreements to transport up to 12,000 Mcf per day and 4,000 Mcf per day, respectively, for Delta. Delta acquires its gas for transportation by Columbia and Columbia Gulf under agreements with a gas marketer. During 1998, Delta purchased a total of 704,000 Mcf from the gas marketer under agreements that extend through April, 2000.

Delta has an agreement with The Wiser Oil Company ("Wiser") to purchase natural gas from Wiser through October, 1999. Delta and Wiser annually determine the daily deliverability from Wiser, and Wiser is committed to deliver that volume. Wiser currently is obligated to deliver 9,900 Mcf per day to Delta through October 31, 1998, and 8,910 Mcf per day on and after November 1, 1998. Delta purchased 956,000 Mcf from Wiser during 1998.

Delta has agreements with its wholly-owned subsidiary, Enpro, Inc. ("Enpro") to purchase all the natural gas produced from Enpro's wells on certain leases in Bell, Knox and Whitley Counties, Kentucky. These agreements remain in force so long as gas is produced in commercial quantities from the wells on the leases. Remaining proved, developed natural gas reserves are estimated at 4,200,000 Mcf. Delta purchased a total of 225,000 Mcf from those properties during 1998. Enpro also produces oil from certain of these leases, but oil production has not been significant.

Delta purchases gas under agreements with various other marketers and Kentucky producers. The combined volumes of gas purchased from these sources during 1998 were 1,062,000 Mcf.

Delta's wholly-owned subsidiaries, Delta Resources, Inc. ("Resources") and Delgasco, Inc. ("Delgasco") purchase gas under agreements with various marketers and Kentucky producers. The gas is resold to industrial customers on Delta's system, to Delta for system supply and to others. The combined volumes of gas purchased by Resources and Delgasco from these sources during 1998 were 3,652,000 Mcf.

Delta has completed the development of an underground natural gas storage field, with an estimated working capacity of 4,000,000 Mcf. This field has been used to provide a portion of

Delta's winter supply needs since 1996. This storage capability permits Delta to purchase and store gas during the non-heating months, and then withdraw and sell the gas during the peak usage months.

Although there are competitors for the acquisition of gas supplies, Delta continues to seek additional new gas supplies from all available sources, including those in the proximity of its facilities in southeastern Kentucky. Also, Resources and Delgasco continue to pursue acquisitions of new gas supplies from Kentucky producers and others. Delta will continue to maintain an active gas supply management program that emphasizes long-term reliability and the pursuit of cost effective sources of gas for its customers.

Regulatory Matters

Delta is subject to the regulatory authority of the Public Service Commission of Kentucky ("PSC") with respect to various aspects of Delta's business, including rates and service to retail and transportation customers. The company monitors the need to file a general rate case as a way to adjust its sales prices. Delta currently has no general rate cases filed with the PSC.

Effective November 30, 1997, Delta received approval from the PSC for an annual revenue increase of \$1,670,000. This resulted from a general rate case that Delta had filed with the PSC during March, 1997. Effective May 1, 1998, Delta received approval from the PSC for an additional annual revenue increase of \$117,000 in this rate case, resulting from a rehearing of certain tax-related items.

Delta's rates include a Gas Cost Recovery ("GCR") clause, which permits changes in Delta's gas costs to be reflected in the rates charged to customers. The GCR requires Delta to make quarterly filings with the PSC, but such procedure does not require a general rate case. The PSC is allowing Delta through its GCR clause to recover its costs in connection with its recently developed storage facilities on Canada Mountain.

During 1997, the PSC established a proceeding to investigate affiliate transactions. Delta is a party to this proceeding, and has responded to a PSC data request relating to Delta's subsidiaries. Delta cannot currently predict the outcome of this proceeding or the impact on Delta's rates, if any.

The PSC convened proceedings during 1997 with various regulated utilities and other interested parties to discuss the potential unbundling of natural gas rates and services in Kentucky. On July 1, 1998 the PSC concluded the proceedings without requiring further unbundling at this time of prices and service options for residential and small commercial customers. Delta participated actively in those meetings and plans to continue to provide comments in future discussions concerning regulatory and legislative issues relating to unbundling.

In addition to PSC regulation, Delta may obtain non-exclusive franchises from the cities and communities in which it operates authorizing it to place its facilities in the streets and public grounds. However, no utility may obtain a franchise until it has obtained from the PSC a

Certificate of Convenience and Necessity authorizing it to bid on the franchise. Delta holds franchises in four of the ten cities in which it maintains branch offices and in seven other communities it serves. In the other cities and communities served by the Company, either Delta's franchises have expired, the communities do not have governmental organizations authorized to grant franchises, or the local governments have not required or do not want to offer a franchise. Delta attempts to acquire or reacquire franchises whenever feasible.

Without a franchise, a local government could require Delta to cease its occupation of the streets and public grounds or prohibit Delta from extending its facilities into any new area of that city or community. To date, the absence of a franchise has had no adverse effect on Delta's operations.

Capital Expenditures

Capital expenditures during 1998 were \$11.2 million and for 1999 are estimated to be \$6.8 million. The Company expects a reduced level of capital expenditures in 1999 due to the substantial completion of the underground natural gas storage field project in 1998. The Company is planning for expenditures for system extensions, computer system upgrades and the replacement and improvement of existing transmission, distribution, gathering and general facilities.

Employees

Delta employed a total of 181 full-time employees on June 30, 1998. Delta considers its relationship with its employees to be satisfactory. Delta's employees are not represented by unions or subject to any collective bargaining agreements.

Consolidated Statistics

For the Years Ended June 30,	1998	1997	1996	1995	1994
Retail Customers Served,					
End of Period					
Residential	31,596	31,380	29,840	29,029	27,939
Commercial	4,753	4,761	4,453	4,287	4,242
Industrial	<u>70</u>	<u>74</u>	<u>75</u>	<u>72</u>	<u>76</u>
Total	<u>36,419</u>	<u>36,215</u>	<u>34,368</u>	<u>33,388</u>	<u>32,257</u>
Operating Revenues (\$000)					
Residential sales	19,969	19,694	16,540	14,772	16,597
Commercial sales	11,890	11,977	9,788	8,673	9,663
Industrial sales	1,576	1,890	1,483	1,248	1,671
On-system transportation .	3,877	3,214	2,913	2,588	2,310
Off-system transportation.	483	382	418	461	623
Subsidiary sales	6,335	4,904	5,297	3,959	3,755
Other	<u>128</u>	<u>108</u>	<u>137</u>	<u>143</u>	<u>228</u>
Total	<u>44,258</u>	<u>42,169</u>	<u>36,576</u>	<u>31,844</u>	<u>34,847</u>
System Throughput					
(Million Cu. Ft.)					
Residential sales	2,377	2,464	2,741	2,173	2,511
Commercial sales	1,504	1,557	1,673	1,328	1,506
Industrial sales	<u>231</u>	<u>278</u>	<u>291</u>	<u>223</u>	<u>316</u>
Total retail sales	4,112	4,299	4,705	3,724	4,333
On-system transportation..	3,467	2,863	2,570	2,390	2,186
Off-system transportation.	<u>1,489</u>	<u>1,205</u>	<u>1,134</u>	<u>1,452</u>	<u>1,997</u>
Total	<u>9,068</u>	<u>8,367</u>	<u>8,409</u>	<u>7,566</u>	<u>8,516</u>
Average Annual Consumption Per					
End of Period Residential					
Customer (Thousand Cu. Ft.).					
Lexington, Kentucky Degree Days	75	79	92	75	90
Actual	4,397	4,867	5,280	4,215	4,999
Percent of 30 year average					
(4,701)	93.5	103.5	112.3	89.7	106.3

For the Years Ended June 30,	1998	1997	1996	1995	1994
Average Revenue Per Mcf Sold at Retail (\$)	8.13	7.81	5.91	6.63	6.44
Average Gas Cost Per Mcf Sold at Retail (\$)	4.60	4.62	2.81	3.37	3.34

Item 2. Properties

Delta owns its corporate headquarters in Winchester, Kentucky. In addition, Delta owns buildings used for branch operations in nine of the cities it serves and rents an office building in one other city. Also, Delta owns a building in Laurel County used for training as well as equipment and materials storage.

The Company owns 2,043 miles of natural gas gathering, transmission, distribution and service lines. These lines range in size up to twelve inches in diameter. There are no significant encumbrances on these assets.

Delta holds leases for the storage of natural gas under 8,000 acres located in Bell County, Kentucky. This property was developed for the underground storage of natural gas and has an estimated capacity to store 4,000,000 Mcf of gas.

Delta owns the rights to any oil and gas underlying 3,500 acres in Bell County. Portions of these properties are used by Delta for the storage of natural gas. The maximum capacity of the storage facilities is 550,000 Mcf. These properties otherwise are currently non-producing, and no reserve studies have been undertaken on the properties.

Enpro owns interests in certain oil and gas leases relating to 11,000 acres located in Bell, Knox and Whitley Counties. There presently are 56 gas wells and 7 oil wells producing from these properties. Enpro's remaining proved, developed natural gas reserves are estimated at 4,200,000 Mcf. Oil production from the property has not been significant. Also, Enpro owns the oil and gas underlying 11,500 additional acres in Bell, Clay and Knox Counties. These properties are currently non-producing, and no reserve studies have been performed on the properties.

Under the terms of an agreement with a producer relating to 14,000 acres of Enpro's undeveloped holdings, the producer is conducting exploration activities on the acreage. Enpro reserved the option to participate in wells drilled and also retained certain working and royalty interests in any production from future wells.

There are no significant encumbrances on the Company's assets.

Item 3. Legal Proceedings

Delta and its subsidiaries are not parties to any legal proceedings which are expected to have a materially adverse impact on the financial condition or results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of 1998.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Delta has paid cash dividends on its common stock each year since 1964. While it is the intention of the Board of Directors to continue to declare dividends on a quarterly basis, the frequency and amount of future dividends will depend upon the Company's earnings, financial requirements and other relevant factors, including limitations imposed by the indenture for the Debentures. There were 2,410 record holders of Delta's common stock as of August 1, 1998.

Delta's common stock is traded in the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System under the symbol DGAS. The accompanying table reflects the high and low sales prices during each quarter as reported by NASDAQ and the quarterly dividends declared per share.

<u>Quarter</u>	<u>Range of Stock Prices(\$)</u>		<u>Dividends Per Share(\$)</u>
	<u>High</u>	<u>Low</u>	
<u>Fiscal 1998</u>			
First	18 1/4	16 3/4	.285
Second	19 1/2	17 3/4	.285
Third	19 1/4	16 5/8	.285
Fourth	18	16 3/4	.285
<u>Fiscal 1997</u>			
First	18 3/4	15 1/2	.285
Second	19 1/2	17 3/4	.285
Third	19 1/2	17	.285
Fourth	18 1/2	16	.285

During July, 1997, Delta distributed 5,746 shares of its common stock to its employees under its Employee Stock Purchase Plan (see Note 3(c) of the Notes to Consolidated Financial Statements). Delta received cash consideration of \$17.60 per share for one-half of those shares (2,873 shares), for a total cash consideration of approximately \$50,600; one-half of the shares (2,873 shares) were provided to the employees without cash consideration as a part of Delta's compensation and benefits for its employees. The securities were sold pursuant to the exemption from registration provided by Rule 147 under the Securities Act of 1933. This exemption was relied upon in light of the facts that Delta is incorporated and doing business in Kentucky, and all eligible employees are residents of Kentucky. Similarly, in July, 1998, Delta distributed 6,298 shares of its common stock to its employees at \$17.60 per share under the same program.

Also, during July, 1997, Delta provided a total of 1,000 shares of its common stock to its directors (100 shares per director). Delta received no cash consideration for the shares, which were provided to its directors as a part of their compensation. This transaction may not involve a "sale" of securities under the Securities Act of 1933, and in any event, the securities were sold pursuant to the exemption from registration provided by Rule 147 under the Securities Act of 1933. This exemption was relied upon in light of the facts that Delta is incorporated and doing business in Kentucky, and all directors are residents of Kentucky.

No underwriters were engaged in connections with any of the foregoing transactions, and thus no underwriter discounts or commissions were paid in connection with any of the foregoing.

Item 6. Selected Financial Data

For the Years Ended June 30,	<u>1998 (a)</u>	<u>1997</u>	<u>1996 (b)</u>	<u>1995</u>	<u>1994 (c)</u>
Summary of Operations (\$)					
Operating revenues	44,258,000	42,169,185	36,576,055	31,844,339	34,846,941
Operating income	6,731,859	5,315,582	5,437,055	4,255,088	4,850,673
Net income	2,451,272	1,724,265	2,661,349	1,917,735	2,671,001
Earnings per common share	1.04	.75	1.41	1.04	1.50
Dividends declared per common share	1.14	1.14	1.12	1.12	1.11
Average Number of Common Shares					
Outstanding	2,359,598	2,294,134	1,886,629	1,850,986	1,775,068
Total Assets (\$)	102,866,613	96,681,165	81,140,637	65,948,716	61,932,480
Capitalization (\$)					
Common share-holders' equity	29,810,294	29,474,569	23,628,323	22,511,513	22,164,791
Long-term debt	52,612,494	38,107,860	24,488,916	23,702,200	24,500,000
Notes payable re-financed subsequent to yearend	<u>-</u>	<u>-</u>	<u>18,075,000</u>	<u>-</u>	<u>-</u>
Total capitalization	<u>82,422,788</u>	<u>67,582,429</u>	<u>66,192,239</u>	<u>46,213,713</u>	<u>46,664,791</u>
Short-Term Debt (\$) (d)	3,665,000	12,852,600	1,084,800	6,732,700	3,205,000

For the Years Ended June 30, 1998 (a) 1997 1996 (b) 1995 1994 (c)

Other Items (\$)

Capital expenditures	11,193,613	16,648,994	13,373,416	8,122,838	7,374,747
Total plant	127,028,159	116,829,158	98,795,623	84,944,969	77,882,135

- (a) During March, 1998, \$25,000,000 of debentures were sold, and the proceeds were used to repay short-term debt and to redeem the Company's \$10,000,000 of 9% debentures.
- (b) During July, 1996, \$15,000,000 of debentures and 400,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and for general corporate purposes. The balance of the note payable at June 30, 1996 (\$18,075,000) is included in total capitalization as a result of the subsequent refinancing.
- (c) During October, 1993, \$15,000,000 of debentures and 170,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and to refinance certain long-term debt.
- (d) Includes current portion of long-term debt.

Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company's utility operations are subject to regulation by the PSC, which plays a significant role in determining the Company's return on equity. The PSC approves rates that are intended to permit a specified rate of return on investment. The Company's rate tariffs allow the cost of gas to be passed through to customers (see Business - Regulatory Matters).

The Company's business is temperature-sensitive. Accordingly, the Company's operating results in any given period reflect, in addition to other factors, the impact of weather, with colder temperatures generally resulting in increased sales by the Company. The Company anticipates that this sensitivity to seasonal and weather conditions will continue to be so reflected in the Company's operating results in future periods.

Liquidity and Capital Resources

Because of the seasonal nature of Delta's sales, the smallest proportion of cash generated from operations is received during the warmer months when sales volumes decrease considerably. Additionally, most construction activity takes place during the non-heating season because of more favorable weather conditions. During the warmer, non-heating months, therefore, cash needs for operations and construction are partially met through short-term borrowings.

Capital expenditures for Delta for fiscal 1999 are expected to be \$6.8 million. Delta generates internally only a portion of the cash necessary for its capital expenditure requirements and finances the balance of its capital expenditures on an interim basis through the use of its borrowing capability under its short-term line of credit. The current available line of credit is \$25,000,000, of which \$1,875,000 was borrowed at June 30, 1998. The line of credit, which is with Bank One, Kentucky, NA, requires renewal during November, 1998. These short-term borrowings are periodically repaid with the net proceeds from the sale of long-term debt and equity securities, as was done in March, 1998, when the net proceeds of \$24,100,000 from the sale of \$25,000,000 of debentures were used to repay short-term debt and to redeem the Company's 9% debentures, that would have matured in 2011, in the amount of \$10,000,000.

The primary cash flows during the last three years are summarized below:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Provided by operating activities	\$ 8,922,037	\$ 6,209,226	\$ 3,094,809
Used in investing activities	(11,193,613)	(16,648,994)	(13,373,416)
Provided by financing activities	<u>1,909,689</u>	<u>10,768,558</u>	<u>10,294,461</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (361,887)</u>	<u>\$ 328,790</u>	<u>\$ 15,854</u>

Cash provided by operating activities consists of net income and noncash items including depreciation, depletion, amortization and deferred income taxes. Additionally, changes in working capital are also included in cash provided by operating activities. The Company expects that internally generated cash, coupled with short-term borrowings, will be sufficient to satisfy its operating, normal capital expenditure and dividend requirements.

Results of Operations

Operating Revenues

The increase in operating revenues of \$2,089,000 for 1998 was due primarily to the general rate increase effective November 30, 1997 and to the increases in on-system and off-system transportation volumes of 604,000 Mcf, and 284,000 Mcf respectively. The increase in operating revenues includes \$200,000 of additional revenue caused by a non-recurring change. These increases were partially offset by a decrease in retail sales volumes of 187,000 Mcf as a result of the warmer winter weather in 1998. Billed degree days were 93.5% of normal degree days for 1998 as compared with 103.5% for 1997.

The increase in operating revenues of \$5,593,000 for 1997 was due primarily to increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause. This was partially offset by a decrease in retail sales volumes of 406,000 Mcf as a result of the warmer winter weather in 1997. Billed degree days were 103.5% of normal degree days for 1997 as compared with 112.3% for 1996. In addition, on-system transportation volumes for 1997 increased 293,000 Mcf, or 11.4%.

Operating Expenses

The decrease in purchased gas expense for 1998 of \$766,000 was due primarily to the decreased gas purchases for retail sales resulting from the warmer winter weather in 1998.

The increase in purchased gas expense of \$5,875,000 for 1997 was due primarily to increases in the cost of gas purchased for retail sales. The increase was partially offset by the decreased gas purchased for retail sales resulting from the warmer winter weather in 1997.

The increases in depreciation expense during 1998 and 1997 of \$510,000 and \$424,000, respectively, were due primarily to additional depreciable plant.

The increase in taxes other than income taxes during 1998 of \$155,000 was primarily due to increased property taxes which resulted from increased plant and property valuations, and to increased payroll taxes, which resulted from increased wages.

Changes in income taxes during 1998 and 1997 of \$436,000 and \$595,000, respectively, were primarily due to changes in net income.

Interest Charges

The increase in interest on long-term debt during 1998 of \$329,000 was due primarily to the issuance of \$25 million of 7.15% Debentures in March, 1998. The increase in other interest during 1998 of \$378,000 was due primarily to increased average short-term debt borrowings.

The increases in interest on long-term debt and amortization of debt expense during 1997 of \$1,146,000 and \$27,000, respectively, were due primarily to the issuance of \$15 million of 8.3% Debentures during July, 1996. The decrease in other interest during 1997 of \$348,000 was due primarily to decreased average short-term borrowings as short-term debt was repaid with the net proceeds from the sale of long-term debt and equity securities during July, 1996.

Earnings Per Common Share

For the years ended June 30, 1998 and 1997, basic earnings per common share declined, as compared with previous periods, as a result of the increased average common shares outstanding that resulted from the additional 400,000 shares of common stock issued in July, 1996, as well as the common shares issued under Delta's dividend reinvestment plan and shares issued to employees during the periods. Other than Delta's outstanding common shares, there are no potentially dilutive securities. Therefore, basic and diluted earnings per common share are the same.

Factors That May Affect Future Results

Management's Discussion and Analysis of Financial Condition and Results of Operations and the other sections of this report (including the letter To Our Shareholders) contain forward-looking statements that are not statements of historical facts. These forward-looking statements are identified by their language, which may in some cases include words such as "estimates", "expects", "plans", "anticipates", "intends", "will continue", "believes", and similar expressions. Such forward-looking statements may concern (among other things) the impact of changes in the

cost of gas, projected capital expenditures, sources of cash to fund expenditures, regulatory recovery mechanisms, regulatory matters, expansion of the Delta's gas distribution system, acquisitions of gas customers and systems, activity in gas production and transportation and acquisition and management of gas supply.

Such statements are accordingly subject to important risks and uncertainties that could cause the Company's actual results to differ materially from those expressed in any such forward-looking statements. These uncertainties include, but are not limited to the ongoing restructuring of the gas industry and the outcome of the regulatory proceedings related to that restructuring, changing regulatory environment generally, uncertainty as to the regulatory allowance of recovery of changes in the cost of gas, uncertain demands for capital expenditures, the availability of cash from various sources and uncertainty as to regulatory approval of the full recovery of costs and regulatory assets.

The "Year 2000" Issue

The Company is working to resolve the potential impact of the year 2000 on the ability of the Company's computerized information systems to accurately process information that may be date-sensitive. Any of the Company's programs that recognize a date using "00" as the year 1900 rather than the year 2000 could result in errors or system failures. The Company utilizes a number of computer programs across its entire operation. The Company has not completed its assessment, but currently believes that costs of addressing this issue will not have a material adverse impact on the Company's financial position. However, if the Company and third parties upon which it relies are unable to address this issue in a timely manner, it could result in a material financial risk to the Company. The Company intends to use its best efforts to resolve any significant year 2000 issues in a timely manner.

New Accounting Pronouncements

In 1997, Delta adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". Adoption of SFAS No. 121 did not have a material impact on the Company's financial position or results of operations.

For companies with June 30 fiscal yearends, SFAS No. 123, "Accounting for Stock-Based Compensation", was required to be adopted as of June 30, 1997. This standard is currently inapplicable to Delta because the Company has no stock-based compensation arrangements.

Delta adopted SFAS No. 128, "Earnings per Share", during the second quarter of fiscal 1998. The adoption of this standard had no effect upon current or prior period earnings per common share.

In June, 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income", and SFAS No. 131, "Disclosures about Segments of an

Enterprise and Related Information”, effective for periods beginning after December 15, 1997. These statements do not affect the accounting recognition or measurement of transactions, but rather require expanded disclosures regarding financial results. The Company will adopt these standards in 1999 as required by the FASB.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk.

As discussed in “Gas Operations and Supply” under Item 1, the Company is a party to long-term fixed-price gas purchase and transportation contracts. Therefore, the prices the Company pays under these contracts differs from the current market prices. However, the Company has minimal price risk resulting from these contracts as these costs are passed through to customers either through Delta’s gas cost recovery mechanism or specific contracts with customers. The Company currently is not a party to hedge instruments or other agreements that represent financial derivatives.

Item 8. Financial Statements and Supplementary Data

<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE</u>	<u>PAGE</u>
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Report of Independent Public Accountants	25
Consolidated Statements of Income for the years ended June 30, 1998, 1997 and 1996	26
Consolidated Statements of Cash Flows for the years ended June 30, 1998, 1997 and 1996	27
Consolidated Balance Sheets as of June 30, 1998 and 1997	29
Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 1998, 1997 and 1996	31
Consolidated Statements of Capitalization as of June 30, 1998 and 1997	32
Notes to Consolidated Financial Statements	33
Schedule II - Valuation and Qualifying Accounts for the years ended June 30, 1998, 1997 and 1996	41

Schedules other than those listed above are omitted because they are not required, not applicable or the required information is shown in the financial statements or notes thereto.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management —

Item 13. Certain Relationships and Related Transactions

Registrant intends to file a definitive proxy statement with the Commission pursuant to Regulation 14A (17 CFR 240.14a) not later than 120 days after the close of the fiscal year. In accordance with General Instruction G(3) to Form 10-K, the information called for by Items 10, 11, 12 and 13 is incorporated herein by reference to the definitive proxy statement. Neither the report on Executive Compensation nor the performance graph included in the Company's definitive proxy statement shall be deemed incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) - Financial Statements, Schedules and Exhibits

- (1) - Financial Statements
See Index at Item 8
- (2) - Financial Statement Schedules
See Index at Item 8
- (3) - Exhibits

Exhibit No.

- 3(a) - Delta's Amended and Restated Articles of Incorporation are incorporated herein by reference to Exhibit 3(a) to Delta's Form 10-Q for the period ended March 31, 1990.
- 3(b) - Delta's By-Laws as amended August 21, 1996 are incorporated herein by reference to Exhibit 3(b) to Delta's Form 10-K for the period ended June 30, 1996.
- 4(a) - The Indenture dated September 1, 1993 in respect of 6 5/8% Debentures due October 1, 2023, is incorporated herein by reference to Exhibit 4(e) to Delta's Form S-2 dated September 2, 1993.
- 4(b) - The Indenture dated July 1, 1996 in respect of 8.3% Debentures due August 1, 2026, is incorporated herein by reference to Exhibit 4(c) to Delta's Form S-2 dated June 21, 1996.
- 4(c) - The Indenture dated March 1, 1998 in respect of 7.15% Debentures due April 1, 2018, is incorporated herein by reference to Exhibit 4(d) to Delta's Form S-2 dated March 11, 1998.
- 10(a) - Certain of Delta's material natural gas supply contracts are incorporated herein by reference to Exhibit 10 to Delta's Form 10 for the year ended June 30, 1978 and by reference to Exhibits C and D to Delta's Form 10-K for the year ended June 30, 1980.
- 10(b) - Gas Purchase Contract between Delta and Wisner is incorporated

herein by reference to Exhibit 2(C) to Delta's Form 8-K dated February 9, 1981.

- 10(c) - Assignment to Delta by Wisner of its Columbia Service Agreement, including a copy of said Service Agreement, is incorporated herein by reference to Exhibit 2(D) to Delta's Form 8-K dated February 9, 1981.
- 10(d) - Contract between Tennessee and Delta (amends earlier contract for Nicholasville and Wilmore Service Areas) is incorporated herein by reference to Exhibit 10(d) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(e) - Contract between Tennessee and Delta (amends earlier contract for Jeffersonville Service Area) is incorporated herein by reference to Exhibit 10(e) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(f) - Contract between Tennessee and Delta (amends earlier contract for Salt Lick Service Area) is incorporated herein by reference to Exhibit 10(f) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(g) - Contract between Tennessee and Delta (amends earlier contract for Berea Service Area) is incorporated herein by reference to Exhibit 10(g) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(h) - Service Agreements between Columbia and Delta (amends earlier service agreements for Cumberland, Stanton and Owingsville service areas) are incorporated herein by reference to Exhibit 10(h) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(i) - Amendment to Gas Purchase Contract between Delta and Wisner is incorporated herein by reference to Exhibit 10(c) to Delta's Form 10-Q for the period ended December 31, 1988.
- 10(j) - Second amendment to Gas Purchase Contract between Delta and Wisner is incorporated herein by reference to Exhibit 10(j) to Delta's Form 10-K for the period ended June 30, 1994.
- 10(k) - Employment agreement between Delta and Alan L. Heath, an officer, is incorporated herein by reference to Exhibit 10(k) to Delta's Form 10-Q for the period ended December 31, 1985.

- 10(l) - Employment agreements between Delta and two officers, those being John F. Hall and Robert C. Hazelrigg, are incorporated herein by reference to Exhibit 10(m) to Delta's Form 10-Q for the period ended December 31, 1988.
- 10(m) - Employment agreement between Delta and Glenn R. Jennings, an officer, is incorporated herein by reference to Exhibit 10(m) to Delta's Form 10-K for the period ended June 30, 1995.
- 10(n) - Employment agreement between Delta and Johnny L. Caudill, an officer, is incorporated herein by reference to Exhibit 10(n) to Delta's Form 10K for the period ended June 30, 1995.
- 12 - Computation of the Consolidated Ratio of Earnings to Fixed Charges.
- 21 - Subsidiaries of the Registrant.
- 23 - Consent of Independent Public Accountants.

(b) Reports on 8-K.

No reports on Form 8-K were filed during the three months ended June 30, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 11th day of September, 1998.

DELTA NATURAL GAS COMPANY, INC.

By /s/Glenn R. Jennings
Glenn R. Jennings, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

(i) Principal Executive Officer:

<u>/s/ Glenn R. Jennings</u> (Glenn R. Jennings)	President, Chief Executive Officer and Director	September 11, 1998
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(ii) Principal Financial Officer and Principal Accounting Officer:

<u>/s/ John F. Hall</u> (John F. Hall)	Vice President - Finance, Secretary and Treasurer	September 11, 1998
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(iii) A Majority of the Board of Directors:

<u>/s/ H. D. Peet</u> (H. D. Peet)	Chairman of the Board	September 11, 1998
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<u>/s/ Donald R. Crowe</u> (Donald R. Crowe)	Director	September 11, 1998
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<u>/s/ Jane Hylton Green</u> (Jane Hylton Green)	Director	September 11, 1998
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<u>/s/ Billy Joe Hall</u> (Billy Joe Hall)	Director	September 11, 1998
<u>/s/ John D. Harrison</u> (John D. Harrison)	Director	September 11, 1998
<u>/s/ Virgil E. Scott</u> (Virgil E. Scott)	Director	September 11, 1998
<u>/s/ Henry C. Thompson</u> (Henry C. Thompson)	Director	September 11, 1998
<u>/s/ Arthur E. Walker, Jr.</u> (Arthur E. Walker, Jr.)	Director	September 11, 1998

Management's Statement of Responsibility for Financial Reporting and Accounting

Management is responsible for the preparation, presentation and integrity of the financial statements and other financial information in this report. In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from these estimates.

The Company maintains a system of accounting and internal controls which management believes provides reasonable assurance that the accounting records are reliable for purposes of preparing financial statements and that the assets are properly accounted for and protected.

The Board of Directors pursues its oversight role for these financial statements through its Audit Committee which consists of three outside directors. The Audit Committee meets periodically with management to review the work and monitor the discharge of their responsibilities. The Audit Committee also meets periodically with the Company's internal auditor as well as Arthur Andersen LLP, the independent auditors, who have full and free access to the Audit Committee, with or without management present, to discuss internal accounting control, auditing and financial reporting matters.

Glenn R. Jennings
President & Chief Executive Officer

John F. Hall
Vice President - Finance,
Secretary & Treasurer

Report of Independent Public Accountants

To the Board of Directors and Shareholders of Delta Natural Gas Company, Inc.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of DELTA NATURAL GAS COMPANY, INC. (a Kentucky corporation) and subsidiary companies as of June 30, 1998 and 1997, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended June 30, 1998. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delta Natural Gas Company, Inc. and subsidiary companies as of June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to Consolidated Financial Statements and Schedule is presented for purposes of complying with the Securities and Exchange Commission rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Louisville, Kentucky

August 17, 1998

Delta Natural Gas Company, Inc. and Subsidiary Companies
Consolidated Statements of Income

For the Years Ended June 30,	1998	1997	1996
Operating Revenues	<u>\$ 44,258,000</u>	<u>\$ 42,169,185</u>	<u>\$36,576,055</u>
Operating Expenses			
Purchased gas	\$ 22,499,488	\$ 23,265,222	\$17,389,755
Operation and maintenance (Note 1)	8,968,213	8,631,635	8,642,511
Depreciation and depletion (Note 1)	3,445,382	2,935,257	2,510,952
Taxes other than income taxes	1,212,058	1,056,689	1,036,282
Income taxes (Note 2)	<u>1,401,000</u>	<u>964,800</u>	<u>1,559,500</u>
Total operating expenses.	<u>\$ 37,526,141</u>	<u>\$ 36,853,603</u>	<u>\$31,139,000</u>
Operating Income	\$ 6,731,859	\$ 5,315,582	\$ 5,437,055
Other Income and Deductions, Net	<u>67,911</u>	<u>40,874</u>	<u>32,503</u>
Income Before Interest Charges.	<u>\$ 6,799,770</u>	<u>\$ 5,356,456</u>	<u>\$ 5,469,558</u>
Interest Charges			
Interest on long-term debt..	\$ 3,326,681	\$ 2,997,393	\$ 1,851,768
Other interest	897,265	519,432	867,641
Amortization of debt expense	<u>124,552</u>	<u>115,366</u>	<u>88,800</u>
Total interest charges ..	<u>\$ 4,348,498</u>	<u>\$ 3,632,191</u>	<u>\$ 2,808,209</u>
Net Income	<u>\$ 2,451,272</u>	<u>\$ 1,724,265</u>	<u>\$ 2,661,349</u>
Weighted Average Number of Common Shares Outstanding ...	2,359,598	2,294,134	1,886,629
Basic and Diluted Earnings Per Common Share.	\$ 1.04	\$.75	\$ 1.41
Dividends Declared Per Common Share	\$ 1.14	\$ 1.14	\$ 1.12

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Cash Flows

For the Years Ended June 30,	1998	1997	1996
Cash Flows From Operating Activities			
Net income	\$ 2,451,272	\$ 1,724,265	\$ 2,661,349
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, depletion and amortization	3,755,929	3,049,229	2,663,475
Deferred income taxes and investment tax credits	(29,400)	485,400	1,762,500
Other - net	698,584	666,798	484,474
(Increase) decrease in assets:			
Accounts receivable	(124,168)	(318,178)	(860,255)
Gas in storage	(840,829)	(782,007)	63,546
Advance (deferred) recovery of gas cost	3,328,625	495,751	(3,788,143)
Materials and supplies	252,746	(120,969)	(124,697)
Prepayments	70,648	(346,532)	53,702
Other assets	(55,440)	(541,669)	(31,723)
Increase (decrease) in liabilities:			
Accounts payable	(336,089)	(439,721)	871,207
Refunds due customers	(460,751)	554,520	(456,283)
Accrued taxes	(46,549)	1,038,761	(270,394)
Other current liabilities	257,055	744,054	56,951
Advances for construction and other	<u>404</u>	<u>(476)</u>	<u>9,100</u>
Net cash provided by operating activities	<u>\$ 8,922,037</u>	<u>\$ 6,209,226</u>	<u>\$ 3,094,809</u>
Cash Flows From Investing Activities			
Capital expenditures	<u>\$ (11,193,613)</u>	<u>\$ (16,648,994)</u>	<u>\$ (13,373,416)</u>
Net cash used in investing activities	<u>\$ (11,193,613)</u>	<u>\$ (16,648,994)</u>	<u>\$ (13,373,416)</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Cash Flows (continued)

For the Years Ended June 30,	1998	1997	1996
Cash Flows From Financing			
Activities (Note 6)			
Dividends on common stock	\$ (2,690,233)	\$ (2,651,073)	\$ (2,113,414)
Issuance of common stock, net....	574,686	6,773,054	568,875
Issuance of debentures, net.....	23,837,795	14,334,833	-
Repayment of long-term debt	(10,822,559)	(478,256)	(561,000)
Issuance of notes payable.....	26,200,000	30,975,000	25,955,000
Repayment of notes payable.....	<u>(35,190,000)</u>	<u>(38,185,000)</u>	<u>(13,555,000)</u>
Net cash provided by financing activities	<u>\$ 1,909,689</u>	<u>\$ 10,768,558</u>	<u>\$ 10,294,461</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (361,887)	\$ 328,790	\$ 15,854
Cash and Cash Equivalents, Beginning of Year	<u>480,423</u>	<u>151,633</u>	<u>135,779</u>
Cash and Cash Equivalents, End of Year	<u>\$ 118,536</u>	<u>\$ 480,423</u>	<u>\$ 151,633</u>

Supplemental Disclosures of Cash
Flow Information

Cash paid during the year for:

Interest	\$ 4,291,005	\$ 3,019,881	\$ 2,491,091
Income taxes (net of refunds)	\$ 1,642,964	\$ (432,163)	\$ 193,560

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets

As of June 30,	1998	1997
Assets		
Gas Utility Plant, at cost	\$127,028,159	\$116,829,158
Less - Accumulated provision for depreciation	<u>(34,929,481)</u>	<u>(31,734,976)</u>
Net gas plant	<u>\$ 92,098,678</u>	<u>\$ 85,094,182</u>
Current Assets		
Cash and cash equivalents	\$ 118,536	\$ 480,423
Accounts receivable, less accumulated provisions for doubtful accounts of \$120,002 and \$113,945 in 1998 and 1997, respectively	2,538,800	2,414,632
Gas in storage, at average cost	2,050,000	1,209,171
Deferred gas costs (Note 1)	-	2,180,606
Materials and supplies, at first-in, first-out cost	520,362	773,108
Prepayments	<u>241,731</u>	<u>312,379</u>
Total current assets	<u>\$ 5,469,429</u>	<u>\$ 7,370,319</u>
Other Assets		
Cash surrender value of officers' life insurance (face amount of \$1,036,009) ..	\$ 339,215	\$ 321,339
Note receivable from officer	110,000	134,000
Unamortized debt expense and other (Note 6)	<u>4,849,291</u>	<u>3,761,325</u>
Total other assets	<u>\$ 5,298,506</u>	<u>\$ 4,216,664</u>
Total assets	<u>\$102,866,613</u>	<u>\$ 96,681,165</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (continued)

As of June 30,	1998	1997
Liabilities and Shareholders' Equity		
Capitalization (See Consolidated Statements of Capitalization)		
Common shareholders' equity	\$ 29,810,294	\$29,474,569
Long-term debt (Notes 6 and 7).....	<u>52,612,494</u>	<u>38,107,860</u>
Total capitalization	<u>\$ 82,422,788</u>	<u>\$67,582,429</u>
Current Liabilities		
Notes payable (Note 5)	\$ 1,875,000	\$10,865,000
Current portion of long-term debt (Notes 6 and 7).....	1,790,000	1,987,600
Accounts payable	2,050,628	2,386,717
Accrued taxes	1,085,766	1,132,315
Refunds due customers	117,123	577,874
Advance recovery of gas costs (Note 1)	1,148,019	-
Customers' deposits	438,134	368,561
Accrued interest on debt	1,215,265	1,033,220
Accrued vacation	528,952	516,032
Other accrued liabilities	<u>485,018</u>	<u>492,501</u>
Total current liabilities	<u>\$ 10,733,905</u>	<u>\$19,359,820</u>
Deferred Credits and Other		
Deferred income taxes	\$ 8,023,475	\$ 7,921,100
Investment tax credits	637,300	708,400
Regulatory liability (Note 2)	831,425	892,100
Advances for construction and other ..	<u>217,720</u>	<u>217,316</u>
Total deferred credits and other	<u>\$ 9,709,920</u>	<u>\$ 9,738,916</u>
Commitments and Contingencies (Note 8) ..		
Total liabilities and shareholders' equity	<u>\$102,866,613</u>	<u>\$96,681,165</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended June 30,	1998	1997	1996
Common Shares			
Balance, beginning of year	\$ 2,342,223	\$ 1,903,580	\$ 1,868,734
\$1.00 par value of 32,870, 438,643 and 34,846 shares issued in 1998, 1997 and 1996, respectively:			
Public issuance of common shares ..	-	400,000	-
Dividend reinvestment and stock purchase plan	27,124	31,187	28,024
Employee stock purchase plan and other	<u>5,746</u>	<u>7,456</u>	<u>6,822</u>
Balance, end of year	<u>\$ 2,375,093</u>	<u>\$ 2,342,223</u>	<u>\$ 1,903,580</u>
Premium on Common Shares			
Balance, beginning of year	\$ 27,203,311	\$ 20,572,132	\$ 20,022,643
Premium on issuance of common shares:			
Public issuance of common shares ..	-	6,000,000	-
Dividend reinvestment and stock purchase plan	446,432	519,478	440,621
Employee stock purchase plan and other	<u>95,384</u>	<u>111,701</u>	<u>108,868</u>
Balance, end of year	<u>\$ 27,745,127</u>	<u>\$ 27,203,311</u>	<u>\$ 20,572,132</u>
Capital Stock Expense			
Balance, beginning of year	\$ (1,917,020)	\$ (1,620,252)	\$ (1,604,792)
Issuance of common shares	-	(296,768)	(15,460)
Balance, end of year	<u>\$ (1,917,020)</u>	<u>\$ (1,917,020)</u>	<u>\$ (1,620,252)</u>
Retained Earnings			
Balance, beginning of year	\$ 1,846,055	\$ 2,772,863	\$ 2,224,928
Net income	2,451,272	1,724,265	2,661,349
Cash dividends declared on common shares (See Consolidated Statements of Income for rates) ...	<u>(2,690,233)</u>	<u>(2,651,073)</u>	<u>(2,113,414)</u>
Balance, end of year	<u>\$ 1,607,094</u>	<u>\$ 1,846,055</u>	<u>\$ 2,772,863</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Capitalization

As of June 30,	1998	1997
Common Shareholders' Equity		
Common shares, par value \$1.00 per share (Notes 3 and 4) Authorized 6,000,000 shares Issued and outstanding 2,375,093 and 2,342,223 shares in 1998 and 1997, respectively	\$ 2,375,093	\$ 2,342,223
Premium on common shares	27,745,127	27,203,311
Capital stock expense	(1,917,020)	(1,917,020)
Retained earnings (Note 6)	<u>1,607,094</u>	<u>1,846,055</u>
 Total common shareholders' equity	 <u>\$29,810,294</u>	 <u>\$29,474,569</u>
Long-Term Debt (Notes 6 and 7)		
Debentures, 8.3%, due 2026	\$15,000,000	\$15,000,000
Debentures, 6 5/8%, due 2023	13,170,000	13,505,000
Debentures, 9%, due 2011.....	-	10,000,000
Debentures, 7.15%, due 2018	25,000,000	-
Promissory note from acquisition of under- ground storage, non-interest bearing, due through 2001 (less unamortized discount of \$207,506 and \$297,099 in 1998 and 1997, respectively)	1,192,494	1,502,901
Other	<u>40,000</u>	<u>87,559</u>
 Total long-term debt	 <u>\$54,402,494</u>	 <u>\$40,095,460</u>
 Less amounts due within one year, Included in current liabilities	 <u>(1,790,000)</u>	 <u>(1,987,600)</u>
 Net long-term debt	 <u>\$52,612,494</u>	 <u>\$38,107,860</u>
 Total capitalization	 <u>\$82,422,788</u>	 <u>\$67,582,429</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation -- Delta Natural Gas Company, Inc. ("Delta" or "the Company") has five 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 underground natural gas storage facilities that it leases from Delta. Enpro, Inc. owns and operates production properties. TranEx Corporation owns a 43 mile intrastate pipeline. All subsidiaries of Delta are included in the consolidated financial statements. Intercompany balances and transactions have been eliminated.

(b) Cash Equivalents -- For the purposes of the Consolidated Statements of Cash Flows, all temporary cash investments with a maturity of three months or less at the date of purchase are considered cash equivalents.

(c) Depreciation -- The Company determines its provision for depreciation using the straight-line method and by the application of rates to various classes of utility plant. The rates are based upon the estimated service lives of the properties and were equivalent to composite rates of 3.1%, 3.0%, and 2.9% of average depreciable plant for 1998, 1997, and 1996, respectively.

(d) Maintenance -- All expenditures for maintenance and repairs of units of property are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of utility plant. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal.

(e) Gas Cost Recovery -- Delta has a Gas Cost Recovery ("GCR") clause which provides for a dollar-tracker that matches revenues and gas costs and provides eventual dollar-for-dollar recovery of all gas costs incurred. The Company expenses gas costs based on the amount of gas costs recovered through revenue. Any differences between actual gas costs and those estimated costs billed are deferred and reflected in the computation of future billings to customers using the GCR mechanism.

(f) Revenue Recognition -- The Company records revenues as billed to its customers on a monthly meter reading cycle. At the end of each month, gas service which has been rendered from the latest date of each cycle meter reading to the month-end is unbilled.

(g) Revenues and Customer Receivables -- The Company has 38,000 customers in central and southeastern Kentucky. Revenues and customer receivables arise primarily from sales of natural gas to customers and from transportation services for others. Provisions for doubtful accounts are recorded to reflect the expected net realizable value of accounts receivable.

(h) Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) New Accounting Pronouncements -- Delta adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" in the first quarter of fiscal 1997. Adoption of SFAS No. 121 did not have a material impact on the Company's financial position or results of operations.

For companies with June 30 fiscal yearends, SFAS No. 123, "Accounting for Stock-Based Compensation", was required to be adopted as of June 30, 1997. This standard is currently inapplicable to Delta because the Company has no stock based compensation arrangements.

Delta adopted SFAS No. 128, "Earnings per Share", during the second quarter of fiscal 1998. The adoption of this standard had no effect upon current or prior period earnings per share.

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income", and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", effective for periods beginning after December 15, 1997. These statements do not affect the accounting recognition or measurement of transactions, but rather require expanded disclosures regarding financial results. The Company will adopt these standards in 1999 as required by the FASB.

(2) Income Taxes

The Company provides for income taxes on temporary differences resulting from the use of alternative methods of income and expense recognition for financial and tax reporting purposes. The differences result primarily from the use of accelerated tax depreciation methods for certain properties versus the straight-line depreciation method for financial purposes, differences in recognition of purchased gas cost recoveries and certain other accruals which are not currently deductible for income tax purposes. Investment tax credits were deferred for certain

periods prior to fiscal 1987 and are being amortized to income over the estimated useful lives of the applicable properties. The Company utilizes the liability method for accounting for income taxes, which requires that deferred income tax assets and liabilities are computed using tax rates that will be in effect when the book and tax temporary differences reverse. The change in tax rates applied to accumulated deferred income taxes may not be immediately recognized in operating results because of ratemaking treatment. A regulatory liability has been established to recognize the future revenue requirement impact from these deferred taxes. The temporary differences which gave rise to the net accumulated deferred income tax liability for the periods are as follows:

	<u>1998</u>	<u>1997</u>
Deferred Tax Liabilities		
Accelerated depreciation	\$ 9,933,400	\$ 9,018,800
Deferred gas cost	-	860,100
Accrued pension	568,900	433,000
Debt expense	<u>487,400</u>	<u>384,900</u>
Total	<u>\$10,989,700</u>	<u>\$10,696,800</u>
Deferred Tax Assets		
Alternative minimum tax credits	\$ 1,274,100	\$ 1,534,100
Regulatory liabilities	486,245	339,400
Deferred gas cost/unbilled revenue	670,100	327,500
Investment tax credit	251,400	279,400
Other	<u>284,380</u>	<u>295,300</u>
Total	<u>\$ 2,966,225</u>	<u>\$ 2,775,700</u>
Net accumulated deferred income tax liability	<u>\$ 8,023,475</u>	<u>\$ 7,921,100</u>

The components of the income tax provision are comprised of the following for the years ended June 30:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Components of Income Tax Expense:			
Payable currently:			
Federal	\$ 1,164,800	\$ 242,200	\$ 52,100
State	<u>265,600</u>	<u>(31,300)</u>	<u>(255,100)</u>
Total	\$ 1,430,400	\$ 210,900	\$ (203,000)
Deferred	<u>(29,400)</u>	<u>753,900</u>	<u>1,762,500</u>
Income tax expense	<u>\$ 1,401,000</u>	<u>\$ 964,800</u>	<u>\$ 1,559,500</u>

Reconciliation of the statutory federal income tax rate to the effective income tax rate is shown in the table below:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Statutory federal income tax rate	34.0%	34.0%	34.0%
State income taxes net of federal benefit	5.0	5.0	5.2
Amortization of investment tax credit	(1.8)	(2.6)	(1.7)
Other differences – net	<u>(.2)</u>	<u>-</u>	<u>-</u>
Effective income tax rate	<u>37.0%</u>	<u>36.4%</u>	<u>37.5%</u>

(3) Employee Benefit Plans

(a) **Defined Benefit Retirement Plan** -- Delta has a trustee, noncontributory, defined benefit pension plan covering all eligible employees. Retirement income is based on the number of years of service and annual rates of compensation. The Company makes annual contributions equal to the amounts necessary to fund the plan adequately. The funded status of the pension plan at March 31, the plan year end, and the amounts recognized in the Company's consolidated balance sheets at June 30 were as follows:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Plan assets at fair value	<u>\$8,637,638</u>	<u>\$6,835,393</u>	<u>\$6,058,458</u>
Actuarial present value of benefit Obligation:			
Vested benefits	\$4,800,745	\$4,505,619	\$2,789,736
Non-vested benefits	<u>19,934</u>	<u>11,025</u>	<u>9,346</u>
Accumulated benefit obligation	<u>\$4,820,679</u>	<u>\$4,516,644</u>	<u>\$2,799,082</u>
Additional amounts related to projected salary increases	<u>1,924,590</u>	<u>1,828,856</u>	<u>2,811,907</u>
Total projected benefit obligation	<u>\$6,745,269</u>	<u>\$6,345,500</u>	<u>\$5,610,989</u>
Plan assets in excess of projected benefit obligation	\$1,892,369	\$ 489,893	\$ 447,469
Unrecognized net assets at date of Initial application being Amortized over 15 years	(169,577)	(211,972)	(254,365)
Unrecognized net (gain) loss	<u>(869,909)</u>	<u>125,777</u>	<u>(13,481)</u>
Accrued pension asset	<u>\$ 852,883</u>	<u>\$ 403,698</u>	<u>\$ 179,623</u>

The assets of the plan consist primarily of common stocks, bonds and certificates of deposit. Net pension costs for the years ended June 30 include the following:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Service cost for benefits earned during the year	\$ 445,288	\$ 405,386	\$ 382,751
Interest cost on projected benefit obligation	443,955	392,539	356,897
Actual return on plan assets	(1,584,403)	(407,965)	(886,211)
Net amortization and deferral	<u>966,615</u>	<u>(136,843)</u>	<u>444,044</u>
Net periodic pension cost	<u>\$ 271,455</u>	<u>\$ 253,117</u>	<u>\$ 297,481</u>

The weighted average discount rates and the assumed rates of increase in future compensation levels used in determining the actuarial present values of the projected benefit obligation at June 30, 1998, 1997 and 1996 were 7.0% (discount rates), and 4% (rates of increase). The expected long-term rates of return on plan assets were 8%.

SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits", and SFAS No. 112, "Employers' Accounting for Post-Employment Benefits", do not affect the Company, as Delta does not provide benefits for post-retirement or post-employment other than the pension plan for retired employees.

(b) Employee Savings Plan -- The Company has an Employee Savings Plan ("Savings Plan") under which eligible employees may elect to contribute any whole percentage between 2% and 15% of their annual compensation. The Company will match 50% of the employee's contribution up to a maximum Company contribution of 2.5% of the employee's annual compensation. For 1998, 1997 and 1996, Delta's Savings Plan expense was \$156,000, \$151,000 and \$111,000, respectively.

(c) Employee Stock Purchase Plan -- The Company has an Employee Stock Purchase Plan ("Stock Plan") under which qualified permanent employees are eligible to participate. Under the terms of the Stock Plan, such employees can contribute on a monthly basis 1% of their annual salary level (as of July 1 of each year) to be used to purchase Delta's common stock. The Company issues Delta common stock, based upon the fiscal year contributions, using an average of the last sale price of Delta's stock as quoted in NASDAQ's National Market System at the close of business for the last five business days in June and matches those shares so purchased. Therefore, stock equivalent to \$111,000 was issued in July, 1998. The continuation and terms of the Stock Plan are subject to approval by Delta's Board of Directors on an annual basis. Delta's Board has continued the Stock Plan through June 30, 1999.

(4) Dividend Reinvestment and Stock Purchase Plan

The Company's Dividend Reinvestment and Stock Purchase Plan (Reinvestment Plan) provides that shareholders of record can reinvest dividends and also make limited additional investments of up to \$50,000 per year in shares of common stock of the Company. Shares purchased under the Reinvestment Plan are authorized but unissued shares of common stock of the Company, and 27,124, 31,187 and 28,024 shares were issued in 1998, 1997 and 1996,

respectively. Delta reserved 200,000 shares under the Reinvestment Plan in December, 1994, and as of June 30, 1998, there were 96,480 shares still available for issuance.

(5) Notes Payable and Line of Credit

Substantially all of the cash balances of Delta are maintained to compensate the respective banks for banking services and to obtain lines of credit; however, no specific amounts have been designated as compensating balances, and Delta has the right of withdrawal of such funds. At June 30, 1998 and June 30, 1997, the available line of credit was \$25,000,000 and \$20,000,000, respectively, of which \$1,875,000 and \$10,865,000 had been borrowed at an interest rate of 6.885% and 6.785% for 1998 and 1997, respectively. The maximum amount borrowed during 1998 and 1997 was \$20,160,000 and \$10,865,000, respectively. The interest on this line is, at the option of Delta, either at the daily prime rate or is based upon certificate of deposit rates. The current line of credit must be renewed during November, 1998.

Short-term borrowings were repaid in March, 1998, with the net proceeds of \$24,100,000 from the sale of \$25,000,000 of debentures. The net proceeds were also used to redeem the Company's 9% Debentures that would have matured in April, 2011. The redemption of this debt, the outstanding principal amount of which was \$10,000,000, was completed in April, 1998.

(6) Long-Term Debt

In March, 1998, Delta issued \$25,000,000 of 7.15% Debentures that mature in March, 2018. Redemption of up to \$25,000 annually will be made on behalf of deceased holders within 60 days of notice, subject to an annual aggregate \$750,000 limitation. The 7.15% Debentures can be redeemed by the Company after April 1, 2003. Restrictions under the indenture agreement covering the 7.15% Debentures include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity of the Company exceeds \$21,500,000. No retained earnings are restricted under the provisions of the indenture.

In July, 1996, Delta issued \$15,000,000 of 8.3% Debentures that mature in July, 2026. Redemption on behalf of deceased holders within 60 days of notice of up to \$25,000 per holder will be made annually, subject to an annual aggregate limitation of \$500,000. The 8.3% Debentures can be redeemed by the Company beginning in August, 2001 at a 5% premium, such premium declining ratably until it ceases in August, 2006.

In October, 1993, Delta issued \$15,000,000 of 6 5/8% Debentures that mature in October, 2023. Each holder may require redemption of up to \$25,000 annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 6 5/8% Debentures can be redeemed by the Company beginning in October, 1998 at a 5% premium, such premium declining ratably until it ceases in October, 2003. The Company may not assume any additional mortgage indebtedness in excess of \$2 million without effectively securing the 6 5/8% Debentures equally to such additional indebtedness.

Debt issuance expenses are deferred and amortized over the terms of the related debt. Call premium in 1998 of \$300,000 and loss on extinguishment of debt of \$332,000 was deferred and is being amortized over the term of the related debt consistent with regulatory treatment.

-- A non-interest bearing promissory note was issued by Delta in November, 1995 in the amount of \$1,800,000, and remaining installments are due in the amounts of \$700,000 in 2000 and \$700,000 in 2002. The note was issued when Delta purchased leases and depleted gas wells to develop them for the underground storage of natural gas. The promissory note installments are secured by escrow of 80,000 shares of Delta's common stock. These shares will be issued to the holder of the promissory note only in the event of default in payment by Delta.

Other long-term debt requires principal payments of \$40,000 in 1999 at which time other long-term debt will be fully repaid.

(7) Fair Values of Financial Instruments

The fair value of the Company's debentures is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's debentures at June 30, 1998 and 1997 was estimated to be \$54,387,000 and \$37,723,000, respectively. The carrying amount in the accompanying consolidated financial statements as of June 30, 1998 and 1997 is \$53,170,000 and \$38,505,000, respectively.

The carrying amount of the Company's other financial instruments including cash equivalents, accounts receivable, notes receivable, accounts payable and the non-interest bearing promissory note approximate their fair value.

(8) Commitments and Contingencies

The Company has entered into individual employment agreements with its five officers. The agreements expire or may be terminated at various times. The agreements provide for continuing monthly payments or lump sum payments and continuation of certain benefits over varying periods in the event employment is altered or terminated following certain changes in ownership of the Company.

(9) Rates

Reference is made to "Regulatory Matters" herein with respect to rate matters.

(10) Quarterly Financial Data (Unaudited)

The quarterly data reflects, in the opinion of management, all normal recurring adjustments necessary to present fairly the results for the interim periods.

<u>Quarter Ended</u>	<u>Operating Revenues</u>	<u>Operating Income (Loss)</u>	<u>Net Income (Loss)</u>	<u>Basic and Diluted Earnings(Loss) per Common Share(a)</u>
Fiscal 1998				
September 30	\$ 5,215,272	\$ 181,905	\$ (813,982)	\$ (.35)
December 31	11,787,820	1,726,169	591,812	.25
March 31	18,305,458	3,442,234	2,366,329	1.00
June 30	8,949,450	1,381,551	307,113	.14
Fiscal 1997				
September 30	\$ 4,074,332	\$ 36,149	\$ (734,296)	\$ (.33)
December 31	10,023,399	1,090,513	198,153	.09
March 31	18,651,406	3,034,844	2,050,318	.88
June 30	9,420,048	1,154,076	210,090	.09

(a) Quarterly earnings per share may not equal annual earnings per share due to changes in shares outstanding.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
 VALUATION AND QUALIFYING ACCOUNTS
 FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts- Recoveries	Deductions Amounts Charged Off or Paid	Balance at End of Period
Deducted From the Asset to Which it Applies - Allowance for doubtful accounts for the years ended:					
June 30, 1998	\$ 113,945	\$ 369,870	\$ 46,013	\$ 409,827	\$ 120,001
June 30, 1997	\$ 105,756	\$ 220,000	\$ 27,402	\$ 239,213	\$ 113,945
June 30, 1996	\$ 81,608	\$ 156,000	\$ 13,344	\$ 145,196	\$ 105,756

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
COMPUTATION OF THE CONSOLIDATED RATIO OF EARNINGS
TO FIXED CHARGES

	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Earnings:					
Net income	\$2,451,272	\$1,724,265	\$2,661,349	\$1,917,735	\$2,671,001
Provisions for income taxes	1,401,000	964,800	1,559,500	1,042,400	1,509,600
Fixed charges	<u>4,348,498</u>	<u>3,632,191</u>	<u>2,808,209</u>	<u>2,387,935</u>	<u>2,214,659</u>
Total	<u>\$8,200,770</u>	<u>\$6,321,256</u>	<u>\$7,029,058</u>	<u>\$5,348,070</u>	<u>\$6,395,260</u>
Fixed Charges:					
Interest on debt	\$4,223,946	\$3,516,825	\$2,719,409	\$2,299,135	\$2,123,255
Amortization of debt expense	<u>124,552</u>	<u>115,366</u>	<u>88,800</u>	<u>88,800</u>	<u>91,404</u>
Total	<u>\$4,348,498</u>	<u>\$3,632,191</u>	<u>\$2,808,209</u>	<u>\$2,387,935</u>	<u>\$2,214,659</u>
Ratio of Earnings to Fixed Charges	1.89x	1.74x	2.50x	2.24x	2.89x

Subsidiaries of the Registrant

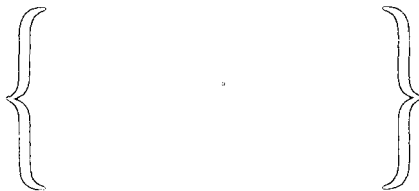
Delgasco, Inc., Deltran, Inc., Enpro, Inc., Delta Resources, Inc. and TranEx Corporation are wholly-owned subsidiaries of the Registrant, are incorporated in the state of Kentucky and do business under their corporate names.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated August 17, 1998, included in this Form 10-K, into the Company's previously filed Registration Statement No. 33-56689, relating to the Dividend Reinvestment and Stock Purchase Plan of the Company.

Arthur Andersen LLP

Louisville, Kentucky
September 11, 1998



Delta Natural Gas Company, Inc. and Subsidiary Companies

Annual Report

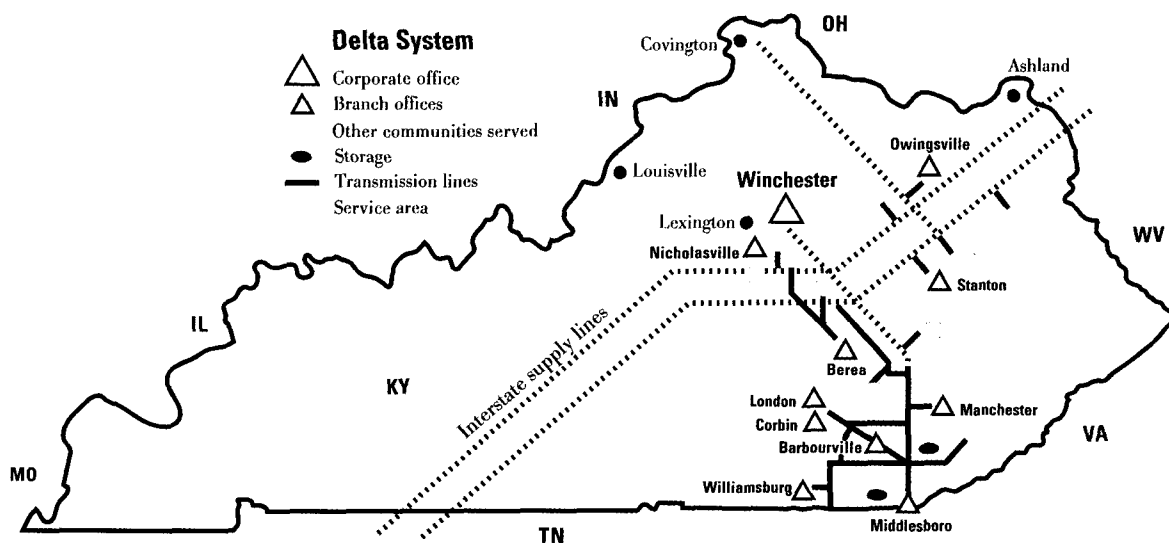
The Company

Delta Natural Gas Company, Inc. ("Delta" or "the Company") is engaged primarily in the distribution, transmission, storage and production of natural gas through facilities located in 20 counties in central and southeastern Kentucky. Delta serves approximately 38,000 residential, commercial, industrial and transportation customers and makes transportation deliveries to several interconnected pipelines.

Unless the context requires otherwise, references to Delta include Delta's wholly-owned subsidiaries, Delta Resources, Inc. ("Resources"), Delgasco, Inc. ("Delgasco"), Deltran, Inc. ("Deltran"), Enpro, Inc. ("Enpro") and TranEx Corporation ("TranEx"). Resources buys gas and resells it to industrial customers on Delta's system and to Delta for

system supply. Delgasco buys gas and resells it to Resources and to customers not on Delta's system. Deltran operates an underground natural gas storage field that it leases from Delta. Enpro owns and operates production properties and undeveloped acreage. TranEx owns a 43 mile intrastate pipeline. Delta and its subsidiaries are under common executive management.


Delta was incorporated under Kentucky law in 1949. Its principal executive offices are located at 3617 Lexington Road, Winchester, Kentucky 40391. Its telephone number is (606) 744-6171, and its Fax number is (606) 744-6552. Delta's website is www.deltagas.com and Delta's E-mail address is delta@mis.net.



Selected Consolidated Financial Information

For the Years Ended June 30,	1998(a)	1997	1996(b)	1995	1994(c)
Summary of Operations (\$)					
Operating revenues	44,258,000	42,169,185	36,576,055	31,844,339	34,846,941
Operating income	6,731,859	5,315,582	5,437,055	4,255,088	4,850,673
Net income	2,451,272	1,724,265	2,661,349	1,917,735	2,671,001
Basic and diluted earnings per common share	1.04	.75	1.41	1.04	1.50
Dividends declared per common share	1.14	1.14	1.12	1.12	1.11
Average Number of Common Shares Outstanding					
	2,359,598	2,294,134	1,886,629	1,850,986	1,775,068
Total Assets (\$)	102,866,613	96,681,165	81,140,637	65,948,716	61,932,480
Capitalization (\$)					
Common shareholders' equity	29,810,294	29,474,569	23,628,323	22,511,513	22,164,791
Long-term debt	52,612,494	38,107,860	24,488,916	23,702,200	24,500,000
Notes payable refinanced subsequent to yearend	-	-	18,075,000	-	-
Total capitalization	82,422,788	67,582,429	66,192,239	46,213,713	46,664,791
Short-Term Debt (\$) (d)	3,665,000	12,852,600	1,084,800	6,732,700	3,205,000
Other Items (\$)					
Capital expenditures	11,193,613	16,648,994	13,373,416	8,122,838	7,374,747
Total plant	127,028,159	116,829,158	98,795,623	84,944,969	77,882,135

- (a) During March, 1998, \$25,000,000 of debentures were sold, and the proceeds were used to repay short-term debt and to redeem the Company's \$10,000,000 of 9% debentures.
- (b) During July, 1996, \$15,000,000 of debentures and 400,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and for general corporate purposes. The balance of the note payable at June 30, 1996 (\$18,075,000) is included in total capitalization as a result of the subsequent refinancing.
- (c) During October, 1993, \$15,000,000 of debentures and 170,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and to refinance certain long-term debt.
- (d) Includes current portion of long-term debt.



Delta continues to expand service to new residential customers throughout its service area, including this development near Richmond in Madison County.

To Our Shareholders

This past year has certainly been an eventful year for Delta. Our weather was very mild as heating degree days were only 93.5% of thirty year average ("normal") weather as compared with 103.5% in 1997. January and February were two of our warmest months on record, and thus our sales volumes were below anticipated levels for normal weather. Our earnings increased, however, despite the warmer weather, to \$1.04 per share in 1998 as compared with \$.75 per share in 1997, as we filed a rate case in March, 1997 and it was completed during fiscal 1998. We implemented new rates effective November 30, 1997 that are designed to provide approximately \$1.8 million of additional annual revenues.

The Company continued during 1998 to expand its distribution and transmission system, including the July, 1997 acquisition of the gas system of Annville Gas & Transmission Corporation in Jackson County. This system served

industrial and residential customers, and we expanded it during 1998 to provide service to customers in the City of Annville.

We also completed the development of our Canada Mountain underground natural gas storage field during 1998, including completion of 14 miles of 12-inch diameter pipeline that connects the storage field to our system. We withdrew gas this past winter from the field to supply a portion of our winter-time gas needs, and we are presently injecting gas into the field in preparation for its use during the upcoming winter.

In March, 1998, we successfully completed our largest public offering of debt with the issuance of \$25 million of 7.15% debentures that will mature in 2018. The proceeds were used to repay our bank credit line and to redeem our 9% debentures, that were due in 2011, in the amount of \$10 million. We will continue to utilize



Jennings

Peet

our credit line, which is presently \$25 million, for our working capital and capital expenditure needs as a supplement to our internally-generated cash.

We acquired TranEx Corporation during June, 1997. This company owns a 43 mile, 8 inch diameter steel pipeline, and during 1998 we connected it to our system in the Richmond area. It also interconnects with Columbia Gulf's pipeline in Madison County and our transmission pipeline system in Clay County. We are utilizing this pipeline to provide natural gas to our Canada Mountain storage field, as well as for system supply and transportation.

Thank you for your continued support. Delta had a good year, with growth and earnings improvement. We look to the future with optimism, believing that Delta is prepared to continue to grow and prosper.

Sincerely,

H. D. Peet
Chairman of the Board

Glenn R. Jennings
President and
Chief Executive Officer

August 21, 1998

Delta's Mission

Maximize business growth

Strive for complete customer satisfaction

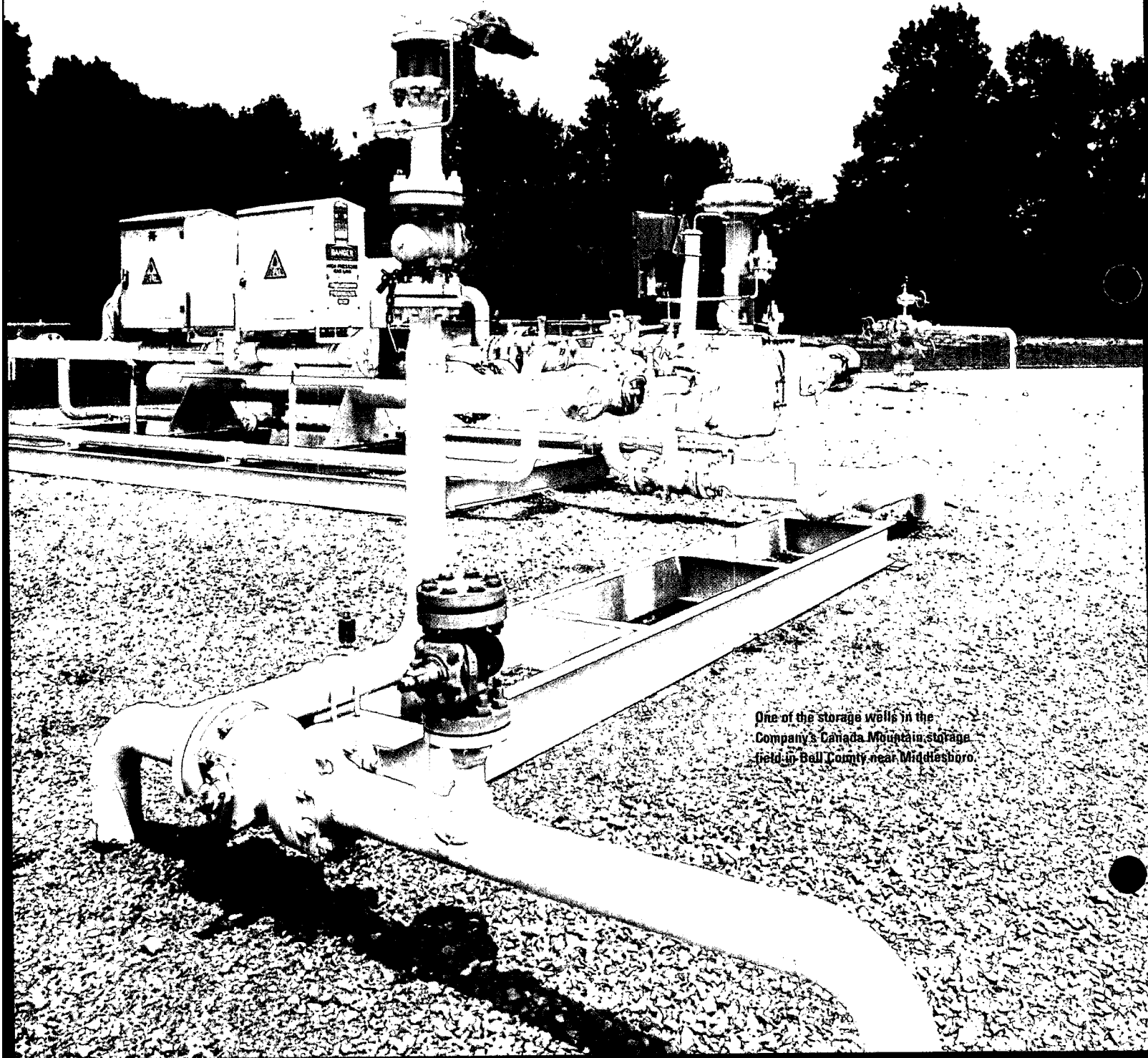
Ensure an excellent work environment for employees

Enhance the quality of shareholders' investment

Summary Of Operations

4

Delta expands its system to serve new customers near Nicholasville in Jessamine County.



One of the storage wells in the Company's Canada Mountain storage field in Bell County near Middlesboro.

Gas Operations and Supply

The Company purchases and produces gas for distribution to its retail customers and also provides transportation service to industrial customers and inter-connected pipelines with its facilities that are located in 20 predominantly rural counties in central and southeastern Kentucky. The economy of Delta's service area is based principally on light industry, farming and coal mining. The communities in Delta's service area typically contain populations of less than 20,000. The four largest service areas are Nicholasville, Corbin, Berea and Middlesboro, where Delta serves 6,600, 6,300, 3,800 and 3,500 customers, respectively.

The communities served by Delta continue to expand, resulting in growth opportunities for the Company. Industrial parks have been developed in certain areas and have resulted in new industrial customers, some of which are on-system transportation customers. As a result of this growth, Delta's total average customer count increased by 2.6% in 1998.

Currently, over 99% of Delta's customers are residential and commercial. Delta's remaining, light industrial customers purchased 6% of the total volume of gas sold by Delta at retail during 1998.

The Company's revenues are affected by various factors, including rates billed to customers, the cost of natural gas, economic conditions in the areas that the Company serves, weather conditions and competition. Delta competes for customers and sales with alternative sources of energy, including electricity, coal, oil, propane and wood. The Company's marketing subsidiaries, which purchase gas and resell it to various industrial customers and others, also compete for their customers with producers and marketers of natural gas. Gas costs, which the Company is gener-

Retail Sales Volume (Billion cu. ft.)

'98	4.1
'97	4.3
'96	4.7
'95	3.7
'94	4.3

ally able to pass through to customers, may influence customers to conserve, or, in the case of industrial customers, to use alternative energy sources. Also, the potential bypass of Delta's system by industrial customers and others is a competitive concern that Delta has addressed and will continue to address as the need arises.

Delta's retail sales are seasonal and temperature-sensitive as the majority of the gas sold by Delta is used for heating. This seasonality impacts Delta's liquidity position and its management of its working capital requirements during each twelve month period, and changes in the average temperature during the winter months impacts its revenues year-to-year (see Management's Discussion and Analysis of Financial Condition and Results of Operations).

Retail gas sales in 1998 were 4,112,000 Mcf, generating \$33,435,000 in revenues, as compared to 4,299,000 Mcf and \$33,561,000 in revenues for 1997. Heating degree days billed during 1998 were 93.5% of normal as compared with 103.5% in 1997 and as a result, sales volumes decreased by 187,000 Mcf, or 4.4%, in 1998 as compared to 1997.

Delta's transportation of natural gas during 1998 generated revenues of \$4,360,000 as compared with \$3,596,000 during 1997. Of the total transportation in 1998, \$3,877,000 (3,467,000 Mcf) and \$483,000 (1,489,000 Mcf) were earned for transportation for on-system and off-system customers, respectively. Of the

total transportation for 1997, \$3,214,000 (2,863,000 Mcf) and \$382,000 (1,205,000 Mcf) were earned for transportation for on-system and off-system customers, respectively.

As an active participant in many areas of the natural gas industry, Delta plans to continue its efforts to expand its gas distribution system. During November, 1996, Delta acquired the City of North Middletown gas system in Bourbon County, consisting of 180 primarily residential customers. During July, 1997, Delta purchased the gas system of Annville Gas & Transmission Corporation in Jackson County, which serves several industrial and residential customers. This system was expanded by Delta during 1998 to provide gas service to customers in the City of Annville. Delta continues to consider acquisitions of other gas systems, some of which are contiguous to its existing service areas, as well as expansion within its existing service areas.

The Company also anticipates continuing activity in gas production and transportation and plans to pursue and increase these activities wherever practicable. During June, 1997, Delta acquired TranEx Corporation, which owns a 43 mile, 8 inch diameter steel pipeline that extends from Clay County to Madison County. During 1998, the TranEx pipeline was connected to Delta's system in the Richmond area. It also interconnects with a pipeline of Columbia Gulf Transmission Company ("Columbia Gulf") in Madison County as well as Delta's transmission pipeline

system in Clay County. Delta is utilizing the pipeline to deliver natural gas for injection into the Company's Canada Mountain storage field as well as for system supply and transportation. The Company will continue to consider the construction or acquisition of additional transmission, storage and gathering facilities to provide for increased transportation, enhanced supply and system flexibility.

Some producers in Delta's service area can access certain pipeline delivery systems other than Delta, which provides competition from others for transportation of such gas. Delta will continue its efforts to purchase or transport any natural gas available that is produced in reasonable proximity to its facilities.

Delta receives its gas supply from a combination of interstate and Kentucky sources. The Company intends to pursue an adequate gas supply to provide service to existing and future customers. Delta will continue to maintain an active gas supply management program that emphasizes long-term reliability and the pursuit of cost effective sources of gas for its customers.

Delta's interstate gas supply is transported and/or stored by Tennessee Gas Pipeline Company, Columbia Gas Transmission Corporation, Columbia Gulf and Texas Eastern Transmission Corporation. Delta acquires its interstate gas supply from gas marketers. Delta also acquires gas supply from Kentucky producers and suppliers. There is a competitive national market for natural gas supplies as supply and demand determine the availability and prices of natural gas.

Enpro produces oil and gas from leases it owns in southeastern Kentucky. Enpro's natural gas production is purchased by Delta for system supply, and Enpro's remaining proved, developed

natural gas reserves are estimated at 4,200,000 Mcf. Delta purchased a total of 225,000 Mcf from those properties in 1998. Enpro's oil production has not been significant.

Resources and Delgasco purchase gas from various marketers and Kentucky producers. The gas is resold to industrial customers on Delta's system, to Delta for system supply and to others. Although there are competitors for the acquisition of gas supplies, Delta continues to seek additional new gas supplies from all available sources, including those in the proximity of its facilities in southeastern Kentucky. Also, Resources and Delgasco continue to pursue acquisitions of new gas supplies from Kentucky producers and others.

Delta has completed the development of an underground natural gas storage field, with an estimated working capacity of 4,000,000 Mcf. This field has been used to provide a portion of Delta's winter supply needs since 1996. This storage capability permits Delta to purchase and store gas during the non-heating months, and then withdraw and sell the gas during the peak usage months.

Regulatory Matters

Delta is subject to the regulatory authority of the Public Service Commission of Kentucky ("PSC") with respect to various aspects of Delta's business, including rates and service to retail and transportation customers. The company monitors the need to file a general rate case as a way to adjust

its sales prices. Delta currently has no general rate cases filed with the PSC.

Effective November 30, 1997, Delta received approval from the PSC for an annual revenue increase of \$1,670,000. This resulted from a general rate case that Delta had filed with the PSC during March, 1997. Effective May 1, 1998, Delta also received approval from the PSC for an additional annual revenue increase of \$117,000 in this rate case, resulting from a rehearing of certain tax-related items.

Delta's rates include a Gas Cost Recovery ("GCR") clause, which permits changes in Delta's gas costs to be reflected in the rates charged to customers. The GCR requires Delta to make quarterly filings with the PSC, but such procedure does not require a general rate case. The PSC is allowing Delta through its GCR clause to recover its costs in connection with its recently developed storage facilities on Canada Mountain.

During 1997, the PSC established a proceeding to investigate affiliate transactions. Delta is a party to this proceeding, and has responded to a PSC data request relating to Delta's subsidiaries. Delta cannot currently predict the outcome of this proceeding or the impact on Delta's rates, if any.

The PSC convened proceedings during 1997 with various regulated utilities and other interested parties to discuss the potential unbundling of natural gas rates and services in Kentucky. On July 1, 1998 the PSC concluded the proceedings without requiring further unbundling at this

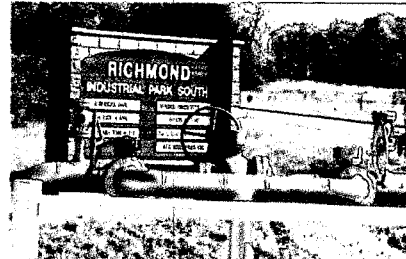
Degree Days (% of 30 year average)

'98	93.5
'97	103.5
'96	112.3
'95	89.7
'94	106.3

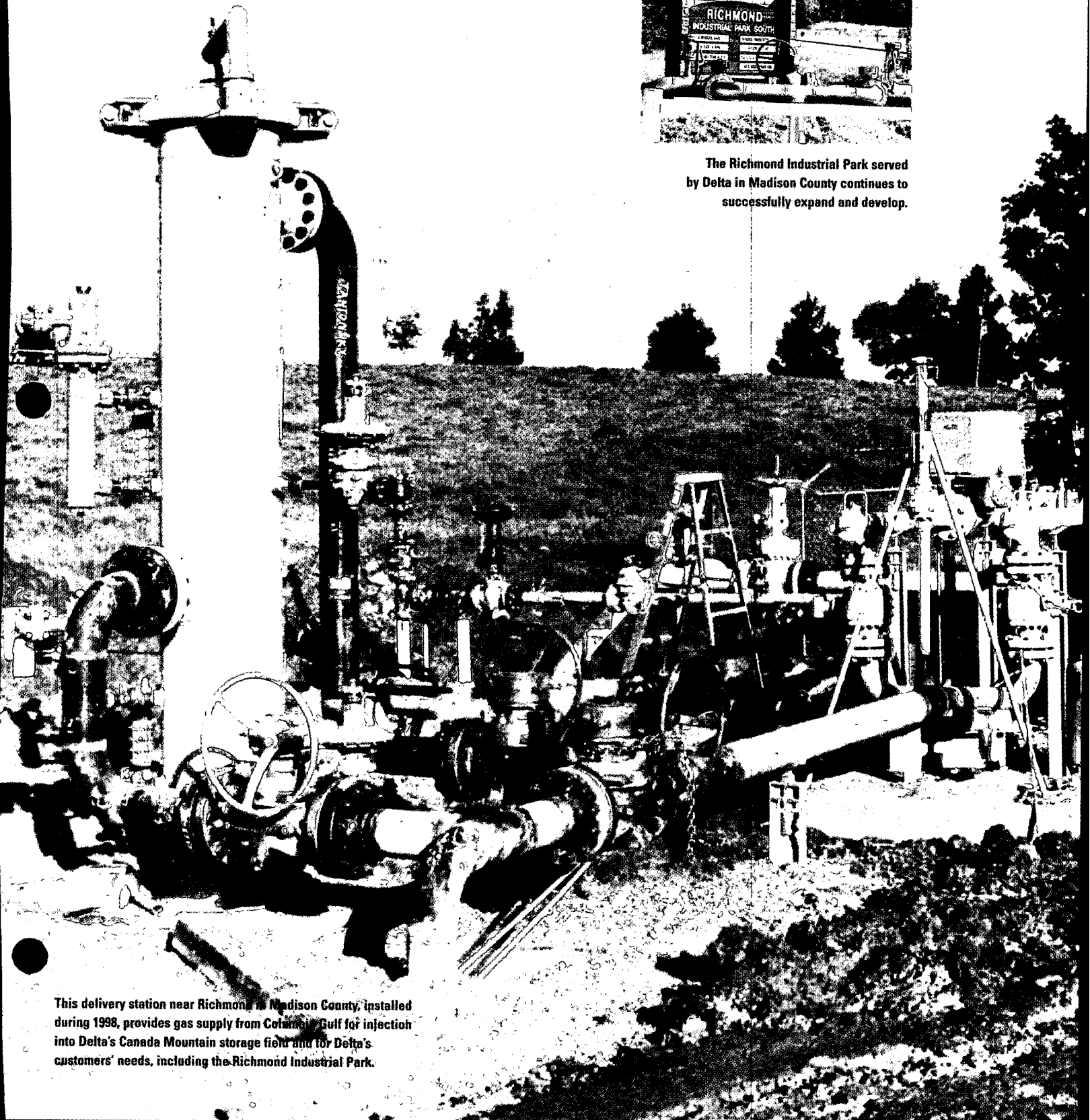
Capital Expenditures (\$ Millions)

'99	6.8*
'98	11.2
'97	16.6
'96	13.4
'95	8.1
'94	7.4

* estimated



The Richmond Industrial Park served by Delta in Madison County continues to successfully expand and develop.



This delivery station near Richmond, Madison County, installed during 1998, provides gas supply from Columbia Gulf for injection into Delta's Canada Mountain storage field and for Delta's customers' needs, including the Richmond Industrial Park.

time of prices and service options for residential and small commercial customers. Delta participated actively in those meetings and plans to continue to provide comments in future discussions concerning regulatory and legislative issues relating to unbundling.

In addition to PSC regulation, Delta may obtain non-exclusive franchises from the cities and communities in which it operates authorizing it to place its facilities in the streets and public grounds. However, no utility may obtain a franchise until it has obtained from the PSC a Certificate of Convenience and Necessity authorizing it to bid on the franchise. Delta holds franchises in four of the ten cities in which it maintains branch offices and in seven other communities it serves. In the other cities and communities served by the Company, either Delta's franchises have expired, the communities do not have governmental organizations authorized to grant franchises, or the local governments have not required or do not want to offer a franchise. Delta attempts to acquire or reacquire franchises whenever feasible.

Without a franchise, a local government could require Delta to cease its occupation of the streets and public grounds or prohibit Delta from extending its facilities into any new area of that city or community. To date, the absence of a franchise has had no adverse effect on Delta's operations.

Capital Expenditures

Capital expenditures during 1998 were \$11.2 million and for 1999 are estimated to be \$6.8 million. The Company expects a reduced level of capital expenditures in 1999 due to the substantial completion of the underground natural gas storage field in 1998. The Company is planning for expenditures for system extensions, computer system upgrades and the replacement and improvement of existing transmission, distribution, gathering and general facilities.

Financing

The Company's capital expenditures and operating cash requirements are met through the use of internally generated funds and a short-term line of credit. The available line of credit at June 30, 1998, was \$25 million of which \$1.9 million had been borrowed. These short-term borrowings are periodically repaid with long-term debt and equity securities, as was done in March, 1998, when the net proceeds of \$24.1 million from the sale of \$25 million of debentures was used to repay short-term notes payable, as well as to redeem the Company's 9% debentures, that would have matured in 2011, in the amount of \$10 million.

Present plans are to utilize the short-term line of credit to help meet planned capital expenditures and operating cash requirements. The amounts

and types of future long-term debt and equity financings will depend upon the Company's capital needs and market conditions.

During 1998 the requirements of the Employee Stock Purchase Plan (see Note 3(c) of the Notes to Consolidated Financial Statements) were met through the issuance of 5,746 shares of common stock resulting in an increase of \$101,000 in Delta's common shareholders' equity. The Dividend Reinvestment and Stock Purchase Plan (see Note 4 of the Notes to Consolidated Financial Statements) resulted in the issuance of 27,124 shares of common stock providing an increase of \$474,000 in Delta's common shareholders' equity.

Common Stock Dividends and Prices

Delta has paid cash dividends on its common stock each year since 1964. While it is the intention of the Board of Directors to continue to declare dividends on a quarterly basis, the frequency and amount of future dividends will depend upon the Company's earnings, financial requirements and other relevant factors, including limitations imposed by the indenture for the Debentures. There were 2,410 record holders of Delta's common stock as of August 1, 1998.

Delta's common stock is traded in the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System under the symbol DGAS. The accompanying table reflects the high and low sales prices during each quarter as reported by NASDAQ and the quarterly dividends declared per share.

Quarter	Range of Stock Prices (\$)		Dividends Per Share(\$)
	High	Low	
Fiscal 1998			
First	18 1/4	16 3/4	.285
Second	19 1/2	17 3/4	.285
Third	19 1/4	16 5/8	.285
Fourth	18	16 3/4	.285
Fiscal 1997			
First	18 3/4	15 1/2	.285
Second	19 1/2	17 3/4	.285
Third	19 1/2	17	.285
Fourth	18 1/2	16	.285

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company's utility operations are subject to regulation by the PSC, which plays a significant role in determining the Company's return on equity. The PSC approves rates that are intended to permit a specified rate of return on investment. The Company's rate tariffs allow the cost of gas to be passed through to customers (see Regulatory Matters).

The Company's business is temperature-sensitive. Accordingly, the Company's operating results in any given period reflect, in addition to other factors, the impact of weather, with colder temperatures generally resulting in increased sales by the Company. The Company anticipates that this sensitivity to seasonal and weather conditions will continue to be so reflected in the Company's operating results in future periods.

Liquidity and Capital Resources

Because of the seasonal nature of Delta's sales, the smallest proportion of cash generated from operations is received during the warmer months when sales volumes decrease considerably. Additionally, most construction activity takes place during the non-heating sea-

son because of more favorable weather conditions. During the warmer, non-heating months, therefore, cash needs for operations and construction are partially met through short-term borrowings.

Capital expenditures for Delta for fiscal 1999 are expected to be \$6.8 million. Delta generates internally only a portion of the cash necessary for its capital expenditure requirements and finances the balance of its capital expenditures on an interim basis through the use of its borrowing capability under its short-term line of credit. The current available line of credit is \$25,000,000, of which \$1,875,000 was borrowed at June 30, 1998. The line of credit, which is with Bank One, Kentucky, NA, requires renewal during November, 1998. These short-term borrowings are periodically repaid with the net proceeds from the sale of long-term debt and equity securities, as was done in March, 1998, when the net proceeds of \$24,100,000 from the sale of \$25,000,000 of debentures were used to repay short-term debt and to redeem the Company's 9% debentures, that would have matured in 2011, in the amount of \$10,000,000.

The primary cash flows during the last three years are summarized below:

	1998	1997	1996
Provided by operating activities	\$ 8,922,037	\$ 6,209,226	\$ 3,094,809
Used in investing activities	(11,193,613)	(16,648,994)	(13,373,416)
Provided by financing activities	1,909,689	10,768,558	10,294,461
Net increase (decrease) in cash and cash equivalents	\$ (361,887)	\$ 328,790	\$ 15,854

Cash provided by operating activities consists of net income and noncash items including depreciation, depletion, amortization and deferred income taxes. Additionally, changes in working capital are also included in cash provided by operating activities. The Company expects that internally generated cash, coupled with short-term borrowings, will be sufficient to satisfy its operating, normal capital expenditure and dividend requirements.

Results of Operations

Operating Revenues

The increase in operating revenues of \$2,089,000 for 1998 was due primarily to the general rate increase effective November 30, 1997 and to the increases in on-system and off-system transportation volumes of 604,000 Mcf and 284,000 Mcf, respectively. The increase in operating revenues includes \$200,000 of additional revenue caused by a non-recurring change. These increases were partially offset by a decrease in retail sales volumes of 187,000 Mcf as a result of the warmer winter weather in 1998. Billed degree days were 93.5% of normal degree days for 1998 as compared with 103.5% for 1997.

The increase in operating revenues of \$5,593,000 for 1997 was due primarily to increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause. This was partially offset by a decrease in retail sales volumes of 406,000 Mcf as a result of the warmer winter weather in 1997. Billed degree days were 103.5% of normal degree days for 1997 as compared with 112.3% for 1996. In addition, on-system transportation volumes for 1997 increased 293,000 Mcf, or 11.4%.

Operating Expenses

The decrease in purchased gas expense for 1998 of \$766,000 was due primarily to the decreased gas purchases for retail sales resulting from the warmer winter weather in 1998.

The increase in purchased gas expense of \$5,875,000 for 1997 was due primarily to increases in the cost of gas purchased for retail sales. The increase was partially offset by the decreased gas purchased for retail sales resulting from the warmer winter weather in 1997.

The increases in depreciation expense during 1998 and 1997 of \$510,000 and \$424,000, respectively, were due primarily to additional depreciable plant.

The increase in taxes other than income taxes during 1998 of \$155,000 was primarily due to increased property taxes which resulted from increased plant and property valuations, and to increased payroll taxes, which resulted from increased wages.

Changes in income taxes during 1998 and 1997 of \$436,000 and \$595,000, respectively, were primarily due to changes in net income.

Interest Charges

The increase in interest on long-term debt during 1998 of \$329,000 was due primarily to the issuance of \$25 million of 7.15% Debentures in March, 1998. The increase in other interest during 1998 of \$378,000 was due primarily to increased average short-term debt borrowings.

The increases in interest on long-term debt and amortization of debt expense during 1997 of \$1,146,000 and \$27,000, respectively, were due primarily to the issuance of \$15 million of 8.3% Debentures during July, 1996. The decrease in other interest during 1997 of \$348,000 was due primarily to decreased average short-term borrowings as short-term debt was repaid with the net proceeds from the sale of long-term debt and equity securities during July, 1996.

Earnings Per Common Share

For the years ended June 30, 1998 and 1997, basic earnings per common share declined, as compared with previous periods, as a result of the increased average common shares outstanding that resulted from the additional 400,000 shares of common stock issued in July, 1996, as well as the common shares issued under Delta's dividend reinvestment plan and shares issued to employees during the periods. Other than Delta's outstanding common shares, there are no potentially dilutive securities. Therefore basic and diluted earnings per common share are the same.

Factors That May Affect Future Results

Management's Discussion and Analysis of Financial Condition and Results of Operations and the other sections of this report (including the letter To Our Shareholders) contain forward-looking statements, that are not statements of historical facts. These forward-looking statements are identified by their language, which may in some cases include words such as "estimates," "expects," "plans," "anticipates," "intends," "will continue," "believes," and similar expressions. Such forward-looking statements may concern (among other things) the impact of changes in the cost of gas, projected capital expenditures, sources of cash to fund expenditures, regulatory recovery mechanisms, regulatory matters, expansion of Delta's gas distribution system, acquisitions of gas customers and systems, activity in gas production and transportation and acquisition and management of gas supply. Such forward-looking statements are accordingly subject to important risks and uncertainties that could cause the Company's actual results to differ materially from those expressed in any such forward-looking statements. These uncertainties include, but are not limited to, the ongoing restructuring of the gas industry and the outcome of the regulatory proceedings related to that restructuring, changing regulatory environment generally, uncertainty as to the regulatory allowance of recovery of changes in the cost of gas, uncertain demands for capital expenditures, the availability of cash from various sources and uncertainty as to regulatory approval of the full recovery of costs and regulatory assets.

The "Year 2000" Issue

The Company is working to resolve the potential impact of the year 2000 on the ability of the Company's computerized information systems to accurately process information that may be date-sensitive. Any of the Company's programs that recognize a date using "00" as the year 1900 rather than the year 2000 could

result in errors or system failures. The Company utilizes a number of computer programs across its entire operation. The Company has not completed its assessment, but currently believes that costs of addressing this issue will not have a material adverse impact on the Company's financial position. However, if the Company and third parties upon which it relies are unable to address this issue in a timely manner, it could result in a material financial risk to the Company. The Company intends to use its best efforts to resolve any significant year 2000 issues in a timely manner.

New Accounting Pronouncements

In 1997, Delta adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". Adoption of SFAS No. 121 did not have a material impact on the Company's financial position or results of operations.

For companies with June 30 fiscal yearends, SFAS No. 123, "Accounting for Stock-Based Compensation", was required to be adopted as of June 30, 1997. This standard is currently inapplicable to Delta because the Company has no stock-based compensation arrangements.

Delta adopted SFAS No. 128, "Earnings per Share", during the second quarter of fiscal 1998. The adoption of this standard had no effect upon current or prior period earnings per common share.

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income", and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", effective for periods beginning after December 15, 1997. These statements do not affect the accounting recognition or measurement of transactions, but rather require expanded disclosures regarding financial results. The Company will adopt these standards in 1999 as required by the FASB.

Consolidated Statements of Income

For the Years Ended June 30,	1998	1997	1996
Operating Revenues	\$ 44,258,000	\$ 42,169,185	\$ 36,576,055
Operating Expenses			
Purchased gas	\$ 22,499,488	\$ 23,265,222	\$ 17,389,755
Operation and maintenance (Note 1)	8,968,213	8,631,635	8,642,511
Depreciation and depletion (Note 1)	3,445,382	2,935,257	2,510,952
Taxes other than income taxes	1,212,058	1,056,689	1,036,282
Income taxes (Note 2)	1,401,000	964,800	1,559,500
Total operating expenses	\$ 37,526,141	\$ 36,853,603	\$ 31,139,000
Operating Income	\$ 6,731,859	\$ 5,315,582	\$ 5,437,055
Other Income and Deductions, Net	67,911	40,874	32,503
Income Before Interest Charges	\$ 6,799,770	\$ 5,356,456	\$ 5,469,558
Interest Charges			
Interest on long-term debt	\$ 3,326,681	\$ 2,997,393	\$ 1,851,768
Other interest	897,265	519,432	867,641
Amortization of debt expense	124,552	115,366	88,800
Total interest charges	\$ 4,348,498	\$ 3,632,191	\$ 2,808,209
Net Income	\$ 2,451,272	\$ 1,724,265	\$ 2,661,349
Weighted Average Number of Common Shares Outstanding	2,359,598	2,294,134	1,886,629
Basic and Diluted Earnings Per Common Share	\$ 1.04	\$.75	\$ 1.41
Dividends Declared Per Common Share	\$ 1.14	\$ 1.14	\$ 1.12

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

For the Years Ended June 30,	1998	1997	1996
Cash Flows From Operating Activities			
Net income	\$ 2,451,272	\$ 1,724,265	\$ 2,661,349
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, depletion and amortization	3,755,929	3,049,229	2,663,475
Deferred income taxes and investment tax credits	(29,400)	485,400	1,762,500
Other - net	698,584	666,798	484,474
(Increase) decrease in assets:			
Accounts receivable	(124,168)	(318,178)	(860,255)
Gas in storage	(840,829)	(782,007)	63,546
Advance (deferred) recovery of gas cost	3,328,625	495,751	(3,788,143)
Materials and supplies	252,746	(120,969)	(124,697)
Prepayments	70,648	(346,532)	53,702
Other assets	(55,440)	(541,669)	(31,723)
Increase (decrease) in liabilities:			
Accounts payable	(336,089)	(439,721)	871,207
Refunds due customers	(460,751)	554,520	(456,283)
Accrued taxes	(46,549)	1,038,761	(270,394)
Other current liabilities	257,055	744,054	56,951
Advances for construction and other	404	(476)	9,100
Net cash provided by operating activities	\$ 8,922,037	\$ 6,209,226	\$ 3,094,809
Cash Flows From Investing Activities			
Capital expenditures	\$ (11,193,613)	\$ (16,648,994)	\$ (13,373,416)
Net cash used in investing activities	\$ (11,193,613)	\$ (16,648,994)	\$ (13,373,416)
Cash Flows From Financing Activities (Note 6)			
Dividends on common stock	\$ (2,690,233)	\$ (2,651,073)	\$ (2,113,414)
Issuance of common stock, net	574,686	6,773,054	568,875
Issuance of debentures, net	23,837,795	14,334,833	-
Repayment of long-term debt	(10,822,559)	(478,256)	(561,000)
Issuance of notes payable	26,200,000	30,975,000	25,955,000
Repayment of notes payable	(35,190,000)	(38,185,000)	(13,555,000)
Net cash provided by financing activities	\$ 1,909,689	\$ 10,768,558	\$ 10,294,461
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (361,887)	\$ 328,790	\$ 15,854
Cash and Cash Equivalents, Beginning of Year	480,423	151,633	135,779
Cash and Cash Equivalents, End of Year	\$ 118,536	\$ 480,423	\$ 151,633
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest	\$ 4,291,005	\$ 3,019,881	\$ 2,491,091
Income taxes (net of refunds)	\$ 1,642,964	\$ (432,163)	\$ 193,560

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Balance Sheets

As of June 30,	1998	1997
Assets		
Gas Utility Plant, at cost	\$ 127,028,159	\$ 116,829,158
Less - Accumulated provision for depreciation	(34,929,481)	(31,734,976)
Net gas plant	\$ 92,098,678	\$ 85,094,182
Current Assets		
Cash and cash equivalents	\$ 118,536	\$ 480,423
Accounts receivable, less accumulated provisions for doubtful accounts of \$120,002 and \$113,945 in 1998 and 1997, respectively	2,538,800	2,414,632
Gas in storage, at average cost	2,050,000	1,209,171
Deferred gas costs (Note 1)	-	2,180,606
Materials and supplies, at first-in, first-out cost	520,362	773,108
Prepayments	241,731	312,379
Total current assets	\$ 5,469,429	\$ 7,370,319
Other Assets		
Cash surrender value of officers' life insurance (face amount of \$1,036,009)	\$ 339,215	\$ 321,339
Note receivable from officer	110,000	134,000
Unamortized debt expense and other (Note 6)	4,849,291	3,761,325
Total other assets	\$ 5,298,506	\$ 4,216,664
Total assets	\$ 102,866,613	\$ 96,681,165
Liabilities and Shareholders' Equity		
Capitalization (See Consolidated Statements of Capitalization)		
Common shareholders' equity	\$ 29,810,294	\$ 29,474,569
Long-term debt (Notes 6 and 7)	52,612,494	38,107,860
Total capitalization	\$ 82,422,788	\$ 67,582,429
Current Liabilities		
Notes payable (Note 5)	\$ 1,875,000	\$ 10,865,000
Current portion of long-term debt (Notes 6 and 7)	1,790,000	1,987,600
Accounts payable	2,050,628	2,386,717
Accrued taxes	1,085,766	1,132,315
Refunds due customers	117,123	577,874
Advance recovery of gas costs (Note 1)	1,148,019	-
Customers' deposits	438,134	368,561
Accrued interest on debt	1,215,265	1,033,220
Accrued vacation	528,952	516,032
Other accrued liabilities	485,018	492,501
Total current liabilities	\$ 10,733,905	\$ 19,359,820
Deferred Credits and Other		
Deferred income taxes	\$ 8,023,475	\$ 7,921,100
Investment tax credits	637,300	708,400
Regulatory liability (Note 2)	831,425	892,100
Advances for construction and other	217,720	217,316
Total deferred credits and other	\$ 9,709,920	\$ 9,738,916
Commitments and Contingencies (Note 8)		
Total liabilities and shareholders' equity	\$ 102,866,613	\$ 96,681,165

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended June 30,	1998	1997	1996
Common Shares			
Balance, beginning of year	\$ 2,342,223	\$ 1,903,580	\$ 1,868,734
\$1.00 par value of 32,870, 438,643 and 34,846 shares issued in 1998, 1997 and 1996, respectively:			
Public issuance of common shares	-	400,000	-
Dividend reinvestment and stock purchase plan	27,124	31,187	28,024
Employee stock purchase plan and other	5,746	7,456	6,822
Balance, end of year	\$ 2,375,093	\$ 2,342,223	\$ 1,903,580
Premium on Common Shares			
Balance, beginning of year	\$ 27,203,311	\$ 20,572,132	\$ 20,022,643
Premium on issuance of common shares:			
Public issuance of common shares	-	6,000,000	-
Dividend reinvestment and stock purchase plan	446,432	519,478	440,621
Employee stock purchase plan and other	95,384	111,701	108,868
Balance, end of year	\$ 27,745,127	\$ 27,203,311	\$ 20,572,132
Capital Stock Expense			
Balance, beginning of year	\$ (1,917,020)	\$ (1,620,252)	\$ (1,604,792)
Issuance of common shares	-	(296,768)	(15,460)
Balance, end of year	\$ (1,917,020)	\$ (1,917,020)	\$ (1,620,252)
Retained Earnings			
Balance, beginning of year	\$ 1,846,055	\$ 2,772,863	\$ 2,224,928
Net income	2,451,272	1,724,265	2,661,349
Cash dividends declared on common shares (See Consolidated Statements of Income for rates)	(2,690,233)	(2,651,073)	(2,113,414)
Balance, end of year	\$ 1,607,094	\$ 1,846,055	\$ 2,772,863

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Capitalization

As of June 30,	1998	1997
Common Shareholders' Equity		
Common shares, par value \$1.00 per share (Notes 3 and 4)		
Authorized 6,000,000 shares		
Issued and outstanding 2,375,093 and 2,342,223 shares in 1998 and 1997, respectively	\$ 2,375,093	\$ 2,342,223
Premium on common shares	27,745,127	27,203,311
Capital stock expense	(1,917,020)	(1,917,020)
Retained earnings (Note 6)	1,607,094	1,846,055
Total common shareholders' equity	\$ 29,810,294	\$ 29,474,569
Long-Term Debt (Notes 6 and 7)		
Debentures, 8.3%, due 2026	\$ 15,000,000	\$ 15,000,000
Debentures, 6 5/8%, due 2023	13,170,000	13,505,000
Debentures, 9%, due 2011	-	10,000,000
Debentures, 7.15%, due 2018	25,000,000	-
Promissory note from acquisition of underground storage, non-interest bearing, due through 2001 (less unamortized discount of \$207,506 and \$297,099 in 1998 and 1997, respectively)	1,192,494	1,502,901
Other	40,000	87,559
Total long-term debt	\$ 54,402,494	\$ 40,095,460
Less amounts due within one year, included in current liabilities	(1,790,000)	(1,987,600)
Net long-term debt	\$ 52,612,494	\$ 38,107,860
Total capitalization	\$ 82,422,788	\$ 67,582,429

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

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(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation Delta Natural Gas Company, Inc. ("Delta" or "the Company") has five 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 underground natural gas storage facilities that it leases from Delta. Enpro, Inc. owns and operates production properties. TranEx Corporation owns a 43 mile intrastate pipeline. All subsidiaries of Delta are included in the consolidated financial statements. Inter-company balances and transactions have been eliminated.

(b) Cash Equivalents For the purposes of the Consolidated Statements of Cash Flows, all temporary cash investments with a maturity of three months or less at the date of purchase are considered cash equivalents.

(c) Depreciation The Company determines its provision for depreciation using the straight-line method and by the application of rates to various classes of utility plant. The rates are based upon the estimated service lives of the properties and were equivalent to composite rates of 3.1%, 3.0%, and 2.9% of average depreciable plant for 1998, 1997, and 1996, respectively.

(d) Maintenance All expenditures for maintenance and repairs of units of property are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property

is accounted for as an addition and retirement of utility plant. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal.

(e) Gas Cost Recovery Delta has a Gas Cost Recovery ("GCR") clause which provides for a dollar-tracker that matches revenues and gas costs and provides eventual dollar-for-dollar recovery of all gas costs incurred. The Company expenses gas costs based on the amount of gas costs recovered through revenue. Any differences between actual gas costs and those estimated costs billed are deferred and reflected in the computation of future billings to customers using the GCR mechanism.

(f) Revenue Recognition The Company records revenues as billed to its customers on a monthly meter reading cycle. At the end of each month, gas service which has been rendered from the latest date of each cycle meter reading to the month-end is unbilled.

(g) Revenues and Customer Receivables The Company has 38,000 customers in central and southeastern Kentucky. Revenues and customer receivables arise primarily from sales of natural gas to customers and from transportation services for others. Provisions for doubtful accounts are recorded to reflect the expected net realizable value of accounts receivable.

(h) Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) New Accounting Pronouncements Delta adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" in the first quarter of fiscal 1997. Adoption of SFAS No. 121 did not have a material impact on the Company's financial position or results of operations.

For companies with June 30 fiscal yearends, SFAS No. 123, "Accounting for Stock-Based Compensation", was required to be adopted as of June 30, 1997. This standard is currently inapplicable to Delta because the Company has no stock based compensation arrangements.

Delta adopted SFAS No. 128, "Earnings per Share", during the second quarter of fiscal 1998. The adoption of this standard had no effect upon current or prior period earnings per share.

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income", and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", effective for periods beginning after December 15, 1997. These statements do not affect the accounting recognition or measurement of transactions, but rather require expanded disclosures regarding financial results. The Company will adopt these standards in 1999 as required by the FASB.

(2) Income Taxes

The Company provides for income taxes on temporary differences resulting from the use of alternative methods of income and expense recognition for financial and tax reporting purposes. The differences result primarily from the use of accelerated tax depreciation methods for certain properties versus the straight-line depreciation method for financial purposes, differences in recognition of purchased gas cost recoveries and certain other accruals which are not currently deductible for income tax purposes. Investment tax credits were deferred for certain periods prior to fiscal 1987 and are being amortized to income over the estimated useful lives of the applicable

properties. The Company utilizes the liability method for accounting for income taxes, which requires that deferred income tax assets and liabilities are computed using tax rates that will be in effect when the book and tax temporary differences reverse. The change in tax rates applied to accumulated deferred income taxes may not be immediately recognized in operating results because of ratemaking treatment. A regulatory liability has been established to recognize the future revenue requirement impact from these deferred taxes. The temporary differences which gave rise to the net accumulated deferred income tax liability for the periods are as follows:

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	1998	1997
Deferred Tax Liabilities		
Accelerated depreciation	\$ 9,933,400	\$ 9,018,800
Deferred gas cost	-	860,100
Accrued pension	568,900	433,000
Debt expense	487,400	384,900
Total	\$ 10,989,700	\$10,696,800
Deferred Tax Assets		
Alternative minimum tax credits	\$ 1,274,100	\$ 1,534,100
Regulatory liabilities	486,245	339,400
Unbilled revenue	670,100	327,500
Investment tax credit	251,400	279,400
Other	284,380	295,300
Total	\$ 2,966,225	\$ 2,775,700
Net accumulated deferred income tax liability	\$ 8,023,475	\$ 7,921,100

The components of the income tax provision are comprised of the following for the years ended June 30:

	1998	1997	1996
Components of Income Tax Expense:			
Payable currently:			
Federal	\$ 1,164,800	\$ 242,200	\$ 52,100
State	265,600	(31,300)	(255,100)
Total	\$ 1,430,400	\$ 210,900	\$ (203,000)
Deferred	(29,400)	753,900	1,762,500
Income tax expense	\$ 1,401,000	\$ 964,800	\$ 1,559,500

Reconciliation of the statutory federal income tax rate to the effective income tax rate is shown in the table below:

	1998	1997	1996
Statutory federal income tax rate	34.0%	34.0%	34.0%
State income taxes net of federal benefit	5.0	5.0	5.2
Amortization of investment tax credit	(1.8)	(2.6)	(1.7)
Other differences - net	(.2)	-	-
Effective income tax rate	37.0%	36.4%	37.5%

(3) Employee Benefit Plans

(a) Defined Benefit Retirement Plan

Delta has a trustee, noncontributory, defined benefit pension plan covering all eligible employees. Retirement income is

based on the number of years of service and annual rates of compensation. The Company makes annual contributions equal to the amounts necessary to fund the plan adequately. The funded status of

the pension plan at March 31, the plan year end, and the amounts recognized in the Company's consolidated balance sheets at June 30 were as follows:

	1998	1997	1996
Plan assets at fair value	\$ 8,637,638	\$ 6,835,393	\$ 6,058,458
Actuarial present value of benefit obligation:			
Vested benefits	\$ 4,800,745	\$ 4,505,619	\$ 2,789,736
Non-vested benefits	19,934	11,025	9,346
Accumulated benefit obligation	\$ 4,820,679	\$ 4,516,644	\$ 2,799,082
Additional amounts related to projected salary increases	1,924,590	1,828,856	2,811,907
Total projected benefit obligation	\$ 6,745,269	\$ 6,345,500	\$ 5,610,989
Plan assets in excess of projected benefit obligation	\$ 1,892,369	\$ 489,893	\$ 447,469
Unrecognized net assets at date of initial application being amortized over 15 years	(169,577)	(211,972)	(254,365)
Unrecognized net (gain) loss	(869,909)	125,777	(13,481)
Accrued pension asset	\$ 852,883	\$ 403,698	\$ 179,623

The assets of the plan consist primarily of common stocks, bonds and certificates of deposit. Net pension costs for the years ended June 30 include the following:

	1998	1997	1996
Service cost for benefits earned during the year	\$ 445,288	\$ 405,386	\$ 382,751
Interest cost on projected benefit obligation	443,955	392,539	356,897
Actual return on plan assets	(1,584,403)	(407,965)	(886,211)
Net amortization and deferral	966,615	(136,843)	444,044
Net periodic pension cost	\$ 271,455	\$ 253,117	\$ 297,481

The weighted average discount rates and the assumed rates of increase in future compensation levels used in determining the actuarial present values of the projected benefit obligation at June 30, 1998, 1997 and 1996 were 7.0% (discount rates), and 4% (rates of increase). The expected long-term rates of return on plan assets were 8%.

SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits", and SFAS No. 112, "Employers' Accounting for Post-Employment Benefits", do not affect the Company, as Delta does not provide benefits for post-retirement or post-employment other than the pension plan for retired employees.

(b) Employee Savings Plan The Company has an Employee Savings Plan ("Savings Plan") under which eligible employees may elect to contribute any whole percentage between 2% and 15% of their annual compensation. The Company will match 50% of the employee's contribution up to a maximum Company contribution of 2.5% of the employee's annual compensation. For 1998, 1997 and 1996, Delta's Savings Plan expense was \$156,000, \$151,000 and \$111,000, respectively.

(c) Employee Stock Purchase Plan The Company has an Employee Stock Purchase Plan ("Stock Plan") under which qualified permanent employees are eligible to participate. Under the terms of the Stock Plan, such employees can contribute on a monthly basis 1% of their annual salary level (as of July 1 of each year) to be used to purchase Delta's common stock. The Company issues Delta common stock, based upon the fiscal year contributions, using an average of the last sale price of Delta's stock as quoted in NASDAQ's National Market System at the close of business for the last five business days in June and matches those shares so

purchased. Therefore, stock equivalent to \$111,000 was issued in July, 1998. The continuation and terms of the Stock Plan are subject to approval by Delta's Board of Directors on an annual basis. Delta's Board has continued the Stock Plan through June 30, 1999.

(4) Dividend Reinvestment and Stock Purchase Plan

The Company's Dividend Reinvestment and Stock Purchase Plan (Reinvestment Plan) provides that shareholders of record can reinvest dividends and also make limited additional investments of up to \$50,000 per year in shares of common stock of the Company. Shares purchased under the Reinvestment Plan are authorized but unissued shares of common stock of the Company, and 27,124, 31,187 and 28,024 shares were issued in 1998, 1997 and 1996, respectively. Delta reserved 200,000 shares under the Reinvestment Plan in December, 1994, and as of June 30, 1998, there were 96,480 shares still available for issuance.

(5) Notes Payable and Line of Credit

Substantially all of the cash balances of Delta are maintained to compensate the respective banks for banking services and to obtain lines of credit; however, no specific amounts have been designated as compensating balances, and Delta has the right of withdrawal of such funds. At June 30, 1998 and June 30, 1997, the available line of credit was \$25,000,000 and \$20,000,000, respectively, of which \$1,875,000 and \$10,865,000 had been borrowed at an interest rate of 6.885% and 6.785% for 1998 and 1997, respectively. The maximum amount borrowed during 1998 and 1997 was \$20,160,000 and \$10,865,000, respectively. The interest on this line is, at the option of Delta,

either at the daily prime rate or is based upon certificate of deposit rates. The current line of credit must be renewed during November, 1998.

Short-term borrowings were repaid in March, 1998, with the net proceeds of approximately \$24.1 million from the sale of \$25,000,000 of debentures. The net proceeds were also used to redeem the Company's 9% Debentures that would have matured in April, 2011. The redemption of this debt, the outstanding principal amount of which was \$10,000,000, was completed in April, 1998.

(6) Long-Term Debt

In March, 1998, Delta issued \$25,000,000 of 7.15% Debentures that mature in March, 2018. Redemption of up to \$25,000 annually will be made on behalf of deceased holders within 60 days of notice, subject to an annual aggregate \$750,000 limitation. The 7.15% Debentures can be redeemed by the Company after April 1, 2003. Restrictions under the indenture agreement covering the 7.15% Debentures include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity of the Company exceeds \$21,500,000. No retained earnings are restricted under the provisions of the indenture.

In July, 1996, Delta issued \$15,000,000 of 8.3% Debentures that mature in July, 2026. Redemption on behalf of deceased holders within 60 days of notice of up to \$25,000 per holder will be made annually, subject to an annual aggregate limitation of \$500,000. The 8.3% Debentures can be redeemed by the Company beginning in August, 2001 at a 5% premium, such premium declining ratably until it ceases in August, 2006.

In October, 1993, Delta issued \$15,000,000 of 6 5/8% Debentures that

mature in October, 2023. Each holder may require redemption of up to \$25,000 annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 6 5/8% Debentures can be redeemed by the Company beginning in October, 1998 at a 5% premium, such premium declining ratably until it ceases in October, 2003. The Company may not assume any additional mortgage indebtedness in excess of \$2 million without effectively securing the 6 5/8% Debentures equally to such additional indebtedness.

Debt issuance expenses are deferred and amortized over the terms of the related debt. Call premium in 1998 of \$300,000 and loss on extinguishment of debt of \$332,000 was deferred and is being amortized over the term of the related debt consistent with regulatory treatment.

A non-interest bearing promissory note was issued by Delta in November, 1995 in the amount of \$1,800,000, and remaining installments are due in the

amounts of \$700,000 in 2000 and \$700,000 in 2002. The note was issued when Delta purchased leases and depleted gas wells to develop them for the underground storage of natural gas. The promissory note installments are secured by escrow of 80,000 shares of Delta's common stock. These shares will be issued to the holder of the promissory note only in the event of default in payment by Delta.

Other long-term debt requires principal payments of \$40,000 in 1999 at which time other long-term debt will be fully repaid.

(7) Fair Values of Financial Instruments

The fair value of the Company's debentures is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's debentures at June 30, 1998 and 1997 was estimated to be \$54,387,000 and \$37,723,000, respectively. The carrying amount in the accompanying consolidated

financial statements as of June 30, 1998 and 1997 is \$53,170,000 and \$38,505,000, respectively.

The carrying amount of the Company's other financial instruments including cash equivalents, accounts receivable, notes receivable, accounts payable and the non-interest bearing promissory note approximate their fair value.

(8) Commitments and Contingencies

The Company has entered into individual employment agreements with its five officers. The agreements expire or may be terminated at various times. The agreements provide for continuing monthly payments or lump sum payments and continuation of certain benefits over varying periods in the event employment is altered or terminated following certain changes in ownership of the Company.

(9) Rates

Reference is made to "Regulatory Matters" herein with respect to rate matters.

(10) Quarterly Financial Data (Unaudited)

The quarterly data reflects, in the opinion of management, all normal recurring adjustments necessary to present fairly the results for the interim periods.

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Basic and Diluted Earnings (Loss) per Common Share (a)
Fiscal 1998				
September 30	\$ 5,215,272	\$ 181,905	\$ (813,982)	\$ (.35)
December 31	11,787,820	1,726,169	591,812	.25
March 31	18,305,458	3,442,234	2,366,329	1.00
June 30	8,949,450	1,381,551	307,113	.14
Fiscal 1997				
September 30	\$ 4,074,332	\$ 36,149	\$ (734,296)	\$ (.33)
December 31	10,023,399	1,090,513	198,153	.09
March 31	18,651,406	3,034,844	2,050,318	.88
June 30	9,420,048	1,154,076	210,090	.09

(a) Quarterly earnings per share may not equal annual earnings per share due to changes in shares outstanding.

Report of Independent Public Accountants

To the Board of Directors and Shareholders of Delta Natural Gas Company, Inc.:

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We have audited the accompanying consolidated balance sheets and statements of capitalization of Delta Natural Gas Company, Inc. (a Kentucky corporation) and subsidiary companies as of June 30, 1998 and 1997, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended June 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and

disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delta Natural Gas Company, Inc. and subsidiary companies as of June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Louisville, Kentucky

August 17, 1998

Management's Statement of Responsibility for Financial Reporting and Accounting

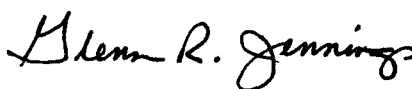
Management is responsible for the preparation, presentation and integrity of the financial statements and other financial information in this report. In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses

during the reporting period. Actual results could differ from these estimates.

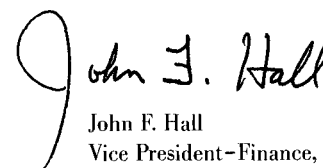
The Company maintains a system of accounting and internal controls which management believes provides reasonable assurance that the accounting records are reliable for purposes of preparing financial statements and that the assets are properly accounted for and protected.

The Board of Directors pursues its oversight role for these financial statements through its Audit Committee which

consists of three outside directors. The Audit Committee meets periodically with management to review the work and monitor the discharge of their responsibilities. The Audit Committee also meets periodically with the Company's internal auditor as well as Arthur Andersen LLP, the independent auditors, who have full and free access to the Audit Committee, with or without management present, to discuss internal accounting control, auditing and financial reporting matters.



Glenn R. Jennings
President and
Chief Executive Officer



John F. Hall
Vice President-Finance,
Secretary and Treasurer

Consolidated Statistics

For the Years Ended June 30,	1998	1997	1996	1995	1994
Retail Customers Served, End of Period					
Residential	31,596	31,380	29,840	29,029	27,939
Commercial	4,753	4,761	4,453	4,287	4,242
Industrial	70	74	75	72	76
Total	36,419	36,215	34,368	33,388	32,257
Operating Revenues (\$000)					
Residential sales	19,969	19,694	16,540	14,772	16,597
Commercial sales	11,890	11,977	9,788	8,673	9,663
Industrial sales	1,576	1,890	1,483	1,248	1,671
On-system transportation	3,877	3,214	2,913	2,588	2,310
Off-system transportation	483	382	418	461	623
Subsidiary sales	6,335	4,904	5,297	3,959	3,755
Other	128	108	137	143	228
Total	44,258	42,169	36,576	31,844	34,847
System Throughput (Million Cu. Ft.)					
Residential sales	2,377	2,464	2,741	2,173	2,511
Commercial sales	1,504	1,557	1,673	1,328	1,506
Industrial sales	231	278	291	223	316
Total retail sales	4,112	4,299	4,705	3,724	4,333
On-system transportation	3,467	2,863	2,570	2,390	2,186
Off-system transportation	1,489	1,205	1,134	1,452	1,997
Total	9,068	8,367	8,409	7,566	8,516
Average Annual Consumption Per End of Period					
Residential Customer (Thousand Cu. Ft.)	75	79	92	75	90
Lexington, Kentucky Degree Days					
Actual	4,397	4,867	5,280	4,215	4,999
Percent of 30 year average (4,701)	93.5	103.5	112.3	89.7	106.3
Average Revenue Per Mcf Sold at Retail (\$)	8.13	7.81	5.91	6.63	6.44
Average Gas Cost Per Mcf Sold at Retail (\$)	4.60	4.62	2.81	3.37	3.34

Directors & Officers



Board of Directors

Standing left to right:

Billy Joe Hall (a)
Investment Broker
LPL Financial Services
(general brokerage services)
Mount Sterling, Kentucky

Arthur E. Walker, Jr. (a)(c)
President
The Walker Company
(general and highway construction)
Mount Sterling, Kentucky

Henry C. Thompson (b)
President
Triple Land Co., Inc.
(land development and
real estate rental);
Retired President
Henry Thompson Construction Co., Inc.
(land development and commercial real
estate rental); both of Nicholasville,
Kentucky

Glenn R. Jennings (c)
President and
Chief Executive Officer

Donald R. Crowe (a)
Retired Senior Analyst
Department of Insurance
Commonwealth of Kentucky
Lexington, Kentucky

Virgil E. Scott (b)
Retired Vice President—
Administration
Retired Director, Resources
Delgasco, Deltran and Enpro

Seated left to right:
John D. Harrison (b)
Retired President
Power Line Construction Co.
(utility construction contractor)
Stanton, Kentucky

Roger A. Byron
Director Emeritus

Harrison D. Peet (c)
Chairman of the Board
Retired President
and Chief Executive Officer

Jane Hylton Green (b)
Retired Vice President—
Human Resources and
Corporate Secretary

Officers

Standing left to right:

Johnny L. Caudill
Vice President—
Administration and
Customer Service

Robert C. Hazelrigg
Vice President—
Public and Consumer Affairs

Alan L. Heath
Vice President—
Operations and Engineering

Seated left to right:

John F. Hall
Vice President—
Finance, Secretary and
Treasurer

Glenn R. Jennings
President and
Chief Executive Officer



(a) Member of Nominating and
Compensation Committee

(b) Member of Audit Committee

(c) Member of Executive Committee

Corporate Information

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Shareholders' Inquiries

Communications regarding stock transfer requirements, lost certificates, changes of address or other items may be directed to the Transfer Agent and Registrar.

Communications regarding dividends, the above items or any other shareholder inquiries may be directed to:

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

Independent Public Accountants

Arthur Andersen LLP
2300 Meidinger Tower
The Louisville Galleria
Louisville, Kentucky 40202

Disbursement Agent, Transfer Agent and Registrar for Common Shares

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, Ohio 45202

Trustee and Interest Paying Agents for Debentures

6 5/8% due 2023

Corporate Trust Bank One
235 W. Schrock Rd.
Westerville, Ohio 43081

8.3% due 2026; 7.15% due 2018

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, Ohio 45202

Dividend Reinvestment and Stock Purchase Plan Administrator and Agent

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, Ohio 45202

1998 Annual Report

This annual report and the financial statements contained herein are submitted to the shareholders of the Company for their general information and not in connection with any sale or offer to sell, or solicitation of any offer to buy, any securities.

1998 Annual Meeting

The annual meeting of shareholders of the Company will be held at the General Office of the Company in Winchester, Kentucky on November 19, 1998, at 10:00 a.m. Proxies for the annual meeting will be requested from shareholders when notice of meeting, proxy statement and form of proxy are mailed on or about October 12, 1998.

SEC Form 10-K

A copy of Delta's most recent annual report on SEC Form 10-K is available, without charge, upon written request to John F. Hall, Vice President - Finance, Secretary and Treasurer, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

Dividend Reinvestment and Stock Purchase Plan

This plan provides shareholders of record with a convenient way to acquire additional shares of the Company's common stock without paying brokerage fees. Participants may reinvest their dividends and make optional cash payments to acquire additional shares. Fifth Third Bank administers the Plan and is the agent for the participants. For more information, inquiries may be directed to Emily P. Bennett, Director - Corporate Services, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

{ Delta Natural Gas Company, Inc. }
and Subsidiary Companies }

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 1997.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 0-8788.

DELTA NATURAL GAS COMPANY, INC.
(Exact name of registrant as specified in its charter)

KENTUCKY 61-0458329
(State of Incorporation) (IRS Employer Identification Number)

3617 Lexington Road, Winchester, Kentucky 40391
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 606-744-6171.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
<u>None</u>	<u>None</u>

Securities registered pursuant to Section 12(g) of the Act:

Common Stock \$1 Par Value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

As of August 17, 1997, Delta Natural Gas Company, Inc. had outstanding 2,342,351 shares of common stock \$1 Par Value, and the aggregate market value of the voting stock held by non-affiliates was approximately \$42,162,318.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive proxy statement to be filed with the Commission not later than 120 days after June 30, 1997, is incorporated by reference in Part III of this Report.

of Delta's system by industrial customers and others is a competitive concern that Delta has addressed and will continue to address as the need arises.

Delta's retail sales are seasonal and temperature-sensitive as the majority of the gas sold by Delta is used for heating. This seasonality impacts Delta's liquidity position and its management of its working capital requirements during each twelve month period, and changes in the average temperature during the winter months impacts its revenues year-to-year (see Management's Discussion and Analysis of Financial Condition and Results of Operations).

Retail gas sales in 1997 were approximately 4,299,000 thousand cubic feet ("Mcf"), generating approximately \$33,561,000 in revenues, as compared to approximately 4,705,000 Mcf and approximately \$27,811,000 in revenues for 1996. The increase in operating revenues for 1997 was due primarily to increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause. Heating degree days billed during 1997 were approximately 103% of the thirty year average ("normal") as compared with approximately 112% in 1996. Principally as a result of this warmer weather, retail sales volumes decreased by approximately 406,000 Mcf, or 9%, in 1997 as compared to 1996.

Delta's transportation of natural gas in 1997 generated revenues of approximately \$3,596,000 as compared with approximately \$3,331,000 during 1996. Of the total from transportation in 1997, approximately \$3,214,000 (2,863,000 Mcf) and \$382,000 (1,205,000 Mcf) were earned from transportation for on-system and off-system customers, respectively. Of the total from transportation in 1996, approximately \$2,913,000 (2,570,000 Mcf) and \$418,000 (1,134,000 Mcf) were earned from transportation for on-system and off-system customers, respectively.

As an active participant in many areas of the natural gas industry, Delta plans to continue its efforts to expand its gas distribution system. Delta continues to consider acquisitions of other gas systems, some of which are contiguous to its existing service areas, as well as expansion within its existing service areas. During November, 1996, Delta acquired the City of North Middletown gas system in Bourbon County, consisting of approximately 180 primarily residential customers. During July, 1997, Delta purchased the gas system of Annville Gas & Transmission Corporation in Jackson County, which serves several industrial and residential customers. This system will be expanded during fiscal 1998 to provide gas service to customers in the City of Annville.

The Company also anticipates continuing activity in gas production and transportation and plans to pursue and increase these activities wherever practicable. The Company will continue to consider the construction or acquisition of additional transmission, storage and gathering facilities to provide for increased transportation, enhanced supply and system flexibility. During June, 1997, Delta acquired TranEx Corporation, which owns a 43 mile, 8 inch diameter steel pipeline that extends from Clay County to Madison County. Delta has been operating this pipeline for several years and plans to continue to utilize the pipeline to provide natural gas to its Canada Mountain storage field as well as for Delta's system supply.

Some producers in Delta's service area can access certain pipeline delivery systems other than Delta, which provides competition from others for transportation of such gas. Delta will continue its efforts to purchase or transport any natural gas available that is produced in reasonable proximity to its facilities.

Delta receives its gas supply from a combination of interstate and Kentucky sources. The Company intends to pursue an adequate gas supply to provide service to existing and future customers. Delta will continue to maintain an active gas supply management program that emphasizes long-term reliability and the pursuit of cost effective sources of gas for its customers.

Delta's interstate gas supply is transported and/or stored by Tennessee Gas Pipeline Company ("Tennessee"), Columbia Gas Transmission Corporation ("Columbia"), Columbia Gulf Transmission Company ("Columbia Gulf") and Texas Eastern Transmission Corporation ("Texas Eastern"). Delta acquires its interstate gas supply from gas marketers. Delta also acquires gas supply from Kentucky producers and suppliers. There is a competitive national market for natural gas supplies as supply and demand determine the availability and prices of natural gas.

Delta's transportation and storage contracts with Tennessee extend until 2000 and thereafter continue on a year-to-year basis until terminated by either party. Tennessee is obligated under the contracts to transport up to approximately 17,600 Mcf per day for Delta. Delta acquires its gas for transportation by Tennessee under a contract with a gas marketer. During 1997, Delta purchased approximately 1,549,000 Mcf from the gas marketer under a contract which extends through April, 1999.

Delta's transportation and storage contracts with Columbia and Columbia Gulf extend until 2008 and thereafter continue on a year-to-year basis until terminated by one of the parties to the particular contract. Columbia and Columbia Gulf are obligated under the contracts to transport up to approximately 12,000 Mcf per day and approximately 4,000 Mcf per day, respectively, for Delta. Delta acquires its gas for transportation by Columbia and Columbia Gulf under contracts with a gas marketer. During 1997, Delta purchased a total of approximately 794,000 Mcf from the gas marketer under contracts which extend through April, 2000.

Delta has a contract with The Wiser Oil Company ("Wiser") to purchase natural gas from Wiser through 1999. Delta and Wiser annually determine the daily deliverability from Wiser, and Wiser is committed to deliver that volume. Wiser currently is obligated to deliver 11,000 Mcf per day to Delta. This obligation changes to 9,900 Mcf per day effective November 1, 1997. Delta purchased approximately 1,941,000 Mcf from Wiser during 1997.

Delta purchases gas under agreements with various other marketers and Kentucky producers, most of which are priced as short-term, or spot-market, purchases. The combined volumes of gas purchased from these sources during 1997 were approximately 198,000 Mcf.

Delta has contracts with its wholly-owned subsidiary, Enpro, Inc. ("Enpro") to purchase all the natural gas produced from Enpro's wells on certain leases in Bell, Knox and Whitley Counties, Kentucky. These agreements remain in force so long as gas is produced in commercial quantities from the wells on the leases. Remaining proved, developed natural gas reserves are

estimated at approximately 4,400,000 Mcf. Delta purchased a total of approximately 203,000 Mcf from those properties during 1997. Enpro also produces oil from certain of these leases, but oil production has not been significant.

Delta's wholly-owned subsidiaries, Delta Resources, Inc. ("Resources") and Delgasco, Inc. ("Delgasco"), purchase gas from various marketers and Kentucky producers, most of which is priced as short-term, or spot-market, purchases. The gas is resold to industrial customers on Delta's system, to Delta for system supply and to others. The combined volumes of gas purchased by Resources and Delgasco from these sources during 1997 were approximately 3,285,000 Mcf. Delta continues to seek additional new gas supplies from all available sources, including those in the proximity of its facilities in southeastern Kentucky. Also, Resources and Delgasco continue to pursue acquisitions of new gas supplies from Kentucky producers and others.

Delta is completing the development of an underground natural gas storage field on Canada Mountain in Bell County, Kentucky, with an estimated eventual working capacity of 4,000,000 Mcf. This field is operational and was used to help meet Delta's winter supply needs this past year. Delta plans to continue to develop the capability of this storage field, including completion of 14 miles of 12 inch diameter steel pipeline. The new pipeline, planned to be in operation by this fall, will enhance Delta's ability to withdraw gas from the field and deliver it into Delta's system. This storage capability should permit Delta to continue to purchase and store gas during the non-heating months, and then withdraw and sell the gas during the peak usage months as Delta did this past winter.

Delta will continue to maintain an active gas supply management program that emphasizes long-term reliability and the pursuit of cost effective sources of gas for its customers.

Regulatory Matters

Delta is subject to the regulatory authority of the Public Service Commission of Kentucky ("PSC") with respect to various aspects of Delta's business, including rates and service to retail and transportation customers.

On March 14, 1997, Delta filed a request for increased rates with the PSC. This general rate case (Case No. 97-066) requested an annual revenue increase of approximately \$2,962,000, an increase of 7.7%. The test year for the case was December 31, 1996. The increased rates were requested to become effective on April 13, 1997. On April 3, 1997, the PSC issued an Order in the above case suspending the implementation of the proposed rates until September 12, 1997, so that the PSC could investigate and determine the reasonableness of the proposed rates. A hearing has been scheduled for September 9, 1997, for the cross-examination of witnesses.

On July 11, 1997, the PSC issued a staff report entitled "Natural Gas Unbundling in Kentucky: Exploring the Next Step Toward Customer Choice". This report represented the culmination of numerous discussions among the PSC and various parties, including Delta, regarding issues related to the potential unbundling, or separate pricing of supply and service

components, of natural gas service in Kentucky, including residential and small commercial customer choice. The report also included observations on certain topics which need to be addressed and resolved if further unbundling occurs in Kentucky, and it addressed some of the options available to the PSC. The PSC held a public meeting on August 22, 1997, on gas unbundling and customer choice for interested parties to provide further input. Delta participated in that meeting and intends to be an active participant in future discussions.

Delta's rates include a Gas Cost Recovery ("GCR") clause, which permits changes in Delta's gas costs to be reflected in the rates charged to customers. The GCR requires Delta to make quarterly filings with the PSC, but such procedure does not require a general rate case. The PSC historically has allowed Delta to recover storage costs in rates through the GCR mechanism or general rate cases.

In addition to PSC regulation, Delta may obtain non-exclusive franchises from the cities and communities in which it operates authorizing it to place its facilities in the streets and public grounds. However, no utility may obtain a franchise until it has obtained from the PSC a Certificate of Convenience and Necessity authorizing it to bid on the franchise. Delta holds franchises in four of the ten cities in which it maintains branch offices and in seven other communities it serves. In the other cities or communities, either Delta's franchises have expired, the communities do not have governmental organizations authorized to grant franchises, or the local governments have not required, or do not want to offer, a franchise. Delta attempts to acquire or reacquire franchises whenever feasible.

Without a franchise, a local government could require Delta to cease its occupation of the streets and public grounds or prohibit Delta from extending its facilities into any new area of that city or community. To date, the absence of a franchise has had no adverse effect on Delta's operations.

Capital Expenditures

Capital expenditures during 1997 were approximately \$16.6 million and for 1998 are estimated to be approximately \$10.4 million. These include planned expenditures for development of underground natural gas storage, system extensions, computer system upgrades and the replacement and improvement of existing transmission, distribution, gathering and general facilities.

Employees

Delta employed a total of 181 full-time employees on June 30, 1997. Delta considers its relationship with its employees to be satisfactory. Delta's employees are not represented by unions or subject to any collective bargaining agreements.

For the Years Ended June 30,	1997	1996	1995	1994	1993
Average Revenue Per Mcf Sold at Retail (\$)	7.81	5.91	6.63	6.44	6.07
Average Gas Cost Per Mcf Sold at Retail (\$)	4.62	2.81	3.37	3.34	2.90

Item 2. Properties

Delta owns its corporate headquarters in Winchester. In addition, Delta owns buildings used for branch operations in nine of the cities it serves and rents an office in one city. Also, Delta owns a building in Laurel County used for training as well as equipment and materials storage.

The Company owns approximately 1,960 miles of natural gas gathering, transmission, distribution and service lines. These lines range in size up to eight inches in diameter. There are no significant encumbrances on these assets.

Delta holds leases for the storage of natural gas under approximately 8,000 acres located on Canada Mountain in Bell County, Kentucky. This property is being developed for the underground storage of natural gas and when complete is estimated to have a working capacity of approximately 4,000,000 Mcf of gas.

Delta owns the rights to any oil and gas underlying approximately 3,500 acres in Bell County. Portions of these properties are used by Delta for the storage of natural gas. The maximum capacity of the storage facilities is approximately 550,000 Mcf. These properties otherwise are currently non-producing, and Delta has not had reserve studies performed on the properties.

Enpro owns interests in certain oil and gas leases relating to approximately 11,000 acres located in Bell, Knox and Whitley Counties. There presently are 56 gas wells and 7 oil wells producing from these properties. Enpro's remaining proved, developed natural gas reserves are estimated at approximately 4,400,000 Mcf. Oil production from the property has not been significant. Also, Enpro owns the oil and gas underlying approximately 11,500 additional acres in Bell, Clay and Knox Counties. These properties are currently non-producing, and Enpro has not had reserve studies performed on the properties.

During 1994, Enpro entered into an agreement with a producer relating to approximately 14,000 acres of Enpro's undeveloped holdings. Under the terms of the agreement, the producer is conducting exploration activities on the acreage. Enpro reserved the option to participate in wells drilled. Enpro also retained certain working and royalty interests in any production from future wells.

There are no significant encumbrances on the Company's assets.

Item 3. Legal Proceedings

Delta and its subsidiaries are not parties to any legal proceedings which are expected to have a materially adverse impact on the financial condition or results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of 1997.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Delta has paid cash dividends on its common stock each year since 1964. While it is the intention of the Board of Directors to continue to declare dividends on a quarterly basis, the frequency and amount of future dividends will depend upon the Company's earnings, financial requirements and other relevant factors, including limitations imposed by the indenture for the Debentures. There were 2,407 record holders of Delta's common stock as of August 1, 1997.

Delta's common stock is traded in the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System under the symbol DGAS. The accompanying table reflects the high and low sales prices during each quarter as reported by NASDAQ and the quarterly dividends declared per share.

<u>Quarter</u>	<u>Range of Stock Prices(\$)</u>		<u>Dividends Per Share(\$)</u>
	<u>High</u>	<u>Low</u>	
<u>Fiscal 1997</u>			
First	18 3/4	15 1/2	.285
Second	19 1/2	17 3/4	.285
Third	19 1/2	17	.285
Fourth	18 1/2	16	.285
<u>Fiscal 1996</u>			
First	17 1/4	15 3/4	.28
Second	18 1/4	15 1/2	.28
Third	18	16	.28
Fourth	16 3/4	15 1/2	.28

During July, 1996, Delta distributed 6,456 shares of its common stock to its employees under its Employee Stock Purchase Plan (see Note 3(c) of the Notes to Consolidated Financial Statements). Delta received cash consideration of \$15.625 per share for one-half of those shares (3,228 shares), for a total cash consideration of approximately \$50,400; one-half of the shares (3,228 shares) were provided to the employees without cash consideration as a part of Delta's compensation and benefits for its employees. The securities were sold pursuant to the exemption from registration provided by Rule 147 under the Securities Act of 1933. This exemption was relied upon in light of the facts that Delta is incorporated and doing business in Kentucky, and all eligible employees are residents of Kentucky.

On July 5, 1997, Delta provided a total of 1,000 shares of its common stock to its directors (100 shares per director). Delta received no cash consideration for the shares, which were provided to its directors as a part of their compensation. This transaction may not involve a "sale" of securities under the Securities Act of 1933, and in any event, the securities were sold pursuant to the exemption from registration provided by Rule 147 under the Securities Act of 1933. This exemption was relied upon in light of the facts that Delta is incorporated and doing business in Kentucky, and all directors are residents of Kentucky.

No underwriters were engaged in connections with any of the foregoing transactions, and thus no underwriter discounts or commissions were paid in connection with any of the foregoing.

Item 6. Selected Consolidated Financial Information

For the Years Ended June 30,	<u>1997</u>	<u>1996(a)</u>	<u>1995</u>	<u>1994(b)</u>	<u>1993</u>
Summary of Operations (\$)					
Operating revenues	42,169,185	36,576,055	31,844,339	34,846,941	31,221,410
Operating income	5,315,582	5,437,055	4,255,088	4,850,673	4,791,816
Net income	1,724,265	2,661,349	1,917,735	2,671,001	2,620,664
Earnings per common share .....	.75	1.41	1.04	1.50	1.60
Dividends declared per common share	1.14	1.12	1.12	1.11	1.09
Average Number of Common Shares Outstanding					
	2,294,134	1,886,629	1,850,986	1,775,068	1,635,945
Total Assets (\$)	96,681,165	81,140,637	65,948,716	61,932,480	55,129,912
Capitalization (\$)					
Common share-holders' equity	29,474,569	23,628,323	22,511,513	22,164,791	17,501,045
Long-term debt	38,107,860	24,488,916	23,702,200	24,500,000	19,596,401
Notes payable re-financed subsequent to yearend	<u>-</u>	<u>18,075,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capitalization	<u>67,582,429</u>	<u>66,192,239</u>	<u>46,213,713</u>	<u>46,664,791</u>	<u>37,097,446</u>
Short-Term Debt (\$)(c)	12,852,600	1,084,800	6,732,700	3,205,000	7,729,000

For the Years Ended June 30, 1997 1996 (a) 1995 1994 (b) 1993

Other Items (\$)

Capital expenditures	16,648,994	13,373,416	8,122,838	7,374,747	6,289,508
Total plant	116,829,158	98,795,623	84,944,969	77,882,135	71,187,860

- (a) During July, 1996, \$15,000,000 of debentures and 400,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and for general corporate purposes. The balance of the note payable at June 30, 1996 (\$18,075,000) is included in total capitalization as a result of the subsequent refinancing.
- (b) During October, 1993, \$15,000,000 of debentures and 170,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and to refinance certain long-term debt.
- (c) Includes current portion of long-term debt.

Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company's utility operations are subject to regulation by the PSC, which approves rates that are intended to permit a specified rate of return on investment. The Company's rate tariffs allow the cost of gas to be passed through to customers (see Regulatory Matters).

Delta's business is temperature-sensitive. Accordingly, the Company's operating results in any given period reflect, in addition to other factors, the impact of weather, with colder temperatures resulting in increased sales. The Company anticipates that this sensitivity to seasonal and weather conditions will continue to be so reflected in the Company's operating results in future periods.

Because of the seasonal nature of Delta's sales, the smallest proportion of cash generated from operations is received during the warmer months when sales volumes decrease considerably. Additionally, most construction activity takes place during the non-heating season because of more favorable weather conditions. Therefore, during the warmer, non-heating months, cash needs for operations and construction are partially met through short-term borrowings.

Capital expenditures for Delta for fiscal 1998 are expected to be approximately \$10.4 million. Delta generates internally only a portion of the cash necessary for its capital expenditure requirements and finances the balance of its capital expenditures on an interim basis through the use of its borrowing capability under its short-term line of credit. The current available line of credit is \$20,000,000, of which approximately \$10.9 million was borrowed at June 30, 1997. The line of credit, which is with Bank One, Kentucky, NA, expires during November, 1997. These short-term borrowings are periodically repaid with the net proceeds from the sale of long-term debt and equity securities, as was done in July, 1996, when the net proceeds of approximately \$20,400,000 from the sale of \$15,000,000 of debentures and 400,000 shares of common stock were used to repay short-term notes payable and for working capital.

The primary cash flows during the last three years are summarized below:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Provided by operating activities	\$ 6,209,226	\$ 3,094,809	\$ 6,943,183
Used in investing activities	(16,648,994)	(13,373,416)	(8,122,838)
Provided by financing activities	<u>10,768,558</u>	<u>10,294,461</u>	<u>1,158,887</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 328,790</u>	<u>\$ 15,854</u>	<u>\$ (20,768)</u>

Cash provided by operating activities consists of net income and noncash items including depreciation, depletion, amortization and deferred income taxes. Additionally, changes in working capital are also included in cash provided by operating activities. The Company expects that internally generated cash, coupled with seasonal short-term borrowings, will continue to be sufficient to satisfy its operating and capital expenditure requirements.

Results of Operations

Operating Revenues The increase in operating revenues for 1997 of approximately \$5,593,000 was due primarily to increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause. This was partially offset by a decrease in retail sales volumes of approximately 406,000 Mcf as a result of the warmer winter weather in 1997. Billed degree days were approximately 103% of normal degree days for 1997 as compared with approximately 112% for 1996. In addition, on-system transportation volumes for 1997 increased approximately 293,000 Mcf, or 11.4%.

The increase in operating revenues for 1996 of approximately \$4,732,000 was due primarily to an increase in retail sales volumes of approximately 980,000 Mcf as a result of the colder winter weather in 1996. Billed degree days were approximately 112% of normal for 1996 as compared with approximately 89% for 1995. In addition, on-system transportation volumes for 1996 increased approximately 180,000 Mcf, or 8%. These increases were partially offset by decreases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause and by a decrease in off-system transportation volumes of approximately 318,000 Mcf, or 22%, due primarily to reduced deliveries from local producers.

Operating Expenses The increase in purchased gas expense for 1997 of approximately \$5,875,000 was due primarily to increases in the cost of gas purchased for retail sales. The increase was partially offset by the decreased gas purchases for retail sales resulting from the warmer winter weather in 1997.

The increase in purchased gas expense of approximately \$1,893,000 for 1996 was due primarily to the increased gas purchases for retail sales resulting from the colder winter weather during 1996. The increase was partially offset by decreases in the cost of gas purchased for retail sales.

The increase in operation and maintenance expenses during 1996 of approximately \$640,000 was due primarily to increases in payroll and related benefit costs.

The increases in depreciation expense during 1997 and 1996 of approximately \$424,000 and \$327,000, respectively, were due primarily to additional depreciable plant.

The increase in taxes other than income taxes during 1996 of approximately \$173,000 was primarily due to increased property taxes which resulted from increased plant and property valuations, and to increased payroll taxes, which resulted from increased wages.

Changes in income taxes during 1997 and 1996 of approximately \$595,000 and \$517,000, respectively, were primarily due to changes in net income.

Interest Charges The increases in interest on long-term debt and amortization of debt expense during 1997 of approximately \$1,146,000 and \$27,000, respectively, were due primarily to the issuance of \$15 million of 8.3% Debentures during July, 1996. The decrease in other interest charges during 1997 of approximately \$348,000 was due primarily to decreased average short-term borrowings as short-term debt was repaid with the net proceeds from the sale of long-term debt and equity securities during July, 1996.

The increase in other interest charges during 1996 of approximately \$448,000 was due primarily to increased average short-term borrowings and increased average interest rates.

Earnings Per Common Share For the year ended June 30, 1997, earnings per common share were diluted by the increased average common shares outstanding that resulted from the additional 400,000 shares of common stock issued in July, 1996, as well as the common shares issued under Delta's dividend reinvestment plan and shares issued to employees during the 1997 periods.

Item 8. Financial Statements and Supplementary Data

<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE</u>	<u>PAGE</u>
Management's Statement of Responsibility for Financial Reporting and Accounting	22
Report of Independent Public Accountants	23
Consolidated Statements of Income for the years ended June 30, 1997, 1996 and 1995	24
Consolidated Statements of Cash Flows for the years ended June 30, 1997, 1996 and 1995	25
Consolidated Balance Sheets as of June 30, 1997 and 1996	27
Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 1997, 1996 and 1995	29
Consolidated Statements of Capitalization as of June 30, 1997 and 1996	30
Notes to Consolidated Financial Statements	31
Schedule II - Valuation and Qualifying Accounts for the years ended June 30, 1997, 1996 and 1995	39

Schedules other than those listed above are omitted because they are not required, not applicable or the required information is shown in the financial statements or notes thereto.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

Registrant intends to file a definitive proxy statement with the Commission pursuant to Regulation 14A (17 CFR 240.14a) not later than 120 days after the close of the fiscal year. In accordance with General Instruction G(3) to Form 10-K, the information called for by Items 10, 11, 12 and 13 is incorporated herein by reference to the definitive proxy statement. Neither the report on Executive Compensation nor the performance graph included in the Company's definitive proxy statement shall be deemed incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) - Financial Statements, Schedules and Exhibits

(1) - Financial Statements
See Index at Item 8

(2) - Financial Statement Schedules
See Index at Item 8

(3) - Exhibits

Exhibit No.

3(a) - Delta's Amended and Restated Articles of Incorporation are incorporated herein by reference to Exhibit 3(a) to Delta's Form 10-Q for the period ended March 31, 1990.

3(b) - Delta's By-Laws as amended August 21, 1996 are incorporated herein by reference to Exhibit 3(b) to Delta's Form 10-K for the period ended June 30, 1996.

4(a) - The Indenture dated April 1, 1991 in respect of 9% Debentures due April 30, 2011, is incorporated herein by reference to Exhibit 4(e) to Delta's Form S-2 dated April 23, 1991.

4(b) - The Indenture dated September 1, 1993 in respect of 6 5/8% Debentures due October 1, 2023, is incorporated herein by reference to Exhibit 4(e) to Delta's Form S-2 dated September 2, 1993.

4(c) - The Indenture dated July 1, 1996 in respect of 8.3% Debentures due August 1, 2026, is incorporated herein by reference to Exhibit 4(c) to Delta's Form S-2 dated June 21, 1996.

10(a) - Certain of Delta's material natural gas supply contracts are incorporated herein by reference to Exhibit 10 to Delta's Form 10 for the year ended June 30, 1978 and by reference to Exhibits C and D to Delta's Form 10-K for the year ended June 30, 1980.

- 10(b) - Gas Purchase Contract between Delta and Wisor is incorporated herein by reference to Exhibit 2(C) to Delta's Form 8-K dated February 9, 1981.
- 10(c) - Assignment to Delta by Wisor of its Columbia Service Agreement, including a copy of said Service Agreement, is incorporated herein by reference to Exhibit 2(D) to Delta's Form 8-K dated February 9, 1981.
- 10(d) - Contract between Tennessee and Delta for the sale of gas by Tennessee to Delta (amends earlier contract for Nicholasville and Wilmore Service Areas) is incorporated herein by reference to Exhibit 10(d) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(e) - Contract between Tennessee and Delta for the sale of gas by Tennessee to Delta (amends earlier contract for Jeffersonville Service Area) is incorporated herein by reference to Exhibit 10(e) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(f) - Contract between Tennessee and Delta for the sale of gas by Tennessee to Delta (amends earlier contract for Salt Lick Service Area) is incorporated herein by reference to Exhibit 10(f) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(g) - Contract between Tennessee and Delta for the sale of gas by Tennessee to Delta (amends earlier contract for Berea Service Area) is incorporated herein by reference to Exhibit 10(g) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(h) - Service Agreements between Columbia and Delta for the sale of gas by Columbia to Delta (amends earlier service agreements for Cumberland, Stanton and Owingsville service areas) are incorporated herein by reference to Exhibit 10(h) to Delta's Form 10-Q for the period ended September 30, 1990.
- 10(i) - Amendment to Gas Purchase Contract between Delta and Wisor is incorporated herein by reference to Exhibit 10(c) to Delta's Form 10-Q for the period ended December 31, 1988.
- 10(j) - Second amendment to Gas Purchase Contract between Delta and Wisor is incorporated herein by reference to Exhibit 10(j) to Delta's Form 10-K for the period ended June 30, 1994.
- 10(k) - Employment agreement between Delta and Alan L. Heath, an

officer, is incorporated herein by reference to Exhibit 10(k) to Delta's Form 10-Q for the period ended December 31, 1985.

10(l) - Employment agreements between Delta and two officers, those being John F. Hall and Robert C. Hazelrigg, are incorporated herein by reference to Exhibit 10(m) to Delta's Form 10-Q for the period ended December 31, 1988.

10(m) - Employment agreement dated May 31, 1995 between Delta and Glenn R. Jennings, an officer, is incorporated herein by reference to Exhibit 10(m) to Delta's Form 10-K for the period ended June 30, 1995.

10(n) - Employment agreement dated June 19, 1995 between Delta and Johnny L. Caudill, an officer, is incorporated herein by reference to Exhibit 10(n) to Delta's Form 10K for the period ended June 30, 1995.

12 - Computation of the Consolidated Ratio of Earnings to Fixed Charges.

21 - Subsidiaries of the Registrant.

23 - Consent of Independent Public Accountants.

(b) Reports on 8-K.

On April 8, 1997, the Registrant filed a report on Form 8-K disclosing a filing with the Kentucky Public Service Commission (PSC) of a general rate case on March 14, 1997 and a subsequent Order from the PSC on April 3, 1997 suspending the implementation of the proposed rates until September 12, 1997. The requested rates would generate approximately \$2,962,000 of additional annual revenues to Delta.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 11th day of September, 1997.

DELTA NATURAL GAS COMPANY, INC.

By /s/Glenn R. Jennings
Glenn R. Jennings, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

(i) Principal Executive Officer:

<u>/s/ Glenn R. Jennings</u> (Glenn R. Jennings)	President, Chief Executive Officer and Director	September 11, 1997
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(ii) Principal Financial Officer and Principal Accounting Officer:

<u>/s/ John F. Hall</u> (John F. Hall)	Vice President - Finance, Secretary and Treasurer	September 11, 1997
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(iii) A Majority of the Board of Directors:

<u>/s/ H. D. Peet</u> (H. D. Peet)	Chairman of the Board	September 11, 1997
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<u>/s/ Donald R. Crowe</u> (Donald R. Crowe)	Director	September 11, 1997
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<u>/s/ Jane Hylton Green</u> (Jane Hylton Green)	Director	September 11, 1997
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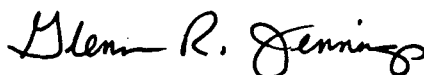
<u>/s/ Billy Joe Hall</u> (Billy Joe Hall)	Director	September 11, 1997
<u>/s/ John D. Harrison</u> (John D. Harrison)	Director	September 11, 1997
<u>/s/ Virgil E. Scott</u> (Virgil E. Scott)	Director	September 11, 1997
<u>/s/ Henry C. Thompson</u> (Henry C. Thompson)	Director	September 11, 1997
<u>/s/ Arthur E. Walker, Jr.</u> (Arthur E. Walker, Jr.)	Director	September 11, 1997

Management's Statement of Responsibility for Financial Reporting and Accounting

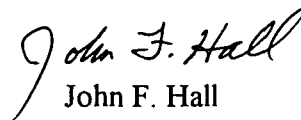
Management is responsible for the preparation, presentation and integrity of the financial statements and other financial information in this report. In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from these estimates.

The Company maintains a system of accounting and internal controls which management believes provides reasonable assurance that the accounting records are reliable for purposes of preparing financial statements and that the assets are properly accounted for and protected.

The Board of Directors pursues its oversight role for these financial statements through its Audit Committee which consists of three outside directors. The Audit Committee meets periodically with management to review the work and monitor the discharge of their responsibilities. The Audit Committee also meets periodically with the Company's internal auditor as well as Arthur Andersen LLP, the independent auditors, who have full and free access to the Audit Committee, with or without management present, to discuss internal accounting control, auditing and financial reporting matters.



Glenn R. Jennings
President & Chief Executive Officer



John F. Hall
Vice President - Finance,
Secretary & Treasurer

Report of Independent Public Accountants

To the Board of Directors and Shareholders of Delta Natural Gas Company, Inc.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of DELTA NATURAL GAS COMPANY, INC. (a Kentucky corporation) and subsidiary companies as of June 30, 1997 and 1996, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended June 30, 1997. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delta Natural Gas Company, Inc. and subsidiary companies as of June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to Consolidated Financial Statements and Schedule is presented for purposes of complying with the Securities and Exchange Commission rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Louisville, Kentucky

August 15, 1997

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Income

For the Years Ended June 30,	1997	1996	1995
Operating Revenues	<u>\$ 42,169,185</u>	<u>\$36,576,055</u>	<u>\$31,844,339</u>
Operating Expenses			
Purchased gas	\$ 23,265,222	\$17,389,755	\$15,497,156
Operation and maintenance (Note 1)	8,631,635	8,642,511	8,002,797
Depreciation and depletion (Note 1)	2,935,257	2,510,952	2,183,558
Taxes other than income taxes	1,056,689	1,036,282	863,340
Income taxes (Note 2)	<u>964,800</u>	<u>1,559,500</u>	<u>1,042,400</u>
Total operating expenses.	<u>\$ 36,853,603</u>	<u>\$31,139,000</u>	<u>\$27,589,251</u>
Operating Income	\$ 5,315,582	\$ 5,437,055	\$ 4,255,088
Other Income and Deductions, Net	<u>40,874</u>	<u>32,503</u>	<u>50,582</u>
Income Before Interest Charges.	<u>\$ 5,356,456</u>	<u>\$ 5,469,558</u>	<u>\$ 4,305,670</u>
Interest Charges			
Interest on long-term debt..	\$ 2,997,393	\$ 1,851,768	\$ 1,879,442
Other interest	519,432	867,641	419,693
Amortization of debt expense	<u>115,366</u>	<u>88,800</u>	<u>88,800</u>
Total interest charges..	<u>\$ 3,632,191</u>	<u>\$ 2,808,209</u>	<u>\$ 2,387,935</u>
Net Income	<u>\$ 1,724,265</u>	<u>\$ 2,661,349</u>	<u>\$ 1,917,735</u>
Weighted Average Number of Common Shares Outstanding ...	2,294,134	1,886,629	1,850,986
Earnings Per Common Share	\$.75	\$ 1.41	\$ 1.04
Dividends Declared Per Common Share	\$ 1.14	\$ 1.12	\$ 1.12

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Cash Flows

For the Years Ended June 30,	1997	1996	1995
Cash Flows From Operating Activities			
Net income	\$ 1,724,265	\$ 2,661,349	\$ 1,917,735
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, depletion and amortization	3,049,229	2,663,475	2,272,358
Deferred income taxes and investment tax credits	485,400	1,762,500	(77,000)
Other - net	666,798	484,474	602,180
(Increase) decrease in assets:			
Accounts receivable	(318,178)	(860,255)	(118,237)
Gas in storage	(782,007)	63,546	(138,138)
Advance (deferred) recovery of gas cost	495,751	(3,788,143)	2,583,128
Materials and supplies	(120,969)	(124,697)	173,319
Prepayments	(346,532)	53,702	(105,903)
Other assets	(541,669)	(31,723)	(71,087)
Increase (decrease) in liabilities:			
Accounts payable	(439,721)	871,207	(178,609)
Refunds due customers	554,520	(456,283)	83,572
Accrued taxes	1,038,761	(270,394)	(72,210)
Other current liabilities	744,054	56,951	69,742
Advances for construction and other	(476)	9,100	2,333
Net cash provided by operating activities	<u>\$ 6,209,226</u>	<u>\$ 3,094,809</u>	<u>\$ 6,943,183</u>
Cash Flows From Investing Activities			
Capital expenditures	<u>\$ (16,648,994)</u>	<u>\$ (13,373,416)</u>	<u>\$ (8,122,838)</u>
Net cash used in investing activities	<u>\$ (16,648,994)</u>	<u>\$ (13,373,416)</u>	<u>\$ (8,122,838)</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Cash Flows (continued)

For the Years Ended June 30,	1997	1996	1995
Cash Flows From Financing Activities (Note 6)			
Dividends on common stock	\$ (2,651,073)	\$ (2,113,414)	\$ (2,073,374)
Issuance of common stock, net....	6,773,054	568,875	502,361
Issuance of debentures, net.....	14,334,833	-	-
Repayment of long-term debt	(478,256)	(561,000)	(240,100)
Issuance of notes payable.....	30,975,000	25,955,000	19,495,000
Repayment of notes payable.....	<u>(38,185,000)</u>	<u>(13,555,000)</u>	<u>(16,525,000)</u>
Net cash provided by financing activities	<u>\$ 10,768,558</u>	<u>\$ 10,294,461</u>	<u>\$ 1,158,887</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 328,790	\$ 15,854	\$ (20,768)
Cash and Cash Equivalents, Beginning of Year	<u>151,633</u>	<u>135,779</u>	<u>156,547</u>
Cash and Cash Equivalents, End of Year	<u>\$ 480,423</u>	<u>\$ 151,633</u>	<u>\$ 135,779</u>

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Interest	\$ 3,019,881	\$ 2,491,091	\$ 2,253,472
Income taxes (net of refunds)	\$ (432,163)	\$ 193,560	\$ 1,264,942

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets

As of June 30,	1997	1996
Assets		
Gas Utility Plant, at cost	\$116,829,158	\$ 98,795,623
Less - Accumulated provision for depreciation	<u>(31,734,976)</u>	<u>(26,749,774)</u>
Net gas plant	<u>\$ 85,094,182</u>	<u>\$ 72,045,849</u>
Current Assets		
Cash and cash equivalents	\$ 480,423	\$ 151,633
Accounts receivable, less accumulated provisions for doubtful accounts of \$113,945 and \$105,756 in 1997 and 1996, respectively	2,414,632	2,096,454
Gas in storage, at average cost	1,209,171	427,164
Deferred gas costs (Note 1)	2,180,606	2,676,357
Materials and supplies, at first-in, first-out cost	773,108	652,139
Prepayments	<u>716,076</u>	<u>369,544</u>
Total current assets	<u>\$ 7,774,016</u>	<u>\$ 6,373,291</u>
Other Assets		
Cash surrender value of officers' life insurance (face amount of \$1,036,009) ..	\$ 321,339	\$ 304,339
Note receivable from officer	134,000	126,000
Unamortized debt expense and other (Note 6)	<u>3,357,628</u>	<u>2,291,158</u>
Total other assets	<u>\$ 3,812,967</u>	<u>\$ 2,721,497</u>
Total assets	<u>\$ 96,681,165</u>	<u>\$ 81,140,637</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Balance Sheets (continued)

As of June 30,	1997	1996
Liabilities and Shareholders' Equity		
Capitalization (See Consolidated Statements of Capitalization)		
Common shareholders' equity	\$29,474,569	\$23,628,323
Long-term debt (Notes 6 and 7).....	38,107,860	24,488,916
Notes payable refinanced subsequent to yearend (Note 5).....	-	18,075,000
Total capitalization	<u>\$67,582,429</u>	<u>\$66,192,239</u>
Current Liabilities		
Notes payable (Note 5)	\$10,865,000	\$ -
Current portion of long-term debt (Notes 6 and 7).....	1,987,600	1,084,800
Accounts payable	2,386,717	2,826,438
Accrued taxes	1,132,315	93,554
Refunds due customers	577,874	23,354
Customers' deposits	368,561	304,246
Accrued interest on debt	1,033,220	637,596
Accrued vacation	516,032	485,847
Other accrued liabilities	<u>492,501</u>	<u>238,571</u>
Total current liabilities	<u>\$19,359,820</u>	<u>\$ 5,694,406</u>
Deferred Credits and Other		
Deferred income taxes	\$ 7,921,100	\$ 7,318,500
Investment tax credits	708,400	779,400
Regulatory liability (Note 2)	892,100	938,300
Advances for construction and other ..	<u>217,316</u>	<u>217,792</u>
Total deferred credits and other	<u>\$ 9,738,916</u>	<u>\$ 9,253,992</u>
Commitments and Contingencies (Note 8) ..		
Total liabilities and shareholders' equity	<u>\$96,681,165</u>	<u>\$81,140,637</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended June 30,	1997	1996	1995
Common Shares			
Balance, beginning of year	\$ 1,903,580	\$ 1,868,734	\$ 1,839,340
\$1.00 par value of 438,643, 34,846 and 29,394 shares issued in 1997, 1996 and 1995, respectively -			
Public issuance of common shares ..	400,000	-	-
Dividend reinvestment and stock purchase plan	31,187	28,024	25,802
Employee stock purchase plan and other	<u>7,456</u>	<u>6,822</u>	<u>3,592</u>
Balance, end of year	<u>\$ 2,342,223</u>	<u>\$ 1,903,580</u>	<u>\$ 1,868,734</u>
Premium on Common Shares			
Balance, beginning of year	\$ 20,572,132	\$ 20,022,643	\$ 19,532,909
Premium on issuance of common shares- Public issuance of common shares ..	6,000,000	-	-
Dividend reinvestment and stock purchase plan	519,478	440,621	425,357
Employee stock purchase plan and other	<u>111,701</u>	<u>108,868</u>	<u>64,377</u>
Balance, end of year	<u>\$ 27,203,311</u>	<u>\$ 20,572,132</u>	<u>\$ 20,022,643</u>
Capital Stock Expense			
Balance, beginning of year	\$ (1,620,252)	\$ (1,604,792)	\$ (1,588,025)
Issuance of common shares	<u>(296,768)</u>	<u>(15,460)</u>	<u>(16,767)</u>
Balance, end of year	<u>\$ (1,917,020)</u>	<u>\$ (1,620,252)</u>	<u>\$ (1,604,792)</u>
Retained Earnings			
Balance, beginning of year	\$ 2,772,863	\$ 2,224,928	\$ 2,380,567
Net income	1,724,265	2,661,349	1,917,735
Cash dividends declared on common shares - (See Consolidated Statements of Income for rates) ...	<u>(2,651,073)</u>	<u>(2,113,414)</u>	<u>(2,073,374)</u>
Balance, end of year	<u>\$ 1,846,055</u>	<u>\$ 2,772,863</u>	<u>\$ 2,224,928</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Capitalization

As of June 30,	1997	1996
Common Shareholders' Equity		
Common shares, par value \$1.00 per share (Notes 3 and 4)		
Authorized - 6,000,000 shares		
Issued and outstanding - 2,342,223 and 1,903,580 shares in 1997 and 1996, respectively	\$ 2,342,223	\$ 1,903,580
Premium on common shares	27,203,311	20,572,132
Capital stock expense	(1,917,020)	(1,620,252)
Retained earnings (Note 6)	<u>1,846,055</u>	<u>2,772,863</u>
Total common shareholders' equity	<u>\$29,474,569</u>	<u>\$23,628,323</u>
Long-Term Debt (Notes 6 and 7)		
Debentures, 8.3%, due 2026	\$15,000,000	\$ -
Debentures, 6 5/8%, due 2023	13,505,000	14,000,000
Debentures, 9%, due 2011.....	10,000,000	10,000,000
Promissory note from acquisition of under- ground storage, non-interest bearing, due through 2001 (less unamortized discount of \$297,099 and \$398,419 in 1997 and 1996, respectively)	1,502,901	1,401,581
Other	<u>87,559</u>	<u>172,135</u>
Total long-term debt	<u>\$40,095,460</u>	<u>\$25,573,716</u>
Less - Amounts due within one year, included in current liabilities	<u>(1,987,600)</u>	<u>(1,084,800)</u>
Net long-term debt	<u>\$38,107,860</u>	<u>\$24,488,916</u>
Notes Payable Refinanced Subsequent to Yearend (Note 5)	<u>\$ -</u>	<u>\$18,075,000</u>
Total capitalization	<u>\$67,582,429</u>	<u>\$66,192,239</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation -- Delta Natural Gas Company, Inc. ("Delta" or "the Company") has five 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 underground natural gas storage facilities that it leases from Delta. Enpro, Inc. owns and operates production properties. TranEx Corporation owns a 43 mile intrastate pipeline. All subsidiaries of Delta are included in the consolidated financial statements. Intercompany balances and transactions have been eliminated.

(b) Cash Equivalents -- For the purposes of the Consolidated Statements of Cash Flows, all temporary cash investments with a maturity of three months or less at the date of purchase are considered cash equivalents.

(c) Depreciation -- The Company determines its provision for depreciation using the straight-line method and by the application of rates to various classes of utility plant. The rates are based upon the estimated service lives of the properties and were equivalent to composite rates of 3.0%, 2.9%, and 2.8% of average depreciable plant for 1997, 1996, and 1995, respectively.

(d) Maintenance -- All expenditures for maintenance and repairs of units of property are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of utility plant. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal.

(e) Gas Cost Recovery -- Delta has a Gas Cost Recovery ("GCR") clause which provides for a dollar-tracker that matches revenues and gas costs and provides eventual dollar-for-dollar recovery of all gas costs incurred. The Company expenses gas costs based on the amount of gas costs recovered through revenue. Any differences between actual gas costs and those estimated costs billed are deferred and reflected in the computation of future billings to customers using the GCR mechanism.

(f) Revenue Recognition -- The Company records revenues as billed to its customers on a monthly meter reading cycle. At the end of each month, gas service which has been rendered from the latest date of each cycle meter reading to the month-end is unbilled.

(g) Revenues and Customer Receivables -- The Company supplies natural gas to approximately 36,000 customers in central and southeastern Kentucky. Revenues and customer receivables arise primarily from sales of natural gas to customers and from transportation services for others. Provisions for doubtful accounts are recorded to reflect the expected net realizable value of accounts receivable.

(h) Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) New Accounting Pronouncements -- In March, 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", effective for fiscal years beginning after December 15, 1995. The Company adopted the provisions of SFAS No. 121 in the first quarter of fiscal 1997. The new standard requires that long-lived assets and certain identified intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing such impairment reviews, companies are required to estimate the sum of future cash flows from an asset and compare such amount to the asset's carrying amount. Any excess of carrying amount over expected cash flows will result in a possible write-down of an asset to its fair value. Adoption of SFAS No. 121 did not have a material adverse impact on the Company's financial position or results of operations.

For companies with June 30 fiscal yearends, SFAS No. 123, "Accounting for Stock-Based Compensation" was required to be adopted as of June 30, 1997. This standard is currently inapplicable to Delta because the Company has no stock based compensation arrangements.

Delta is required to adopt SFAS No. 128, "Earnings per Share", during the second quarter of fiscal 1998. The Company does not expect the adoption of this standard to have a material adverse impact on its financial position or results of operations.

(2) Income Taxes

The Company provides for income taxes on temporary differences resulting from the use of alternative methods of income and expense recognition for financial and tax reporting purposes. The differences result primarily from the use of accelerated tax depreciation methods for certain properties versus the straight-line depreciation method for financial purposes, differences in recognition of purchased gas cost recoveries and certain other accruals which are not currently deductible for income tax purposes. Investment tax credits were deferred for certain periods prior to fiscal 1987 and are being amortized to income over the estimated useful lives of the applicable properties. The Company utilizes the liability method for accounting for income

taxes, which requires that deferred income tax assets and liabilities are computed using tax rates that will be in effect when the book and tax temporary differences reverse. The change in tax rates applied to accumulated deferred income taxes may not be immediately recognized in operating results because of ratemaking treatment. A regulatory liability has been established to recognize the future revenue requirement impact from these deferred taxes. The temporary differences which gave rise to the net accumulated deferred income tax liability for the periods are as follows:

	<u>1997</u>	<u>1996</u>
Deferred Tax Liabilities		
Accelerated depreciation	\$ 9,018,800	\$8,091,500
Deferred gas cost	860,100	1,055,700
Accrued pension	433,000	252,900
Debt expense	<u>384,900</u>	<u>399,200</u>
 Total	 <u>\$10,696,800</u>	 <u>\$9,799,300</u>
 Deferred Tax Assets		
Alternative minimum tax credits	\$ 1,534,100	\$ 1,305,600
Regulatory liabilities	339,400	370,000
Unbilled revenue	327,500	236,100
Investment tax credit	279,400	307,400
Other	<u>295,300</u>	<u>261,700</u>
 Total	 <u>\$ 2,775,700</u>	 <u>\$ 2,480,800</u>
 Net accumulated deferred income tax liability	 <u>\$ 7,921,100</u>	 <u>\$ 7,318,500</u>

The components of the income tax provision are comprised of the following for the years ended June 30:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Components of Income Tax Expense:			
Payable currently:			
Federal	\$ 242,200	\$ 52,100	\$ 453,900
State	<u>(31,300)</u>	<u>(255,100)</u>	<u>194,500</u>
Total	\$ 210,900	\$ (203,000)	\$ 648,400
 Deferred	 <u>753,900</u>	 <u>1,762,500</u>	 <u>394,000</u>
 Income tax expense	 <u>\$ 964,800</u>	 <u>\$ 1,559,500</u>	 <u>\$ 1,042,400</u>

Reconciliation of the statutory federal income tax rate to the effective income tax rate is shown in the table below:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Statutory federal income tax rate	34.0%	34.0%	34.0%
State income taxes net of federal benefit	5.0	5.2	5.2
Amortization of investment tax credit	(2.6)	(1.7)	(2.4)
Other differences - net	<u>-</u>	<u>-</u>	<u>(.9)</u>
Effective income tax rate	<u>36.4%</u>	<u>37.5%</u>	<u>35.9%</u>

(3) Employee Benefit Plans

(a) **Defined Benefit Retirement Plan** - Delta has a trustee, noncontributory, defined benefit pension plan covering all eligible employees. Retirement income is based on the number of years of service and annual rates of compensation. The Company makes annual contributions equal to the amounts necessary to fund the plan adequately. The funded status of the pension plan at March 31, the plan year end, and the amounts recognized in the Company's consolidated balance sheets at June 30 were as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Plan assets at fair value	<u>\$6,835,393</u>	<u>\$6,058,458</u>	<u>\$5,358,108</u>
Actuarial present value of benefit obligation:			
Vested benefits	\$4,505,619	\$2,789,736	\$3,605,363
Non-vested benefits	<u>11,025</u>	<u>9,346</u>	<u>21,742</u>
Accumulated benefit obligation	<u>\$4,516,644</u>	<u>\$2,799,082</u>	<u>\$3,627,105</u>
Additional amounts related to projected salary increases	<u>1,828,856</u>	<u>2,811,907</u>	<u>1,638,014</u>
Total projected benefit obligation	<u>\$6,345,500</u>	<u>\$5,610,989</u>	<u>\$5,265,119</u>
Plan assets in excess of projected benefit obligation	\$ 489,893	\$ 447,469	\$ 92,989
Unrecognized net assets at date of initial application being amortized over 15 years	(211,972)	(254,365)	(296,759)
Unrecognized net (gain) loss	<u>125,777</u>	<u>(13,481)</u>	<u>286,557</u>
Accrued pension asset	<u>\$ 403,698</u>	<u>\$ 179,623</u>	<u>\$ 82,787</u>

The assets of the plan consist primarily of common stocks, bonds and certificates of deposit. Net pension costs for the years ended June 30 include the following:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Service cost for benefits earned during the year	\$ 405,386	\$ 382,751	\$ 432,546
Interest cost on projected benefit obligation	392,539	356,897	382,167
Actual return on plan assets	(407,965)	(886,211)	(623,972)
Net amortization and deferral	<u>(136,843)</u>	<u>444,044</u>	<u>185,660</u>
Net periodic pension cost	<u>\$ 253,117</u>	<u>\$ 297,481</u>	<u>\$ 376,401</u>

The weighted average discount rates and the assumed rates of increase in future compensation levels used in determining the actuarial present values of the projected benefit obligation at June 30, 1997, 1996 and 1995 were 7.0% (discount rates), and 4% (rates of increase). The expected long-term rates of return on plan assets were 8%.

SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits", and SFAS No. 112, "Employers' Accounting for Post-Employment Benefits", do not affect the Company, as Delta does not provide benefits for post-retirement or post-employment other than the pension plan for retired employees.

(b) Employee Savings Plan - The Company has an Employee Savings Plan ("Savings Plan") under which eligible employees may elect to contribute any whole percentage between 2% and 15% of their annual compensation. The Company will match 50% of the employee's contribution up to a maximum Company contribution of 2.5% of the employee's annual compensation. For 1997, 1996 and 1995, Delta's Savings Plan expense was approximately \$151,000, \$111,000 and \$112,000, respectively.

(c) Employee Stock Purchase Plan - The Company has an Employee Stock Purchase Plan ("Stock Plan") under which qualified permanent employees are eligible to participate. Under the terms of the Stock Plan, such employees can contribute on a monthly basis 1% of their annual salary level (as of July 1 of each year) to be used to purchase Delta's common stock. The Company issues Delta common stock, based upon the fiscal year contributions, using an average of the last sale price of Delta's stock as quoted in NASDAQ's National Market System at the close of business for the last five business days in June and matches those shares so purchased. Therefore, stock equivalent to approximately \$101,000 was issued in July, 1997. The continuation and terms of the Stock Plan are subject to approval by Delta's Board of Directors on an annual basis. Delta's Board has continued the Stock Plan through June 30, 1998.

(4) Dividend Reinvestment and Stock Purchase Plan

The Company's Dividend Reinvestment and Stock Purchase Plan (Reinvestment Plan) provides that shareholders of record can reinvest dividends and also make limited additional investments of up to \$50,000 per year in shares of common stock of the Company. Shares purchased under the Reinvestment Plan are authorized but unissued shares of common stock of the Company, and 31,187 shares were issued in 1997. Delta reserved 200,000 shares under the Reinvestment Plan in December, 1994, and as of June 30, 1997, there were 123,604 shares still available for issuance.

(5) Notes Payable and Line of Credit

Substantially all of the cash balances of Delta are maintained to compensate the respective banks for banking services and to obtain lines of credit; however, no specific amounts have been designated as compensating balances, and Delta has the right of withdrawal of such funds. At June 30, 1997 and June 30, 1996, the available line of credit was \$20,000,000, of which \$10,865,000 and \$18,075,000 had been borrowed at an interest rate of 6.785% and 6.285% for 1997 and 1996, respectively. The maximum amount borrowed during 1997 and 1996 was \$10,865,000 and \$18,075,000, respectively. The interest on this line is, at the option of Delta, either at the daily prime rate or is based upon certificate of deposit rates. The current line of credit expires on November 15, 1997.

Short-term borrowings at June 30, 1996 were repaid in July, 1996, with the net proceeds of approximately \$20,400,000 from the sale of \$15,000,000 of debentures and 400,000 shares of common stock.

(6) Long-Term Debt

On July 19, 1996, Delta issued \$15,000,000 of 8.3% Debentures that mature in July, 2026. Redemption on behalf of deceased holders within 60 days of notice of up to \$25,000 per holder will be made annually, subject to an annual aggregate limitation of \$500,000. The 8.3% Debentures can be redeemed by the Company beginning in August, 2001 at a 5% premium, such premium declining ratably until it ceases in August, 2006. Restrictions under the indenture agreement covering the 8.3% Debentures include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity of the Company exceeds \$18,000,000. No retained earnings are restricted under the provisions of the indenture.

On October 18, 1993, Delta issued \$15,000,000 of 6 5/8% Debentures that mature in October, 2023. Each holder may require redemption of up to \$25,000 annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 6 5/8% Debentures can be redeemed by the Company beginning in October, 1998 at a 5% premium, such premium declining ratably until it ceases in October, 2003.

On May 1, 1991, Delta issued \$10,000,000 of 9% Debentures that mature in April, 2011. Each holder may require redemption of up to \$25,000 annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 9% Debentures can be redeemed by the Company at a 4% premium, such premium declining ratably until it ceases in April, 2001. The Company may not assume any additional mortgage indebtedness in excess of \$1 million without effectively securing the 9% Debentures equally to such additional indebtedness.

Debt issuance expenses are deferred and amortized over the terms of the related debt. In addition, losses on extinguishment of debt are deferred and amortized over the term of the related debt consistent with regulatory treatment.

A non-interest bearing promissory note was issued by Delta on November 10, 1995 in the amount of \$1,800,000, payable in installments of \$400,000 in 1998, \$700,000 in 2000 and \$700,000 in 2002. The note was issued when Delta purchased leases and depleted gas wells to develop them for the underground storage of natural gas. Delta secured the promissory note by escrow of 102,858 shares of Delta's common stock. These shares will be issued to the holder of the promissory note only in the event of default in payment by Delta.

This underground natural gas storage field located on Canada Mountain in Bell County, Kentucky is now partially developed and will have an estimated working capacity of 4,000,000 Mcf upon completion. Delta utilized this storage field to help meet its winter supply needs this year. This storage capability should permit Delta to continue to purchase and store gas during the non-heating months, and then withdraw and sell the gas during the peak usage winter months. Storage project capital expenditures are estimated at approximately \$2.6 million during fiscal 1998, which includes completion of a 14 mile, 12 inch diameter steel pipeline to provide expanded capacity to deliver gas to Delta's system. Delta is currently recovering a return on storage field investments through rates.

Other long-term debt requires principal payments totaling approximately \$88,000 in 1998.

(7) Fair Values of Financial Instruments

The fair value of the Company's debentures is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's debentures at June 30, 1997 is estimated to be \$37,723,000. The carrying amount in the accompanying consolidated financial statements is \$38,505,000.

The carrying amount of the Company's other financial instruments including cash equivalents, accounts receivable, notes receivable, accounts payable and the non-interest bearing promissory note approximate their fair value.

(8) Commitments and Contingencies

The Company has entered into individual employment agreements with its five officers. The agreements expire or may be terminated at various times. The agreements provide for continuing monthly payments or lump sum payments and continuation of certain benefits over varying periods in the event employment is altered or terminated following certain changes in ownership of the Company.

(9) Rates

Reference is made to "Regulatory Matters" herein with respect to rate matters.

(10) Quarterly Financial Data (Unaudited)

The quarterly data reflects, in the opinion of management, all normal recurring adjustments necessary to present fairly the results for the interim periods.

Quarter Ended	<u>Operating Revenues</u>	<u>Operating Income (Loss)</u>	<u>Net Income (Loss)</u>	<u>Earnings (Loss) per Common Share (a)</u>
Fiscal 1997				
September 30	\$ 4,074,332	\$ 36,149	\$ (734,296)	\$ (.33)
December 31	10,023,399	1,090,513	198,153	.09
March 31	18,651,406	3,034,844	2,050,318	.88
June 30	9,420,048	1,154,076	210,090	.09
Fiscal 1996				
September 30	\$ 3,774,849	\$ (147,522)	\$ (760,662)	\$ (.41)
December 31	8,406,787	1,331,803	649,089	.34
March 31	16,023,581	3,421,608	2,725,444	1.44
June 30	8,370,838	831,166	47,478	.03

(a) Quarterly earnings per share may not equal annual earnings per share due to changes in shares outstanding.

Subsidiaries of the Registrant

Delgasco, Inc., Deltran, Inc., Enpro, Inc., Delta Resources, Inc. and TranEx Corporation are wholly-owned subsidiaries of the Registrant, are incorporated in the state of Kentucky and do business under their corporate names.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated August 15, 1997, included in this Form 10-K, into the Company's previously filed Registration Statement No. 33-56689, relating to the Dividend Reinvestment and Stock Purchase Plan of the Company.

Arthur Andersen LLP

Louisville, Kentucky
September 11, 1997

1997

Delta Natural Gas Company, Inc.
and Subsidiary Companies

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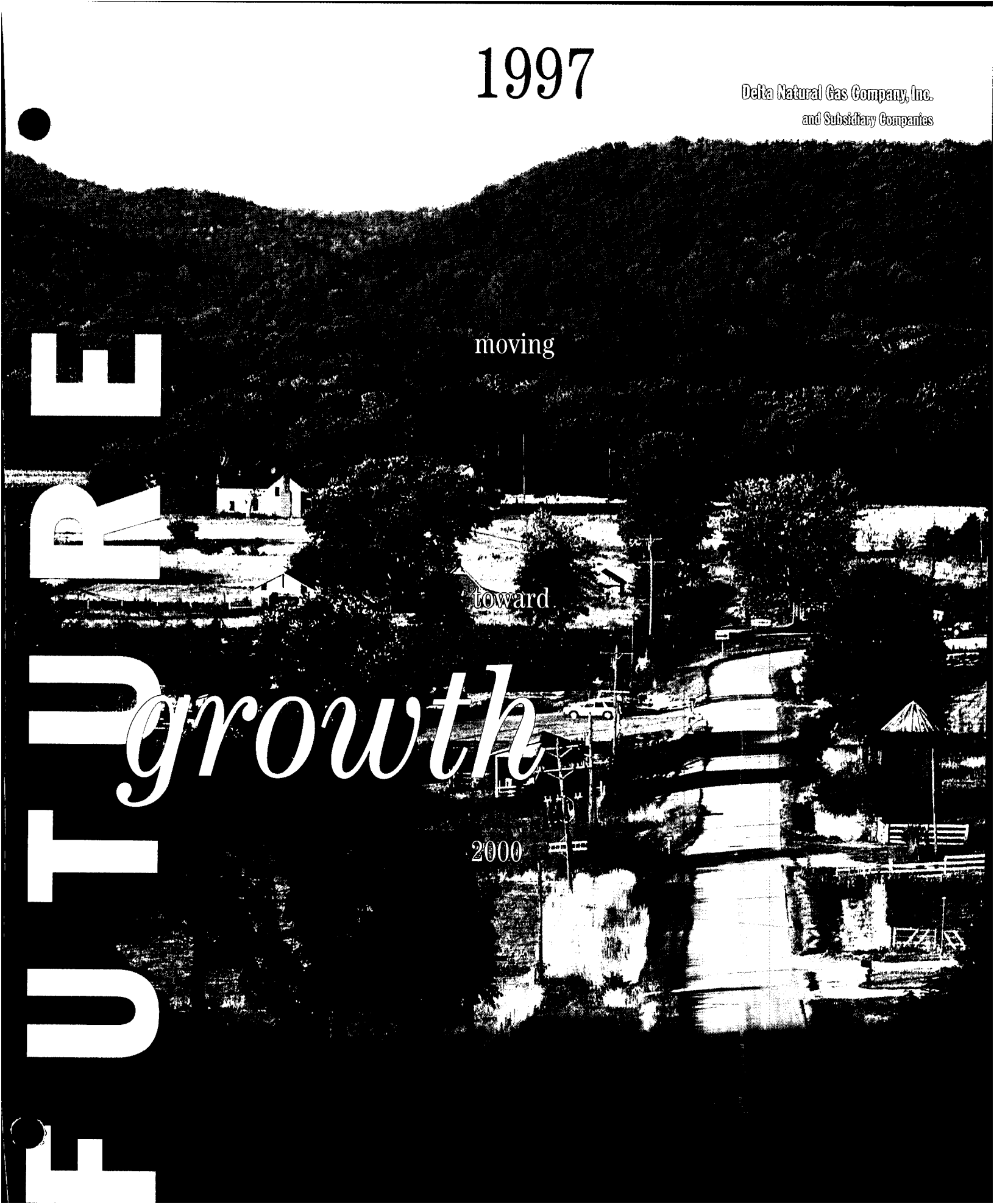
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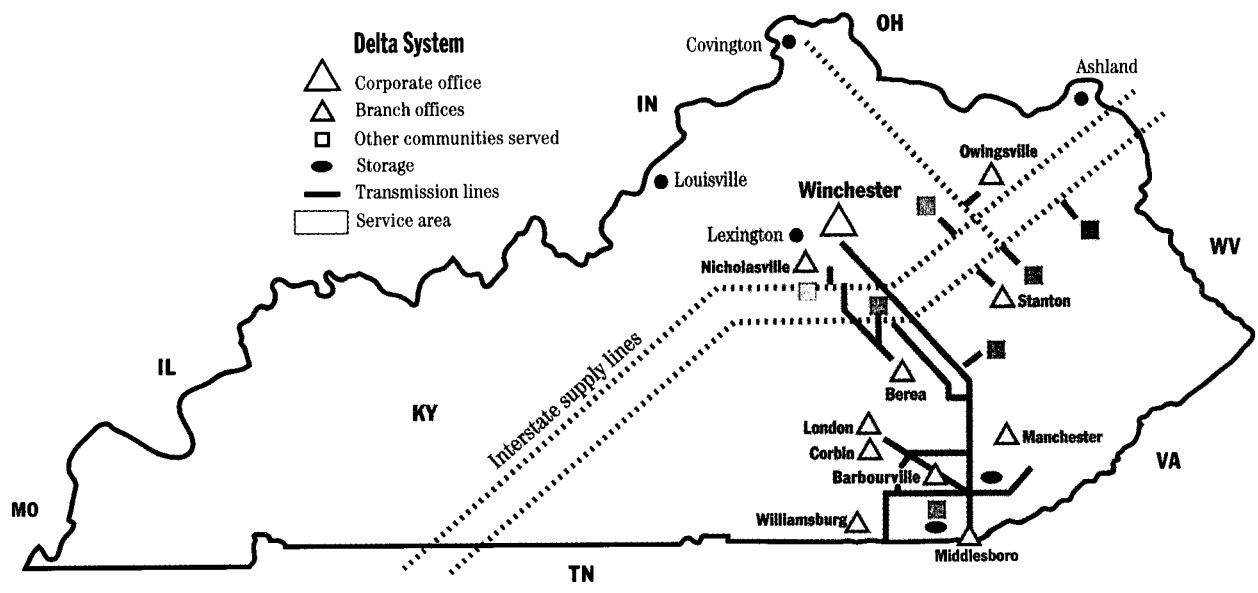
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TOWARD 2000



Delta Natural Gas Company, Inc. ("Delta" or "the Company") is engaged primarily in the distribution, transmission, storage and production of natural gas with its facilities which are located in 20 counties in central and southeastern Kentucky. Delta serves approximately 36,000 residential, commercial, industrial and transportation customers and makes transportation deliveries to several interconnected pipelines.

Unless the context requires otherwise, references to Delta include Delta's wholly-owned subsidiaries, Delta Resources, Inc. ("Resources"), Delgasco, Inc. ("Delgasco"), Deltran, Inc. ("Deltran"), Enpro, Inc. ("Enpro") and TranEx Corporation ("TranEx"). Resources buys gas and resells it to industrial customers on Delta's system and to

The Company

Delta for system supply. Delgasco buys gas and resells it to Resources and to customers not on Delta's system. Deltran operates an underground natural gas storage field that it leases from Delta. Enpro owns and operates production properties and undeveloped acreage. TranEx owns a 43 mile intrastate pipeline. Delta and its subsidiaries are under common executive management.

Delta was incorporated under Kentucky law in 1949. Its principal executive offices are located at 3617 Lexington Road, Winchester, Kentucky 40391. Its telephone number is (606) 744-6171, and its Fax number is (606) 744-6552.

Selected Consolidated Financial Information

1

For the Years Ended June 30,	1997	1996(a)	1995	1994(b)	1993
Summary of Operations (\$)					
Operating revenues	42,169,165	36,576,055	31,344,339	34,346,941	31,221,410
Operating income	5,315,532	5,437,055	4,255,033	4,550,673	4,701,316
Net income	1,724,265	2,631,349	1,917,735	2,671,001	2,620,664
Earnings per common share	.75	1.41	1.04	1.50	1.60
Dividends declared per common share	1.14	1.12	1.12	1.11	1.09
Average Number of					
Common Shares Outstanding	2,294,134	1,836,629	1,350,933	1,775,033	1,635,945
Total Assets (\$)	93,631,165	81,140,697	65,943,716	61,932,430	55,129,912
Capitalization (\$)					
Common shareholders' equity	29,474,569	23,623,323	22,511,513	22,164,791	17,501,045
Long-term debt	33,107,360	24,433,916	23,702,200	24,500,000	19,506,401
Notes payable refinanced subsequent to yearend	—	13,075,000	—	—	—
Total capitalization	67,532,429	66,132,239	46,213,713	46,664,791	37,007,446
Short-Term Debt (\$)(c)	12,352,600	1,034,800	6,732,700	3,205,000	7,729,000
Other Items (\$)					
Capital expenditures	16,643,994	13,373,416	3,122,333	7,374,747	6,239,503
Total plant	116,329,153	93,795,623	34,944,969	77,332,135	71,137,330

(a) During July, 1993, \$15,000,000 of debentures and 400,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and for general corporate purposes. The balance of the note payable at June 30, 1993 (\$13,075,000) is included in total capitalization as a result of the subsequent refinancing.

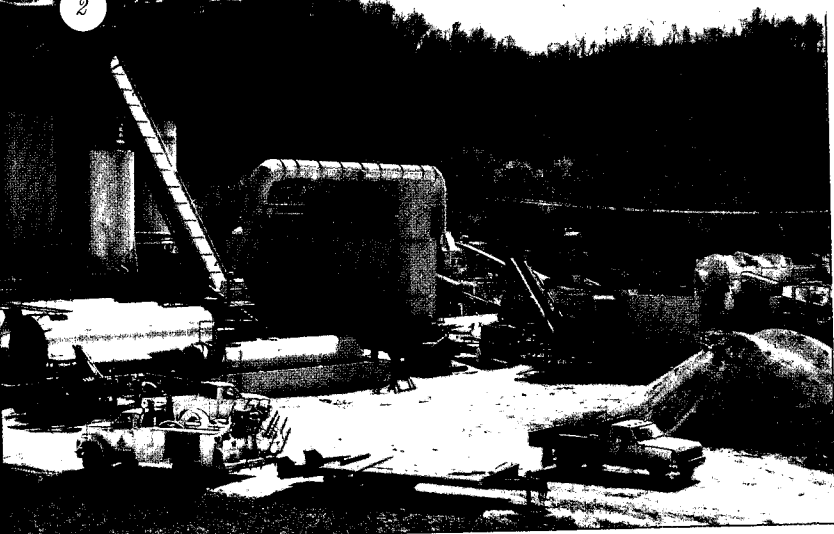
(b) During October, 1993, \$15,000,000 of debentures and 170,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and to refinance certain long-term debt.

(c) Includes current portion of long-term debt.

GROWTH



2



Delta extended service this past year to an asphalt plant located at Boonesborough in Madison County. This included a supply connection for delivery from Texas Eastern Transmission Corporation.

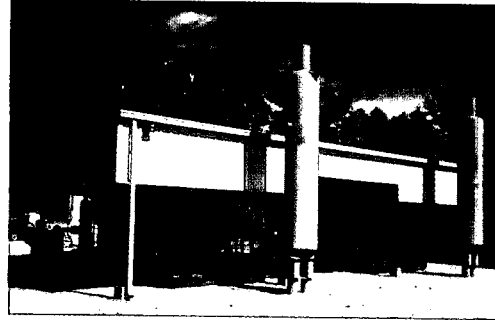
Delta extended its system into Fayette County during 1997 to provide service to residential customers in the South Point area of Lexington.



Future



Delta continued developing its Canada Mountain underground natural gas storage field during 1997. Development is continuing in 1998, with the planned completion this fall of a 14 mile, 12 inch diameter steel pipeline connecting the field to Delta's system. Delta utilized this field this past winter to supplement its supply, and plans to use the field more fully this coming heating season.



Our continued expansion through internal growth and acquisition resulted in 1997 being a year of significant activity for Delta. We refinanced our \$20 million credit line in July, 1996, by the issuance of \$15 million of 8.3% debentures and 400,000 shares of common stock, and this had a dilutive effect on 1997 earnings per share. This allowed us to utilize our credit line and internally generated cash for our 1997 growth. Our record capital expenditures were in excess of \$16.6 million, and we plan to continue our growth in 1998 and beyond.

The weather this past year was not only warmer than the previous year, but followed a very unusual pattern of a mild winter followed by a cold, wet spring. Our billed degree days were 103% of thirty year average weather, a decline of 8% from the year before, and our retail sales volumes declined by 406,000 Mcf, or 9%. Earnings per share decreased to \$.75.

In order to provide for a reasonable return on our increased capital, as well as to recover increased operating costs resulting from inflation since our last rate case in 1990, on March 14, 1997 we filed a request for a general rate increase with the Kentucky Public Service Commission. The rate case requests a total revenue increase of \$2,962,000 and, as anticipated, the proposed rates were suspended by the Commission until September 12. A public hearing is scheduled beginning September 9.

During 1997, we continued development of our Canada Mountain underground natural gas storage field. Although the field was used to help meet our winter supply needs this past year, our plans are to continue to develop the field during the next year. It is planned to be utilized to a more significant level this coming year, especially after

To Our Shareholders



completion this fall of 14 miles of 12 inch diameter steel pipeline that will enhance the delivery of gas from the field into Delta's system.

We continued to expand our system this past year and increased our customers served by 5.4%. Extensions were made this year to serve new areas such as a portion of Fayette County, where we serve a residential area that did not have gas service and a new residential development that together have the potential for approximately 500 customers. During November, 1996, we acquired the City of North Middletown gas system in Bourbon County, and we now serve approximately 180 primarily residential customers in that community.

During June, 1997, Delta acquired TranEx Corporation, which owns a 43 mile, 8 inch diameter steel pipeline that extends from Clay County to

Madison County. Delta has been operating this pipeline for several years and plans to continue to utilize it to provide natural gas to Delta's Canada Mountain storage field as well as for Delta's system supply.

Additionally, during July, 1997, we purchased the gas system of Annville Gas & Transmission Corporation in Jackson County, which serves several industrial and residential customers. We plan to expand this system to provide gas service to customers in the City of Annville.

We certainly appreciate your support this past year and we believe next year will be an even better year for Delta. The hard work and dedication of our employees provided for our growth in 1997 and their continued efforts will allow us to expand in 1998 and beyond as we prepare for the 21st century.

Sincerely,

H. D. Peet
H. D. Peet
Chairman of the Board

Glenn R. Jennings
Glenn R. Jennings
President and
Chief Executive Officer

August 22, 1997

Gas Operations and Supply

The Company purchases and produces gas for distribution to its retail customers and also provides transportation service to industrial customers and inter-connected pipelines with its facilities that are located in 20 predominantly rural counties in central and southeastern Kentucky. The economy of Delta's service area is based principally on coal mining, farming and light industry. The communities in Delta's service area typically contain populations of less than 20,000. The four largest service areas are Nicholasville, Corbin, Berea and Middlesboro, where Delta serves approximately 6,500, 6,300, 3,800 and 3,600 customers, respectively.

Several communities served by Delta continue to expand, resulting in growth opportunities for the Company. Industrial parks have been developed in certain areas and have resulted in new industrial customers, some of whom are on-system transportation customers. As a result of this growth, Delta's total customer count increased by 5.4% in 1997. Currently, over 99% of Delta's customers are residential and commercial. Delta's remaining, light industrial customers purchased approximately 6% of the total volume of gas sold by Delta at retail during 1997.

The Company's revenues are affected by various factors, including rates billed to customers, the cost of natural gas, economic conditions in the areas that the Company serves, weather conditions and competition. Delta competes for customers and sales with alternative sources of energy, including electricity, coal, oil, propane and wood. The Company's marketing subsidiaries, which purchase gas and resell it to various industrial customers and others, also compete for their customers with producers and marketers of natural gas. Gas costs, which the Company is generally able to pass through to customers, may influence customers to conserve, or in the case of industrial customers, to use alternative

Summary Of Operations

energy sources. Also, the potential bypass of Delta's system by industrial customers and others is a competitive concern that Delta

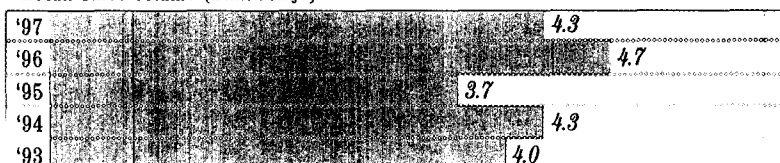
has addressed and will continue to address as the need arises.

Delta's retail sales are seasonal and temperature-sensitive as the majority of the gas sold by Delta is used for heating. This seasonality impacts Delta's liquidity position and its management of its working capital requirements during each twelve month period, and changes in the average temperature during the winter months impacts its revenues year-to-year (see Management's Discussion and Analysis of Financial Condition and Results of Operations).

Retail gas sales in 1997 were approximately 4,299,000 thousand cubic feet ("Mcf"), generating approximately \$33,561,000 in revenues, as compared to approximately 4,705,000 Mcf and approximately \$27,811,000 in revenues for 1996. The increase in operating revenues for 1997 was due primarily to increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause. Heating degree days billed during 1997 were approximately 103% of the thirty year average ("normal") as compared with approximately 112% in 1996. Principally as a result of this warmer weather, retail sales volumes decreased by approximately 406,000 Mcf, or 9%, in 1997 as compared to 1996.

Delta's transportation of natural gas in 1997 generated revenues of approximately \$3,596,000 as compared with approximately \$3,331,000 during 1996. Of the total from transportation in 1997, approximately \$3,214,000 (2,863,000 Mcf) and \$382,000 (1,205,000 Mcf) were earned from transportation for on-system and off-system customers, respectively. Of the total from transportation in 1996, approximately \$2,913,000 (2,570,000

Retail Sales Volume (Billion cu. ft.)



Mcf) and \$418,000 (1,134,000 Mcf) were earned from transportation for on-system and off-system customers, respectively.

As an active participant in many areas of the natural gas industry, Delta plans to continue its efforts to expand its gas distribution system. Delta continues to consider acquisitions of other gas systems, some of which are contiguous to its existing service areas, as well as expansion within its existing service areas. During November, 1996, Delta acquired the City of North Middletown gas system in Bourbon County, consisting of approximately 180 primarily residential customers. During July, 1997, Delta purchased the gas system of Annville Gas & Transmission Corporation in Jackson County, which serves several industrial and residential customers. This system will be expanded during fiscal 1998 to provide gas service to customers in the City of Annville.

The Company also anticipates continuing activity in gas production and transportation and plans to pursue and increase these activities wherever practicable. The Company will continue to consider the construction or acquisition of additional transmission, storage and gathering facilities to provide for increased transportation, enhanced supply and system flexibility. During June, 1997, Delta acquired TranEx Corporation, which owns a 43 mile, 8 inch diameter steel pipeline that extends from Clay County to Madison County. Delta has been operating this pipeline for several years and plans to continue to utilize the pipeline to provide natural gas to its Canada Mountain storage field as well as for Delta's system supply.

Some producers in Delta's service area can access certain pipeline delivery systems other than Delta, which provides competition from others for transportation of such gas. Delta will continue its efforts to purchase or transport any natural gas available that is produced in reasonable proximity to its facilities.

Delta receives its gas supply from a combination of interstate and Kentucky sources. The Company intends to pursue an adequate gas supply to provide service to existing and future customers. Delta will continue to maintain an active gas supply management program that emphasizes long-term reliability and the pursuit of cost effective sources of gas for its customers.

Delta's interstate gas supply is transported and/or stored by Tennessee Gas Pipeline Company ("Tennessee"), Columbia Gas Transmission Corporation ("Columbia"), Columbia Gulf Transmission Company ("Columbia Gulf") and Texas Eastern Transmission Corporation ("Texas Eastern"). Delta acquires its interstate gas supply from gas marketers. Delta also acquires gas supply from Kentucky producers and suppliers. There is a competitive national market for natural gas supplies as supply and demand determine the availability and prices of natural gas.

Enpro produces oil and gas from leases it owns in southeastern Kentucky. Enpro's natural gas production is purchased by Delta for system supply, and Enpro's remaining proved, developed natural gas reserves are estimated at approximately 4,400,000 Mcf. Delta purchased a total of approximately 203,000 Mcf from those properties in 1997. Enpro's oil production has not been significant.

Resources and Delgasco purchase gas from various marketers and Kentucky producers. The gas is resold to industrial customers on Delta's system, to Delta for system supply and to others. Delta continues to seek additional new gas supplies from all available sources, including those in the proximity of its facilities in southeastern Kentucky. Also, Resources and Delgasco continue to pursue acquisitions of new gas supplies from Kentucky producers and others.

Delta is completing the development of an underground natural gas storage field on Canada Mountain in Bell County, Kentucky, with an estimated eventual working capacity of 4,000,000 Mcf. This field is

Customers Served at June 30

'97	36,215
'96	34,368
'95	33,388
'94	32,257
'93	31,461

operational and was used to help meet Delta's winter supply needs this past year. Delta plans to continue to develop the capability of this storage field, including completion of 14 miles of 12 inch diameter steel pipeline. The new pipeline, planned to be in operation by this fall, will enhance Delta's ability to withdraw gas from the field and deliver it into Delta's system. This storage capability should permit Delta to continue to purchase and store gas during the non-heating months, and then withdraw and sell the gas during the peak usage months as Delta did this past winter.

Regulatory Matters

Delta is subject to the regulatory authority of the Public Service Commission of Kentucky ("PSC") with respect to various aspects of Delta's business, including rates and service to retail and transportation customers.

On March 14, 1997, Delta filed a request for increased rates with the PSC. This general rate case (Case No. 97-066) requested an annual revenue increase of approximately \$2,962,000, an increase of 7.7%. The test year for the case was December 31, 1996. The increased rates were requested to become effective on April 13, 1997. On April 3, 1997, the PSC issued an Order in the above case suspending the implementation of the proposed rates until September 12, 1997, so that the PSC could investigate and determine the reasonableness of the proposed rates. A hearing has been scheduled for September 9, 1997, for the cross-examination of witnesses.

On July 11, 1997, the PSC issued a staff report entitled "Natural Gas Unbundling in Kentucky: Exploring the Next Step Toward Customer Choice." This report represented the culmination of numerous discussions among the PSC and various parties, including Delta, regarding issues related to the potential unbundling, or separate pricing of supply and service components, of natural gas service in

Kentucky, including residential and small commercial customer choice. The report also included observations on certain topics which need to be addressed and resolved if further unbundling occurs in Kentucky, and it addressed some of the options available to the PSC. The PSC held a public meeting on August 22, 1997, on gas unbundling and customer choice for interested parties to provide further input. Delta participated in that meeting and intends to be an active participant in future discussions.

Delta's rates include a Gas Cost Recovery ("GCR") clause, which permits changes in Delta's gas costs to be reflected in the rates charged to customers. The GCR requires Delta to make quarterly filings with the PSC, but such procedure does not require a general rate case. The PSC historically has allowed Delta to recover storage costs in rates through the GCR mechanism or general rate cases.

In addition to PSC regulation, Delta may obtain non-exclusive franchises from the cities and communities in which it operates authorizing it to place its facilities in the streets and public grounds. However, no utility may obtain a franchise until it has obtained from the PSC a Certificate of Convenience and Necessity authorizing it to bid on the franchise. Delta holds franchises in four of the ten cities in which it maintains branch offices and in seven other communities it serves. In the other cities or communities, either Delta's franchises have expired, the communities do not have governmental organizations authorized to grant franchises, or the local governments have not required, or do not want to offer, a franchise. Delta attempts to acquire or reacquire franchises whenever feasible.

Without a franchise, a local government could require Delta to cease its occupation of the streets and public grounds or prohibit Delta from extending its facilities into any new area of that city or community. To date, the absence of a franchise has had no adverse effect on Delta's operations.

Capital Expenditures (\$ Millions)

'98	10.4*
'97	16.6
'96	13.4
'95	8.1
'94	7.4
'93	6.3

* estimated

Capital Expenditures

Capital expenditures during 1997 were approximately \$16.6 million and for 1998 are estimated to be approximately \$10.4 million. These include planned expenditures for development of underground natural gas storage, system extensions, computer system upgrades and the replacement and improvement of existing transmission, distribution, gathering and general facilities.

Financing

The Company's capital expenditures and operating cash requirements are met through the use of internally generated funds and a short-term line of credit. The available line of credit at June 30, 1997, was \$20 million of which approximately \$10.9 million had been borrowed. These short-term borrowings are periodically repaid with long-term debt and equity securities, as was done in July, 1996, when the net proceeds of approximately \$20.4 million from the sale of \$15 million of debentures and 400,000 shares of common stock were used to repay short-term notes payable and for working capital.

Present plans are to utilize the short-term line of credit to help meet planned capital expenditures and operating cash requirements. The amounts and types of future long-term debt and equity financings will depend upon the Company's capital needs and market conditions.

During 1997 the requirements of the Employee Stock Purchase Plan were met through the issuance of 6,456 shares of common stock resulting in an increase of approximately \$101,000 in Delta's common shareholders' equity. The Dividend Reinvestment and Stock Purchase Plan (see Note 4 of the Notes to Consolidated Financial Statements) resulted in the issuance of 31,187 shares of common stock providing an increase of approximately \$550,000 in Delta's common shareholders' equity.

Common Stock Dividends and Prices

Delta has paid cash dividends on its common stock each year since 1964. While it is the intention of the Board of Directors to continue to declare dividends on a quarterly basis, the frequency and amount of future dividends will depend upon the Company's earnings, financial requirements and other relevant factors, including limitations imposed by the indenture for the Debentures. There were 2,407 record holders of Delta's common stock as of August 1, 1997.

Delta's common stock is traded in the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System under the symbol DGAS. The accompanying table reflects the high and low sales prices during each quarter as reported by NASDAQ and the quarterly dividends declared per share:

Quarter	Range of Stock Prices(\$)		Dividends Per Share(\$)
	High	Low	
Fiscal 1997			
First	18 3/4	15 1/2	.285
Second	19 1/2	17 3/4	.285
Third	19 1/2	17	.285
Fourth	18 1/2	16	.285
Fiscal 1996			
First	17 1/4	15 3/4	.28
Second	18 1/4	15 1/2	.28
Third	18	16	.28
Fourth	16 3/4	15 1/2	.28

Liquidity and Capital Resources

The Company's utility operations are subject to regulation by the PSC, which approves rates that are intended to permit a specified rate of return

on investment. The Company's rate tariffs allow the cost of gas to be passed through to customers (see Regulatory Matters).

Delta's business is temperature-sensitive. Accordingly, the Company's operating results in any given period reflect, in addition to other factors, the impact of weather, with colder temperatures resulting in increased sales. The Company anticipates that this sensitivity to seasonal and weather conditions will continue to be so reflected in the Company's operating results in future periods.

Because of the seasonal nature of Delta's sales, the smallest proportion of cash generated from operations is received during the warmer months when sales volumes decrease considerably. Additionally, most construction activity takes place during the non-heating season because of more favorable weather conditions. Therefore, during the warmer, non-heating months, cash needs for operations and construction are partially met through short-term borrowings.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Capital expenditures for Delta for fiscal 1998 are expected to be approximately \$10.4 million. Delta generates inter-

nally only a portion of the cash necessary for its capital expenditure requirements and finances the balance of its capital expenditures on an interim basis through the use of its borrowing capability under its short-term line of credit. The current available line of credit is \$20,000,000, of which approximately \$10.9 million was borrowed at June 30, 1997. The line of credit, which is with Bank One, Kentucky, NA, expires during November, 1997. These short-term borrowings are periodically repaid with the net proceeds from the sale of long-term debt and equity securities, as was done in July, 1996, when the net proceeds of approximately \$20,400,000 from the sale of \$15,000,000 of debentures and 400,000 shares of common stock were used to repay short-term notes payable and for working capital.

The primary cash flows during the last three years are summarized below:

	1997	1996	1995
Provided by operating activities	\$ 6,209,226	\$ 3,094,809	\$ 6,943,183
Used in investing activities	(16,648,994)	(13,373,416)	(8,122,838)
Provided by financing activities	10,768,558	10,294,461	1,158,887
Net increase (decrease) in cash and cash equivalents	\$ 328,790	\$ 15,854	\$ (20,768)

Cash provided by operating activities consists of net income and noncash items including depreciation, depletion, amortization and deferred income taxes. Additionally, changes in working capital are also included in cash provided by operating activities. The Company expects that internally generated cash, coupled with seasonal short-term borrowings, will continue to be sufficient to satisfy its operating and capital expenditure requirements.

Results of Operations

Operating Revenues

The increase in operating revenues for 1997 of approximately \$5,593,000 was due primarily to increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause. This was partially offset by a decrease in retail sales volumes of approximately 406,000 Mcf as a result of the warmer winter weather in 1997. Billed degree days were approximately 103% of normal degree days for 1997 as compared with approximately 112% for 1996. In addition, on-system transportation volumes for 1997 increased approximately 293,000 Mcf, or 11.4%.

The increase in operating revenues for 1996 of approximately \$4,732,000 was due primarily to an increase in retail sales volumes of approximately 980,000 Mcf as a result of the colder winter weather in 1996. Billed degree days were approximately 112% of normal for 1996 as compared with approximately 89% for 1995. In addition, on-system transportation volumes for 1996 increased approximately 180,000 Mcf, or 8%. These increases were partially offset by decreases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause and by a decrease in off-system transportation volumes of approximately 318,000 Mcf, or 22%, due primarily to reduced deliveries from local producers.

Operating Expenses

The increase in purchased gas expense for 1997 of approximately \$5,875,000 was due primarily to increases in the cost of gas purchased for retail sales. The increase was partially offset by the decreased gas purchases for retail sales resulting from the warmer winter weather in 1997.

The increase in purchased gas expense of approximately \$1,893,000 for 1996 was due primarily to the increased gas purchases for retail sales resulting from the colder winter weather during 1996. The increase was partially offset by decreases in the cost of gas purchased for retail sales.

The increase in operation and maintenance expenses during 1996 of approximately \$640,000 was due primarily to increases in payroll and related benefit costs.

The increases in depreciation expense during 1997 and 1996 of approximately \$424,000 and \$327,000, respectively, were due primarily to additional depreciable plant.

The increase in taxes other than income taxes during 1996 of approximately \$173,000 was primarily due to increased property taxes which resulted from increased plant and property valuations, and to increased payroll taxes, which resulted from increased wages.

Changes in income taxes during 1997 and 1996 of approximately \$595,000 and \$517,000, respectively, were primarily due to changes in net income.

Interest Charges

The increases in interest on long-term debt and amortization of debt expense during 1997 of approximately \$1,146,000 and \$27,000, respectively, were due primarily to the issuance of \$15 million of 8.3% Debentures during July, 1996. The decrease in other interest charges during 1997 of approximately \$348,000 was due primarily to decreased average short-term borrowings as short-term debt was repaid with the net proceeds from the sale of long-term debt and equity securities during July, 1996.

The increase in other interest charges during 1996 of approximately \$448,000 was due primarily to increased average short-term borrowings and increased average interest rates.

Earnings Per Common Share

For the year ended June 30, 1997, earnings per common share were diluted by the increased average common shares outstanding that resulted from the additional 400,000 shares of common stock issued in July, 1996, as well as the common shares issued under Delta's dividend reinvestment plan and shares issued to employees during the 1997 period.

Consolidated Statements of Income

For the Years Ended June 30,	1997	1996	1995
Operating Revenues	\$ 42,169,185	\$ 36,576,055	\$ 31,844,339
Operating Expenses			
Purchased gas	\$ 23,265,222	\$ 17,389,755	\$ 15,497,156
Operation and maintenance (Note 1)	8,631,635	8,642,511	8,002,797
Depreciation and depletion (Note 1)	2,935,257	2,510,952	2,183,558
Taxes other than income taxes	1,056,689	1,036,282	863,340
Income taxes (Note 2)	964,800	1,559,500	1,042,400
Total operating expenses	\$ 36,853,603	\$ 31,139,000	\$ 27,589,251
Operating Income	\$ 5,315,582	\$ 5,437,055	\$ 4,255,088
Other Income and Deductions, Net	40,874	32,503	50,582
Income Before Interest Charges	\$ 5,356,456	\$ 5,469,558	\$ 4,305,670
Interest Charges			
Interest on long-term debt	\$ 2,997,393	\$ 1,851,768	\$ 1,879,442
Other interest	519,432	867,641	419,693
Amortization of debt expense	115,366	88,800	88,800
Total interest charges	\$ 3,632,191	\$ 2,808,209	\$ 2,387,935
Net Income	\$ 1,724,265	\$ 2,661,349	\$ 1,917,735
Weighted Average Number of Common Shares Outstanding	2,294,134	1,886,629	1,850,986
Earnings Per Common Share	\$.75	\$ 1.41	\$ 1.04
Dividends Declared Per Common Share	\$ 1.14	\$ 1.12	\$ 1.12

Consolidated Statements of Cash Flows

For the Years Ended June 30,	1997	1996	1995
Cash Flows From Operating Activities			
Net income	\$ 1,724,265	\$ 2,661,349	\$ 1,917,735
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, depletion and amortization	3,049,229	2,663,475	2,272,358
Deferred income taxes and investment tax credits	485,400	1,762,500	(77,000)
Other—net	666,798	484,474	602,180
(Increase) decrease in assets:			
Accounts receivable	(318,178)	(860,255)	(118,237)
Gas in storage	(782,007)	63,546	(138,138)
Advance (deferred) recovery of gas cost	495,751	(3,788,143)	2,583,128
Materials and supplies	(120,969)	(124,697)	173,319
Prepayments	(346,532)	53,702	(105,903)
Other assets	(541,669)	(31,723)	(71,087)
Increase (decrease) in liabilities:			
Accounts payable	(439,721)	871,207	(178,609)
Refunds due customers	554,520	(456,283)	83,572
Accrued taxes	1,038,761	(270,394)	(72,210)
Other current liabilities	744,054	56,951	69,742
Advances for construction and other	(476)	9,100	2,333
Net cash provided by operating activities	\$ 6,209,226	\$ 3,094,809	\$ 6,943,183
Cash Flows From Investing Activities			
Capital expenditures	\$ (16,648,994)	\$ (13,373,416)	\$ (8,122,838)
Net cash used in investing activities	\$ (16,648,994)	\$ (13,373,416)	\$ (8,122,838)
Cash Flows From Financing Activities (Note 6)			
Dividends on common stock	\$ (2,651,073)	\$ (2,113,414)	\$ (2,073,374)
Issuance of common stock, net	6,773,054	568,875	502,361
Issuance of debentures, net	14,334,833	—	—
Repayment of long-term debt	(478,256)	(561,000)	(240,100)
Issuance of notes payable	30,975,000	25,955,000	19,495,000
Repayment of notes payable	(38,185,000)	(13,555,000)	(16,525,000)
Net cash provided by financing activities	\$ 10,768,558	\$ 10,294,461	\$ 1,158,887
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 328,790	\$ 15,854	\$ (20,768)
Cash and Cash Equivalents, Beginning of Year	151,633	135,779	156,547
Cash and Cash Equivalents, End of Year	\$ 480,423	\$ 151,633	\$ 135,779
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest	\$ 3,019,881	\$ 2,491,091	\$ 2,253,472
Income taxes (net of refunds)	\$ (432,163)	\$ 193,560	\$ 1,264,942

Consolidated Balance Sheets

As of June 30,	1997	1996
Assets		
Gas Utility Plant, at cost	\$ 116,829,158	\$ 98,795,623
Less - Accumulated provision for depreciation	(31,734,976)	(26,749,774)
Net gas plant	\$ 85,094,182	\$ 72,045,849
Current Assets		
Cash and cash equivalents	\$ 480,423	\$ 151,638
Accounts receivable, less accumulated provisions for doubtful accounts of \$113,945 and \$105,756 in 1997 and 1996, respectively	2,414,632	2,096,454
Gas in storage, at average cost	1,209,171	427,164
Deferred gas costs (Note 1)	2,180,606	2,676,357
Materials and supplies, at first-in, first-out cost	773,108	652,139
Prepayments	716,076	369,544
Total current assets	\$ 7,774,016	\$ 6,373,291
Other Assets		
Cash surrender value of officers' life insurance (face amount of \$1,036,009)	\$ 321,339	\$ 304,339
Note receivable from officer	134,000	126,000
Unamortized debt expense and other (Note 6)	3,357,628	2,291,158
Total other assets	\$ 3,812,967	\$ 2,721,497
Total assets	\$ 96,681,165	\$ 81,140,637
Liabilities and Shareholders' Equity		
Capitalization (See Consolidated Statements of Capitalization)		
Common shareholders' equity	\$ 29,474,569	\$ 23,628,323
Long-term debt (Notes 6 and 7)	38,107,860	24,488,916
Notes payable refinanced subsequent to yearend (Note 5)	—	18,075,000
Total capitalization	\$ 67,582,429	\$ 66,192,239
Current Liabilities		
Notes payable (Note 5)	\$ 10,865,000	\$ —
Current portion of long-term debt (Notes 6 and 7)	1,987,600	1,084,800
Accounts payable	2,386,717	2,826,438
Accrued taxes	1,132,315	93,554
Refunds due customers	577,874	23,354
Customers' deposits	368,561	304,246
Accrued interest on debt	1,033,220	637,596
Accrued vacation	516,032	485,847
Other accrued liabilities	492,501	238,571
Total current liabilities	\$ 19,359,820	\$ 5,694,406
Deferred Credits and Other		
Deferred income taxes	\$ 7,921,100	\$ 7,318,500
Investment tax credits	708,400	779,400
Regulatory liability (Note 2)	892,100	938,300
Advances for construction and other	217,316	217,792
Total deferred credits and other	\$ 9,738,916	\$ 9,253,992
Commitments and Contingencies (Note 8)		
Total liabilities and shareholders' equity	\$ 96,681,165	\$ 81,140,637

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended June 30,	1997	1996	1995
Common Shares			
Balance, beginning of year	\$ 1,903,580	\$ 1,868,734	\$ 1,839,340
\$1.00 par value of 438,643, 34,846 and 29,394 shares issued in 1997, 1996 and 1995, respectively			
Public issuance of common shares	400,000	—	—
Dividend reinvestment and stock purchase plan	31,187	28,024	25,802
Employee stock purchase plan and other	7,456	6,822	3,592
Balance, end of year	\$ 2,342,223	\$ 1,903,580	\$ 1,868,734
Premium on Common Shares			
Balance, beginning of year	\$ 20,572,132	\$ 20,022,643	\$ 19,532,909
Premium on issuance of common shares-			
Public issuance of common shares	6,000,000	—	—
Dividend reinvestment and stock purchase plan	519,478	440,621	425,357
Employee stock purchase plan and other	111,701	108,868	64,377
Balance, end of year	\$ 27,203,911	\$ 20,572,132	\$ 20,022,643
Capital Stock Expense			
Balance, beginning of year	\$ (1,620,252)	\$ (1,604,792)	\$ (1,588,025)
Issuance of common shares	(296,768)	(15,460)	(16,767)
Balance, end of year	\$ (1,917,020)	\$ (1,620,252)	\$ (1,604,792)
Retained Earnings			
Balance, beginning of year	\$ 2,772,863	\$ 2,224,928	\$ 2,380,567
Net income	1,724,265	2,661,349	1,917,735
Cash dividends declared on common shares - (See Consolidated Statements of Income for rates)	(2,651,073)	(2,113,414)	(2,073,374)
Balance, end of year	\$ 1,846,055	\$ 2,772,863	\$ 2,224,928

Consolidated Statements of Capitalization

As of June 30,	1997	1996
Common Shareholders' Equity		
Common shares, par value \$1.00 per share (Notes 3 and 4)		
Authorized – 6,000,000 shares Issued and outstanding – 2,342,223 and 1,903,580 shares in 1997 and 1996, respectively	\$ 2,342,223	\$ 1,903,580
Premium on common shares	27,203,311	20,572,132
Capital stock expense	(1,917,020)	(1,620,252)
Retained earnings (Note 6)	1,846,055	2,772,863
Total common shareholders' equity	\$ 29,474,569	\$ 23,628,323
Long-Term Debt (Notes 6 and 7)		
Debentures, 8.3%, due 2026	\$ 15,000,000	\$ —
Debentures, 6 5/8%, due 2023	13,505,000	14,000,000
Debentures, 9%, due 2011	10,000,000	10,000,000
Promissory note from acquisition of underground storage, non-interest bearing, due through 2001 (less unamortized discount of \$297,099 and \$398,419 in 1997 and 1996, respectively)	1,502,901	1,401,581
Other	87,559	172,135
Total long-term debt	\$ 40,095,460	\$ 25,573,716
Less - Amounts due within one year, included in current liabilities	(1,987,600)	(1,084,800)
Net long-term debt	\$ 38,107,860	\$ 24,488,916
Notes Payable Refinanced Subsequent to Yearend (Note 5)	\$ —	\$ 18,075,000
Total capitalization	\$ 67,582,429	\$ 66,192,239

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation

Delta Natural Gas Company, Inc.

("Delta" or "the Company") has five 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 underground natural gas storage facilities that it leases from Delta. Enpro, Inc. owns and operates production properties. TranEx Corporation owns a 43 mile intrastate pipeline. All subsidiaries of Delta are included in the consolidated financial statements. Intercompany balances and transactions have been eliminated.

(b) Cash Equivalents For the purposes of the Consolidated Statements of Cash Flows, all temporary cash investments with a maturity of three months or less at the date of purchase are considered cash equivalents.

(c) Depreciation The Company determines its provision for depreciation using the straight-line method and by the application of rates to various classes of utility plant. The rates are based upon the estimated service lives of the properties and were equivalent to composite rates of 3.0%, 2.9%, and 2.8% of average depreciable plant for 1997, 1996, and 1995, respectively.

(d) Maintenance All expenditures for maintenance and repairs of units of property are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of utility plant. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal.

(e) Gas Cost Recovery Delta has a Gas Cost Recovery ("GCR") clause which provides for a dollar-tracker that matches revenues and gas costs and provides eventual dollar-for-dollar recovery of all gas costs incurred. The Company expenses gas costs based on the amount of gas costs recovered through revenue. Any differences between actual gas costs and those estimated costs billed are deferred and reflected in the computation of future billings to customers using the GCR mechanism.

(f) Revenue Recognition The Company records revenues as billed to its customers on a monthly meter reading cycle. At the end of each month, gas service which has been rendered from the latest date of each cycle meter reading to the month-end is unbilled.

Notes to Consolidated Financial Statements

(g) Revenues and Customer

Receivables The Company supplies natural gas to approximately 36,000 customers in central

and southeastern Kentucky. Revenues and customer receivables arise primarily from sales of natural gas to customers and from transportation services for others. Provisions for doubtful accounts are recorded to reflect the expected net realizable value of accounts receivable.

(h) Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) New Accounting Pronouncements In March, 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", effective for fiscal years beginning after December 15, 1995. The Company adopted the provisions of SFAS No. 121 in the first quarter of fiscal 1997. The new standard requires that long-lived assets and certain identified intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing such impairment reviews, companies are required to estimate the sum of future cash flows from an asset and compare such amount to the asset's carrying amount. Any excess of carrying amount over expected cash flows will result in a possible write-down of an asset to its fair value. Adoption of SFAS No. 121 did not have a material adverse impact on the Company's financial position or results of operations.

For companies with June 30 fiscal yearends, SFAS No. 123, "Accounting for Stock-Based Compensation", was required to be adopted as of June 30, 1997. This standard is currently inapplicable to Delta because the Company has no stock based compensation arrangements.

Delta is required to adopt SFAS No. 128, "Earnings per Share", during the second quarter of fiscal 1998. The Company does not expect the adoption of this standard to have a material adverse impact on its financial position or results of operations.

(2) Income Taxes

The Company provides for income taxes on temporary differences resulting from the use of alternative methods of income and expense recognition for financial and tax reporting purposes. The differences result primarily from the use of accelerated tax depreciation methods for certain properties versus the straight-line depreciation method for financial purposes, differences in recognition of purchased gas cost recoveries and certain other accruals which are not currently deductible for income tax purposes. Investment tax credits were deferred for certain periods prior to fiscal 1987 and are being amortized to income over the estimated useful lives of the applicable properties. The Company utilizes the liability

method for accounting for income taxes, which requires that deferred income tax assets and liabilities are computed using tax rates that will be in effect when the book and tax temporary differences reverse. The change in tax rates applied to accumulated deferred income taxes may not be immediately recognized in operating results because of ratemaking treatment. A regulatory liability has been established to recognize the future revenue requirement impact from these deferred taxes. The temporary differences which gave rise to the net accumulated deferred income tax liability for the periods are as follows:

	1997	1996
Deferred Tax Liabilities		
Accelerated depreciation	\$ 9,018,800	\$ 8,091,500
Deferred gas cost	860,100	1,055,700
Accrued pension	433,000	252,900
Debt expense	384,900	399,200
Total	\$ 10,696,800	\$ 9,799,300
Deferred Tax Assets		
Alternative minimum tax credits	\$ 1,534,100	\$ 1,305,600
Regulatory liabilities	339,400	370,000
Unbilled revenue	327,500	236,100
Investment tax credit	279,400	307,400
Other	295,300	261,700
Total	\$ 2,775,700	\$ 2,480,800
Net accumulated deferred income tax liability	\$ 7,921,100	\$ 7,318,500

The components of the income tax provision are comprised of the following for the years ended June 30:

	1997	1996	1995
Components of Income Tax Expense:			
Payable currently:			
Federal	\$ 242,200	\$ 52,100	\$ 453,000
State	(31,300)	(255,100)	194,500
Total	\$ 210,900	\$ (203,000)	\$ 648,400
Deferred	753,900	1,762,500	394,000
Income tax expense	\$ 964,800	\$ 1,559,500	\$ 1,042,400

Reconciliation of the statutory federal income tax rate to the effective income tax rate is shown in the table below:

	1997	1996	1995
Statutory federal income tax rate	34.0%	34.0%	34.0%
State income taxes net of federal benefit	5.0	5.2	5.2
Amortization of investment tax credit	(2.6)	(1.7)	(2.4)
Other differences - net	—	—	(.9)
Effective income tax rate	36.4%	37.5%	35.9%

(3) Employee Benefit Plans

(a) **Defined Benefit Retirement Plan** Delta has a trustee, noncontributory, defined benefit pension plan covering all eligible employees. Retirement income is based on the number of years of service and annual rates of compensation. The Company makes annual contributions equal to the amounts

necessary to fund the plan adequately. The funded status of the pension plan at March 31, the plan year end, and the amounts recognized in the Company's consolidated balance sheets at June 30 were as follows:

	1997	1996	1995
Plan assets at fair value	\$ 6,835,393	\$ 6,058,458	\$ 5,358,108
Actuarial present value of benefit obligation:			
Vested benefits	\$ 4,505,619	\$ 2,789,736	\$ 3,605,363
Non-vested benefits	11,025	9,346	21,742
Accumulated benefit obligation	\$ 4,516,644	\$ 2,799,082	\$ 3,627,105
Additional amounts related			
to projected salary increases	1,828,856	2,811,907	1,638,014
Total projected benefit obligation	\$ 6,345,500	\$ 5,610,989	\$ 5,265,119
Plan assets in excess of			
projected benefit obligation	\$ 489,893	\$ 447,469	\$ 92,989
Unrecognized net assets at date of initial			
application being amortized over 15 years	(211,972)	(254,365)	(296,759)
Unrecognized net (gain) loss	125,777	(13,481)	286,557
Accrued pension asset	\$ 403,698	\$ 179,623	\$ 82,787

The assets of the plan consist primarily of common stocks, bonds and certificates of deposit. Net pension costs for the years ended June 30 include the following:

	1997	1996	1995
Service cost for benefits earned during the year	\$ 405,386	\$ 382,751	\$ 432,546
Interest cost on projected benefit obligation	392,539	356,897	382,167
Actual return on plan assets	(407,965)	(886,211)	(623,972)
Net amortization and deferral	(196,843)	444,044	185,660
Net periodic pension cost	\$ 253,117	\$ 297,481	\$ 376,401

The weighted average discount rates and the assumed rates of increase in future compensation levels used in determining the actuarial present values of the projected benefit obligation at June 30, 1997, 1996 and 1995 were 7.0% (discount rates), and 4% (rates of increase). The expected long-term rates of return on plan assets were 8%.

SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits", and SFAS No. 112, "Employers' Accounting for Post-Employment Benefits", do not affect the Company, as Delta does not provide benefits for post-retirement or post-employment other than the pension plan for retired employees.

(b) Employee Savings Plan The Company has an Employee Savings Plan ("Savings Plan") under which eligible employees may elect to contribute any whole percentage between 2% and 15% of their annual compensation. The Company will match 50% of the employee's contribution up to a maximum Company contribution of 2½% of the employee's annual compensation. For 1997, 1996 and 1995, Delta's Savings Plan expense was approximately \$151,000, \$111,000 and \$112,000, respectively.

(c) Employee Stock Purchase Plan The Company has an Employee Stock Purchase Plan ("Stock Plan") under which qualified permanent employees are eligible to participate. Under the terms of the Stock Plan, such employees can contribute on a monthly basis 1% of their annual salary level (as of July 1 of each year) to be used to purchase Delta's common stock. The Company issues Delta common stock, based upon the fiscal year contributions, using an average of the last sale price of Delta's stock as quoted in NASDAQ's National Market System at the close of business for the last five business days in June and matches those shares so purchased. Therefore, stock equivalent to approximately \$101,000 was issued in July, 1997. The continuation and terms of the Stock Plan are subject to approval by Delta's Board of Directors on an annual basis. Delta's Board has continued the Stock Plan through June 30, 1998.

(4) Dividend Reinvestment and Stock Purchase Plan

The Company's Dividend Reinvestment and Stock Purchase Plan (Reinvestment Plan) provides that shareholders of record can reinvest dividends and also make limited additional investments of up to \$50,000 per year in shares of common stock of the Company. Shares purchased under the Reinvestment Plan are authorized but unissued shares of common stock of the Company, and 31,187 shares were issued in 1997. Delta reserved 200,000 shares under the Reinvestment Plan in December, 1994, and as of June 30, 1997, there were 123,604 shares still available for issuance.

(5) Notes Payable and Line of Credit

Substantially all of the cash balances of Delta are maintained to compensate the respective banks for banking services and to obtain lines of

credit; however, no specific amounts have been designated as compensating balances, and Delta has the right of withdrawal of such funds. At June 30, 1997 and June 30, 1996, the available line of credit was \$20,000,000, of which \$10,865,000 and \$18,075,000 had been borrowed at an interest rate of 6.785% and 6.285% for 1997 and 1996, respectively. The maximum amount borrowed during 1997 and 1996 was \$10,865,000 and \$18,075,000, respectively. The interest on this line is, at the option of Delta, either at the daily prime rate or is based upon certificate of deposit rates. The current line of credit expires on November 15, 1997.

Short-term borrowings at June 30, 1996 were repaid in July, 1996, with the net proceeds of approximately \$20,400,000 from the sale of \$15,000,000 of debentures and 400,000 shares of common stock.

(6) Long-Term Debt

On July 19, 1996, Delta issued \$15,000,000 of 8.3% Debentures that mature in July, 2026. Redemption on behalf of deceased holders within 60 days of notice of up to \$25,000 per holder will be made annually, subject to an annual aggregate limitation of \$500,000. The 8.3% Debentures can be redeemed by the Company beginning in August, 2001 at a 5% premium, such premium declining ratably until it ceases in August, 2006. Restrictions under the indenture agreement covering the 8.3% Debentures include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity of the Company exceeds \$18,000,000. No retained earnings are restricted under the provisions of the indenture.

On October 18, 1993, Delta issued \$15,000,000 of 6 5/8% Debentures that mature in October, 2023. Each holder may require redemption of up to \$25,000 annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 6 5/8% Debentures can be redeemed by the Company beginning in October, 1998 at a 5% premium, such premium declining ratably until it ceases in October, 2003.

On May 1, 1991, Delta issued \$10,000,000 of 9% Debentures that mature in April, 2011. Each holder may require redemption of up to \$25,000 annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 9% Debentures can be redeemed by the Company at a 4% premium, such premium declining ratably until it ceases in April, 2001. The Company may not assume any additional mortgage indebtedness in excess of \$1 million without effectively securing the 9% Debentures equally to such additional indebtedness.

Debt issuance expenses are deferred and amortized over the terms of the related debt. In addition, losses on extinguishment of debt are deferred and amortized over the term of the related debt consistent with regulatory treatment.

A non-interest bearing promissory note was issued by Delta on November 10, 1995 in the amount of \$1,800,000, payable in installments of \$400,000 in 1998, \$700,000 in 2000 and \$700,000 in 2002. The note was issued when Delta purchased leases and depleted gas wells to develop them for the underground storage of natural gas. Delta secured the promissory note by escrow of 102,858 shares of Delta's common stock. These shares will be issued to the holder of the promissory note only in the event of default in payment by Delta.

This underground natural gas storage field located on Canada Mountain in Bell County, Kentucky is now partially developed and will have an estimated working capacity of 4,000,000 Mcf upon completion. Delta utilized this storage field to help meet its winter supply needs this year. This storage capability should permit Delta to continue to purchase and store gas during the non-heating months, and then withdraw and sell the gas during the peak usage winter months. Storage project capital expenditures are estimated at approximately \$2.6 million during fiscal 1998, which includes completion of a 14 mile, 12 inch diameter steel pipeline to provide expanded capacity to deliver gas to Delta's system. Delta is currently recovering a return on storage field investments through rates.

Other long-term debt requires principal payments totaling approximately \$88,000 in 1998.

(10) Quarterly Financial Data (Unaudited)

The quarterly data reflects, in the opinion of management, all normal recurring adjustments necessary to present fairly the results for the interim periods.

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Earnings (Loss) per Common Share (a)
Fiscal 1997				
September 30	\$ 4,074,332	\$ 36,149	\$ (734,296)	\$ (.33)
December 31	10,023,399	1,090,513	198,153	.09
March 31	18,651,406	3,034,844	2,050,318	.88
June 30	9,420,048	1,154,076	210,090	.09
Fiscal 1996				
September 30	\$ 3,774,849	\$ (147,522)	\$ (760,662)	\$ (.41)
December 31	8,406,787	1,331,803	649,089	.34
March 31	16,023,581	3,421,608	2,725,444	1.44
June 30	8,370,838	831,166	47,478	.03

(a) Quarterly earnings per share may not equal annual earnings per share due to changes in shares outstanding.

(7) Fair Values of Financial Instruments

The fair value of the Company's debentures is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's debentures at June 30, 1997 is estimated to be \$37,723,000. The carrying amount in the accompanying consolidated financial statements is \$38,505,000.

The carrying amount of the Company's other financial instruments including cash equivalents, accounts receivable, notes receivable, accounts payable and the non-interest bearing promissory note approximate their fair value.

(8) Commitments and Contingencies

The Company has entered into individual employment agreements with its five officers. The agreements expire or may be terminated at various times. The agreements provide for continuing monthly payments or lump sum payments and continuation of certain benefits over varying periods in the event employment is altered or terminated following certain changes in ownership of the Company.

(9) Rates

Reference is made to "Regulatory Matters" herein with respect to rate matters.

Report of Independent Public Accountants

To the Board of Directors and Shareholders of Delta Natural Gas Company, Inc.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Delta Natural Gas Company, Inc. (a Kentucky corporation) and subsidiary companies as of June 30, 1997 and 1996, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delta Natural Gas Company, Inc. and subsidiary companies as of June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Louisville, Kentucky

August 15, 1997

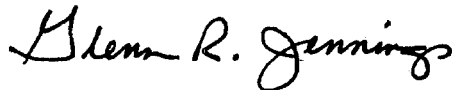
Management is responsible for the preparation, presentation and integrity of the financial statements and other financial information in this report. In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from these estimates.

The Company maintains a system of accounting and internal controls which management believes provides reasonable assurance that the

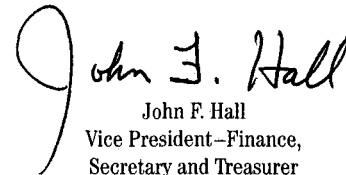
Management Report

accounting records are reliable for purposes of preparing financial statements and that the assets are properly accounted for and protected.

The Board of Directors pursues its oversight role for these financial statements through its Audit Committee which consists of three outside directors. The Audit Committee meets periodically with management to review the work and monitor the discharge of their responsibilities. The Audit Committee also meets periodically with the Company's internal auditor as well as Arthur Andersen LLP, the independent auditors, who have full and free access to the Audit Committee, with or without management present, to discuss internal accounting control, auditing and financial reporting matters.



Glenn R. Jennings
President and
Chief Executive Officer



John F. Hall
Vice President-Finance,
Secretary and Treasurer

Consolidated Statistics

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For the Years Ended June 30,	1997	1996	1995	1994	1993
Retail Customers Served, End of Period					
Residential	31,380	29,840	29,029	27,939	27,293
Commercial	4,761	4,453	4,287	4,242	4,093
Industrial	74	75	72	76	75
Total	36,215	34,368	33,388	32,257	31,461
Operating Revenues (\$000)					
Residential sales	19,694	16,540	14,772	16,597	14,578
Commercial sales	11,977	9,788	8,673	9,663	8,269
Industrial sales	1,890	1,483	1,248	1,671	1,383
On-system transportation	3,214	2,913	2,588	2,310	2,451
Off-system transportation	382	418	461	623	836
Subsidiary sales	4,904	5,297	3,959	3,755	3,532
Other	108	137	143	228	172
Total	42,169	36,576	31,844	34,847	31,221
System Throughput (Million Cu. Ft.)					
Residential sales	2,464	2,741	2,173	2,511	2,341
Commercial sales	1,557	1,673	1,328	1,506	1,368
Industrial sales	278	291	223	316	281
Total retail sales	4,299	4,705	3,724	4,333	3,990
On-system transportation	2,863	2,570	2,390	2,186	2,248
Off-system transportation	1,205	1,134	1,452	1,997	2,668
Total	8,367	8,409	7,566	8,516	8,906
Average Annual Consumption Per End of Period					
Residential Customer (Thousand Cu. Ft.)	79	92	75	90	86
Lexington, Kentucky Degree Days					
Actual	4,869	5,280	4,215	4,999	4,688
Percent of 30 year average (4,726)	103.0	111.7	89.2	105.8	99.2
Average Revenue Per Mcf Sold at Retail (\$)	7.81	5.91	6.63	6.44	6.07
Average Gas Cost Per Mcf Sold at Retail (\$)	4.62	2.81	3.37	3.34	2.90

Directors & Officers



Board of Directors

Standing left to right:

Billy Joe Hall (a)
Investment Broker
LPL Financial Services
(general brokerage services)
Mount Sterling, Kentucky

Arthur E. Walker, Jr. (a)(c)
President
The Walker Company
(general and highway
construction)
Mount Sterling, Kentucky

Henry C. Thompson (b)
President
Triple Land Co., Inc.
(land development and
real estate rental);
Retired President
Henry Thompson Construction
Co., Inc. (land development and
commercial real estate rental);
both of Nicholasville, Kentucky

Glenn R. Jennings (c)
President and
Chief Executive Officer

Donald R. Crowe (a)
Senior Analyst
Kentucky Department
of Insurance
Lexington, Kentucky

Virgil E. Scott (b)
Retired Vice President—
Administration

Seated left to right:
John D. Harrison (b)
Retired President
Power Line Construction Co.
(utility construction contractor)

Roger A. Byron
Director Emeritus
Retired Vice President—
General Counsel; Attorney,
Owingsville, Kentucky

Harrison D. Peet (c)
Chairman of the Board
Retired President
and Chief Executive Officer

Jane Hylton Green (b)
Retired Vice President—
Human Resources and
Corporate Secretary

Officers

Standing left to right:

Johnny L. Caudill
Vice President—
Administration and
Customer Service

Robert C. Hazelrigg
Vice President—
Public and Consumer Affairs

Alan L. Heath
Vice President—
Operations and Engineering

Seated left to right:
John F. Hall
Vice President—
Finance, Secretary and Treasurer

Glenn R. Jennings
President and
Chief Executive Officer

(a) Member of Nominating and Compensation Committee

(b) Member of Audit Committee

(c) Member of Executive Committee

Corporate Information

Shareholders' Inquiries

Communications regarding stock transfer requirements, lost certificates, changes of address or other items may be directed to the Transfer Agent and Registrar. Communications regarding dividends, the above items or any other shareholder inquiries may be directed to:

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

Independent Public Accountants

Arthur Andersen LLP
2300 Meidinger Tower
The Louisville Galleria
Louisville, Kentucky 40202

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Disbursement Agent, Transfer Agent and Registrar for Common Shares

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, Ohio 45202

Trustee and Interest Paying Agents for Debentures

6 5/8% due 2023; 9% due 2011

Corporate Trust Bank One
235 W. Schrock Rd.
Westerville, Ohio 43081

8.3% due 2026

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, Ohio 45202

Dividend Reinvestment and Stock Purchase Plan Administrator and Agent

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, Ohio 45202

1997 Annual Report

This annual report and the financial statements contained herein are submitted to the shareholders of the Company for their general information and not in connection with any sale or offer to sell, or solicitation of any offer to buy, any securities.

1997 Annual Meeting

The annual meeting of shareholders of the Company will be held at the General Office of the Company in Winchester, Kentucky on November 20, 1997, at 10:00 a.m. Proxies for the annual meeting will be requested from shareholders when notice of meeting, proxy statement and form of proxy are mailed on or about October 12, 1997.

SEC Form 10-K

A copy of Delta's most recent annual report on SEC Form 10-K is available, without charge, upon written request to John F. Hall, Vice President - Finance, Secretary and Treasurer, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

Dividend Reinvestment and Stock Purchase Plan

This plan provides shareholders of record with a convenient way to acquire additional shares of the Company's common stock without paying brokerage fees. Participants may reinvest their dividends and make optional cash payments to acquire additional shares. Fifth Third Bank administers the Plan and is the agent for the participants. For more information, inquiries may be directed to Emily P. Bennett, Director - Corporate Services, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

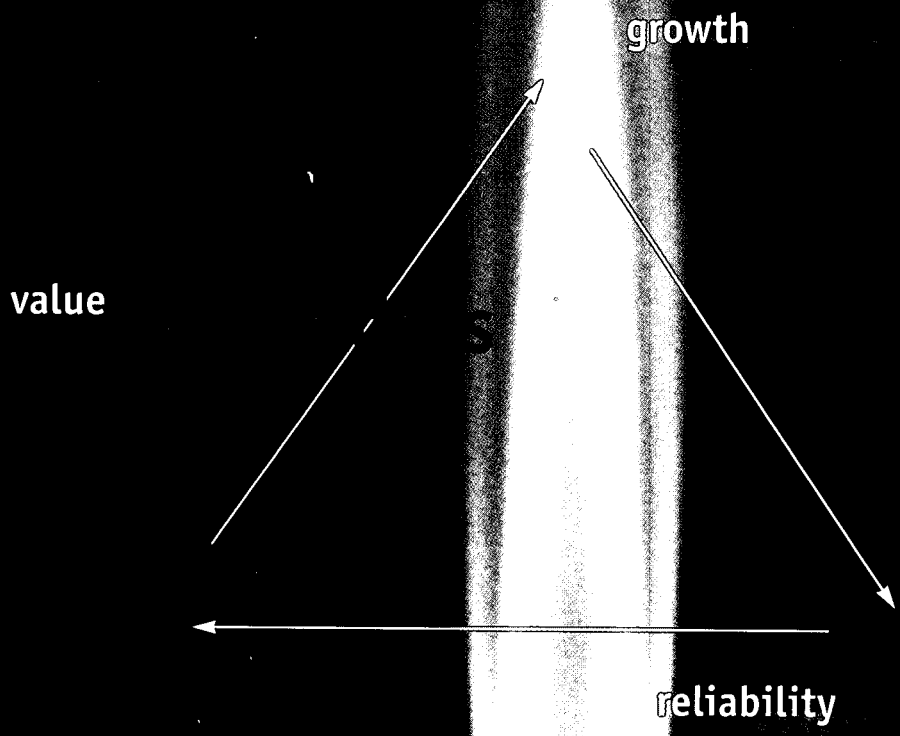
Delta's Mission

- Maximize business growth through innovation, creativity and expansion
 - Provide competitive, high quality service to customers
 - Strive for complete customer satisfaction
- Ensure an excellent work environment for all employees
 - Enhance the quality of shareholders' investment
- Maintain cooperative relationships with governmental officials, regulatory agencies and local communities



Delta Natural Gas Company, Inc.
and Subsidiary Companies

3617 Lexington Road
Winchester, Kentucky 40391
Tel. 606 744-6171
Fax 606 744-6552



THE COMPANY Delta Natural Gas Company, Inc. ("Delta" or "the Company") is engaged primarily in the distribution, transmission, storage and production of natural gas with its facilities which are located in 17 counties in central and southeastern Kentucky. Delta serves approximately 34,000 residential, commercial, industrial and transportation customers and makes transportation deliveries to several interconnected pipelines.

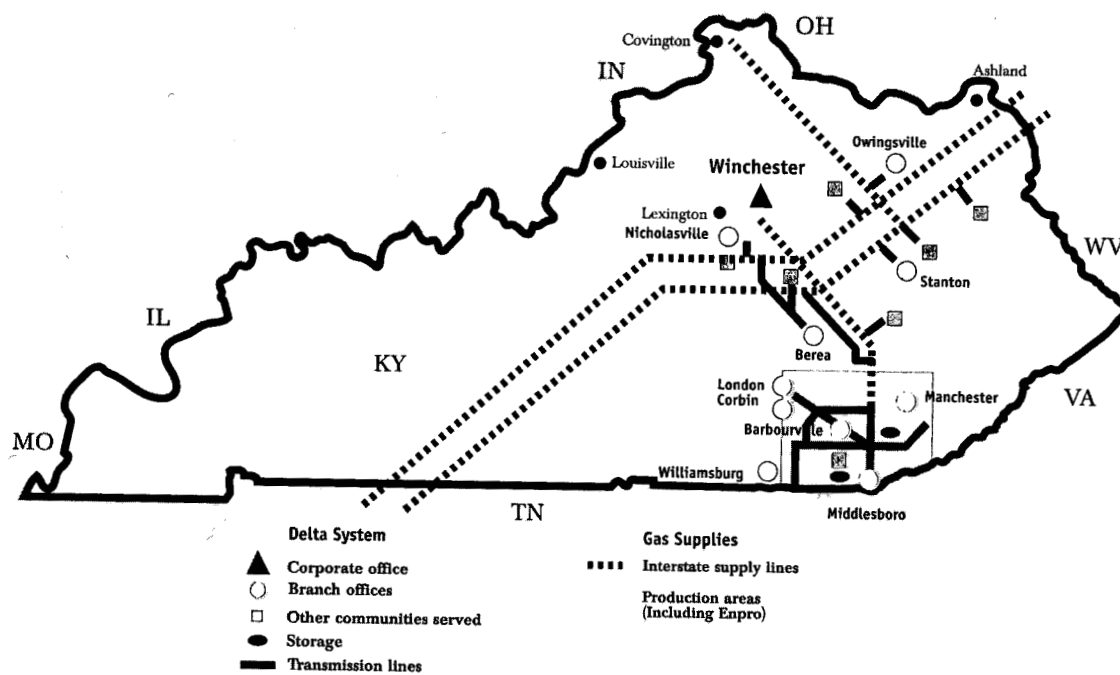
Unless the context requires otherwise, references to Delta include Delta's wholly-owned subsidiaries, Delta Resources, Inc. ("Resources"), Delgasco, Inc. ("Delgasco"), Deltran, Inc. ("Deltran") and Enpro, Inc. ("Enpro"). Resources buys gas and resells it to industrial customers on Delta's system and to Delta for system supply. Delgasco buys gas and resells it to Resources and to customers not on Delta's system. Deltran operates an underground natural gas storage field that it leases from Delta. Enpro owns and operates production properties and undeveloped acreage. Delta and its subsidiaries are under common executive management.

Delta was incorporated under Kentucky law in 1949. Its principal executive offices are located at 3617 Lexington Road, Winchester, Kentucky 40391. Its telephone number is (606) 744-6171, and its Fax number is (606) 744-6552.

This pipeline construction (at right) in rural Madison County is a continuation of Delta's efforts to extend its system to provide service to new customers.

CORPORATE MISSION

Delta will provide competitive, high quality service to its customers; strive for the best achievable customer satisfaction; ensure an optimal work environment for its employees; enhance the quality of its shareholders' investments; and maintain cooperative relationships with governmental officials, regulatory agencies and local community leaders.



To Our Shareholders

The weather this past year was approximately 12% colder than normal weather, as compared with 1995 when the weather was approximately 10% warmer than normal. As a result, sales vol-

umes increased by approximately 980,000 Mcf, or 26%, and earnings per share increased to \$1.41, a 36% increase over the previous year.

Delta continued to grow during fiscal 1996 as our number of customers increased by 2.9%. Capital expenditures exceeded \$13 million. These expenditures provided expansion of our system to serve these new customers and also allowed for continuing enhancement of our assets.

These expenditures included our continuing effort to develop an underground storage field in Bell County, Kentucky. We continue to inject gas into this field and we anticipate withdrawing gas this

Selected Consolidated Financial Information

For the Years Ended June 30,	1996(a)	1995	1994(b)	1993	1992
Summary of Operations (\$)					
Operating revenues	36,576,055	31,844,339	34,846,941	31,221,410	29,200,834
Operating income	5,437,055	4,255,088	4,850,673	4,791,816	4,586,323
Net income	2,661,349	1,917,735	2,671,001	2,620,664	2,453,813
Earnings per common share	1.41	1.04	1.50	1.60	1.52
Dividends declared per common share	1.12	1.12	1.11	1.09	1.08
Average Number of					
Common Shares Outstanding	1,886,629	1,850,986	1,775,068	1,635,945	1,612,437
Total Assets (\$)	81,140,637	65,948,716	61,932,480	55,129,912	50,478,014
Capitalization (\$)					
Common shareholders' equity	23,628,323	22,511,513	22,164,791	17,501,045	16,227,158
Long-term debt	24,488,916	23,702,200	24,500,000	19,596,401	20,187,826
Notes payable refinanced subsequent to year end	18,075,000	—	—	—	—
Total capitalization	66,192,239	46,213,713	46,664,791	37,097,446	36,414,984
Short-Term Debt (\$) (a)(c)	1,084,800	6,732,700	3,205,000	7,729,000	4,029,000
Other Items (\$)					
Capital expenditures	13,373,416	8,122,838	7,374,747	6,289,508	5,074,483
Total plant	98,795,623	84,944,969	77,882,135	71,187,860	66,032,217

(a) During July, 1996, \$15,000,000 of debentures and 400,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and for general corporate purposes. The balance of the note payable at June 30, 1996 (\$18,075,000) is included in total capitalization as a result of the subsequent refinancing.

(b) During October 1993, \$15,000,000 of debentures and 170,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and to refinance certain long-term debt.

(c) Includes current portion of long-term debt.

coming winter season as needed to meet a portion of our customers' needs. Our capital expenditure plans for fiscal 1997 include a continuance of this development effort.

During July, 1996, we completed the sale of 400,000 shares of common stock and \$15 million of debentures. The proceeds were used to repay short-term borrowings, which allows us to utilize our credit line to augment internally-generated cash as we proceed with our capital expenditure plans for 1997.

Our service areas continue to grow and expand. As reflected in our record capital expenditures plan for 1997 of \$16.4 million, we are committed to provide for this growth by building gas lines to new construction as well as to existing homes and businesses that convert from other energy sources to clean, efficient natural gas.

All our employees, as well as suppliers and contractors who assist us, are to be congratulated for their efforts in helping to provide gas service to our expanding markets. We plan to continue our aggressive expansion, including the acquisition of other systems where appropriate.

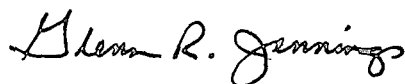
At its meeting on August 21, 1996, Delta's Board of Directors increased the quarterly common stock dividend from \$.28 to \$.285, which now represents an annualized rate of \$1.14 per share.

Thank you for supporting the Company this past year.

Sincerely,



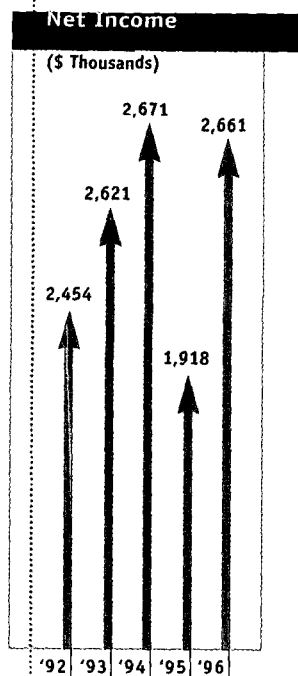
H. D. Peet
Chairman of the Board



Glenn R. Jennings
*President and
Chief Executive Officer*

August 22, 1996

Jennings





Delta's service areas continue to develop, providing growth opportunities for Delta as we add new customers in areas such as this near Corbin in Whitley County.

Summary Of Operations

GAS OPERATIONS AND SUPPLY The Company purchases and produces gas for distribution to its retail customers and also provides transportation service to industrial customers and inter-connected pipelines with its facilities that are located in 17 predominantly

rural counties in central and southeastern Kentucky. The economy of Delta's service area is based principally on coal mining, farming and light industry. The communities in Delta's service area typically contain populations of less than 20,000. The four largest service areas are Corbin, Nicholasville, Middlesboro and Berea, where Delta serves approximately 6,100, 6,000, 3,700 and 3,800 customers, respectively.

Several communities served by Delta continue to expand, resulting in growth opportunities for the Company. Industrial parks have been developed in certain areas and have resulted in new industrial customers, some of whom are on-system transportation customers. As a result of this growth Delta's total customer count increased by 2.9% in 1996. Currently, over 99% of Delta's customers are residential and commercial. Delta's remaining, light industrial customers purchased approximately 6% of the total volume of gas sold by Delta at retail in 1996.

The Company's revenues are affected by various factors, including rates billed to customers, the cost of natural gas, economic conditions in the areas that the Company serves, weather conditions and competition. Delta competes for customers and sales with alternative sources of energy, including electricity, coal, oil, propane and wood. The Company's marketing subsidiaries, which purchase gas and resell it to various industrial customers and others, also compete for their customers with producers and marketers of natural gas. Gas costs, which the Company is generally able to pass through to customers, may influence customers to conserve, or, in the case of industrial customers, to use alternative energy sources. Also, the potential bypass of Delta's system by industrial customers and others is a competitive concern that Delta has addressed and will continue to address as the need arises.

Delta's retail sales are seasonal and temperature-sensitive as the majority of the gas sold by Delta is used for heating. This seasonality impacts Delta's liquidity position and its management of its working capital requirements during each twelve month period, and changes in the average temperature during the winter months impacts its revenues year-to-year (see Management's Discussion and Analysis of Financial Condition and Results of Operations).

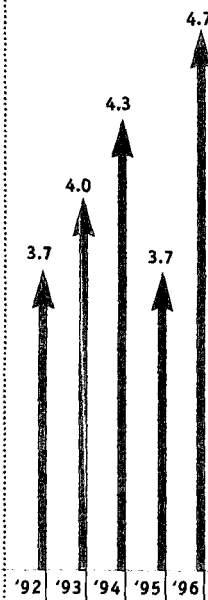
Retail gas sales in 1996 were approximately 4,705,000 thousand cubic feet ("Mcf"), generating approximately \$27,810,000 in revenues, as compared to approximately 3,724,000 Mcf and approximately \$24,693,000 in revenues for 1995. Heating degree days billed during 1996 were approximately 112% of the thirty year average ("normal") as compared with approximately 90% in 1995. Principally as a result of this colder weather, sales volumes increased by 980,000 Mcf, or 26.3%, in 1996 as compared to 1995.

Delta's transportation of natural gas in 1996 generated revenues of approximately \$3,331,000 as compared with approximately \$3,049,000 during 1995. Of the total from transportation in 1996, approximately \$2,913,000 (2,570,000 Mcf) and \$418,000 (1,134,000 Mcf) were earned from transportation for on-system and off-system customers, respectively. Of the total from transportation for 1995, approximately \$2,588,000 (2,390,000 Mcf) and \$461,000 (1,452,000 Mcf) were earned from transportation for on-system and off-system customers, respectively.

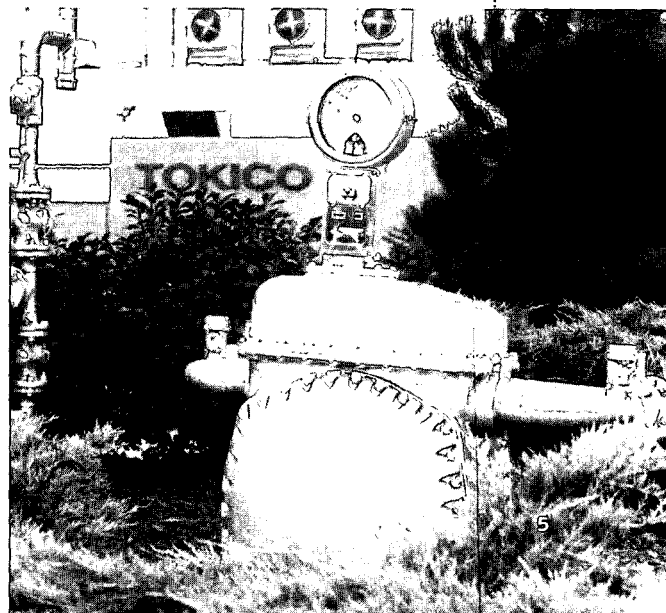
As an active participant in many areas of the natural gas industry, Delta plans to continue its efforts to expand its gas distribution system. Delta continues to consider acquisitions of other gas systems, some of which are contiguous to its existing service areas, as well as expansion within its existing service areas. The Company also anticipates continuing activity in gas production and transportation and plans to pursue and increase these

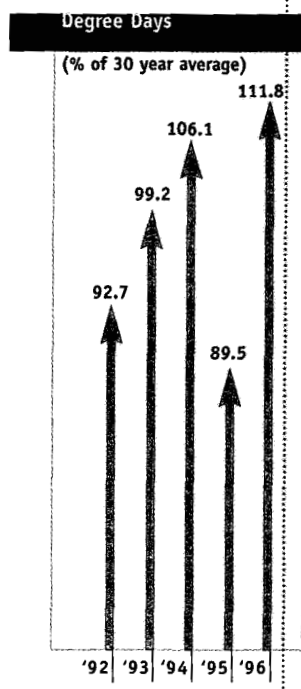
Retail Sales Volumes

(Billion cu. ft.)



Delta provides service to industrial customers in industrial parks in several communities, including this plant in the Berea industrial park in Madison County. Delta's industrial customer base has continued to expand as parks such as this have been developed.



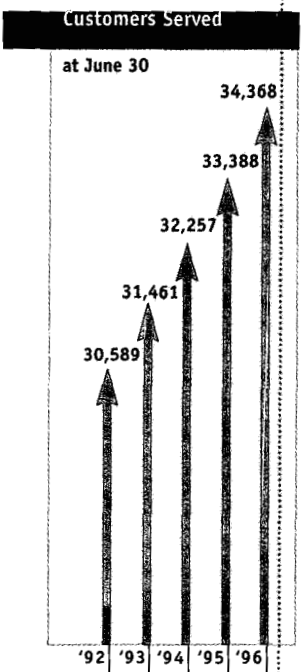


activities wherever practicable. The Company will continue to consider the construction or acquisition of additional transmission, storage and gathering facilities to provide for increased transportation, enhanced supply and system flexibility.

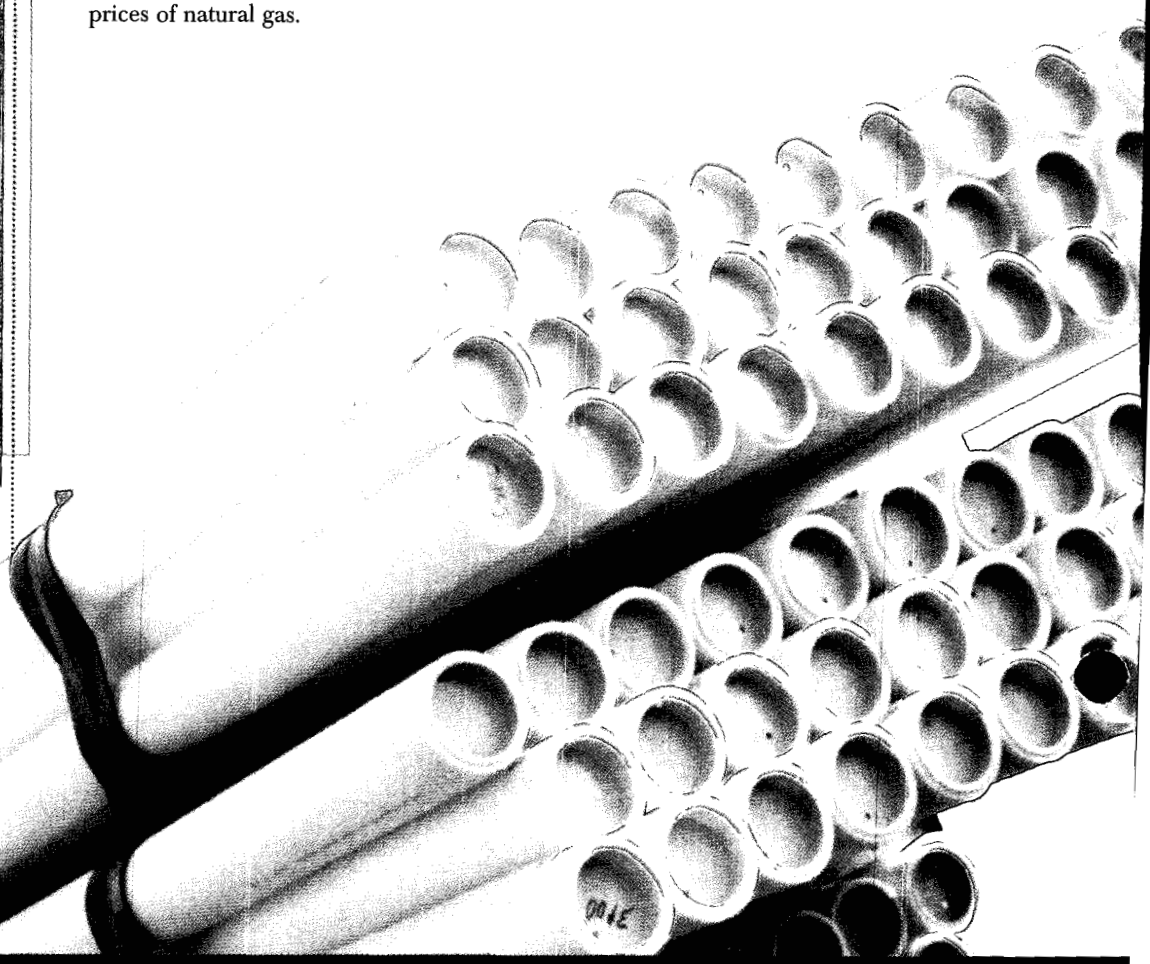
Some producers in Delta's service area can access certain pipeline delivery systems other than Delta, which provides competition from others for transportation of such gas. Delta will continue its efforts to purchase or transport any natural gas available that is produced in reasonable proximity to its facilities. Delta will continue to maintain an active gas supply management program that emphasizes long-term reliability and the pursuit of cost effective sources of gas for its customers.

Delta receives its gas supply from a combination of interstate and Kentucky sources. The Company intends to maintain an adequate gas supply to provide service to existing and future customers.

Delta's interstate gas supply is transported and stored by Tennessee Gas Pipeline Company ("Tennessee"), Columbia Gas Transmission Corporation ("Columbia") and Columbia Gulf Transmission Company ("Columbia Gulf"). Delta acquires its interstate gas supply from gas marketers. Delta also acquires gas supply from Kentucky producers and suppliers.



During the past few years, the Federal Energy Regulatory Commission ("FERC") restructured interstate natural gas pipeline operations, services and rates. As a result, Delta contracted for transportation and storage services with Tennessee, Columbia and Columbia Gulf and Delta now purchases gas supplies from others. This nation-wide change has resulted in a competitive national market for natural gas supplies as supply and demand determine the availability and prices of natural gas.



Enpro produces oil and gas from leases it owns in southeastern Kentucky. Enpro's natural gas production is purchased by Delta for system supply, and Enpro's remaining proved, developed natural gas reserves are estimated at approximately 4,500,000 Mcf. Delta purchased a total of approximately 205,000 Mcf from those properties in 1996. Enpro also produces oil from certain of these leases, but oil production has not been significant.

Resources and Delgasco purchase gas from various marketers and Kentucky producers. The gas is resold to industrial customers on Delta's system, to Delta for system supply and to others. Delta continues to seek additional new gas supplies from all available sources, including those in the proximity of its facilities in southeastern Kentucky. Also, Resources and Delgasco continue to pursue acquisitions of new gas supplies from Kentucky producers and others.

Delta is presently developing an underground natural gas storage field on Canada Mountain in Bell County, Kentucky, with an estimated eventual working capacity of 4,000,000 Mcf. It is anticipated that this storage capability will permit Delta to purchase and store gas during the non-heating season, and then withdraw and sell the gas during the peak usage winter months. Storage project capital expenditures are estimated at approximately \$6 million during fiscal 1997. Delta is currently recovering a return on storage field investments through rates.

Construction of lines such as this one in Madison County allows Delta to provide service to new homes as well as to existing structures that wish to convert to natural gas from other energy sources. Many such lines are plastic, which helps to keep construction costs as low as possible.





The initial stages of installation on Canada Mountain include connecting supply and delivery lines to the compressors. The compressors are used to inject gas into the underground storage field formations.



REGULATORY MATTERS Delta is subject to the regulatory authority of the Public Service Commission of Kentucky ("PSC") with respect to various aspects of Delta's business, including rates and service to retail and transportation customers. The Company monitors the need to file a general rate case as a way to adjust its sales prices. Delta currently has no general rate cases filed with the PSC.

Delta's rates include a Gas Cost Recovery ("GCR") clause, which permits changes in Delta's gas costs to be reflected in the rates charged to customers. The GCR requires Delta to make quarterly filings with the PSC, but such procedure does not require a general rate case. The PSC historically has allowed Delta to recover storage costs in rates through the GCR mechanism or general rate cases.

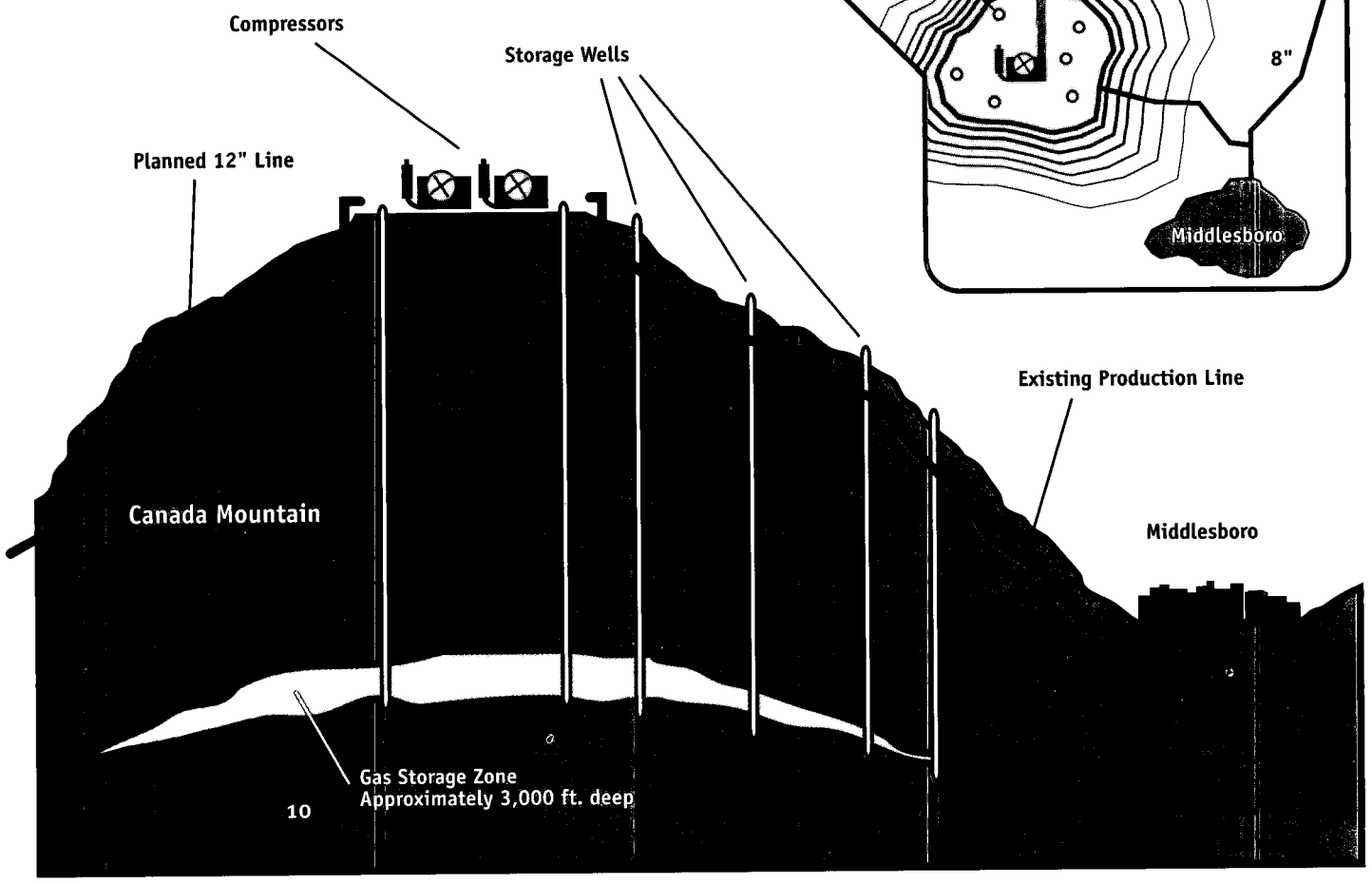
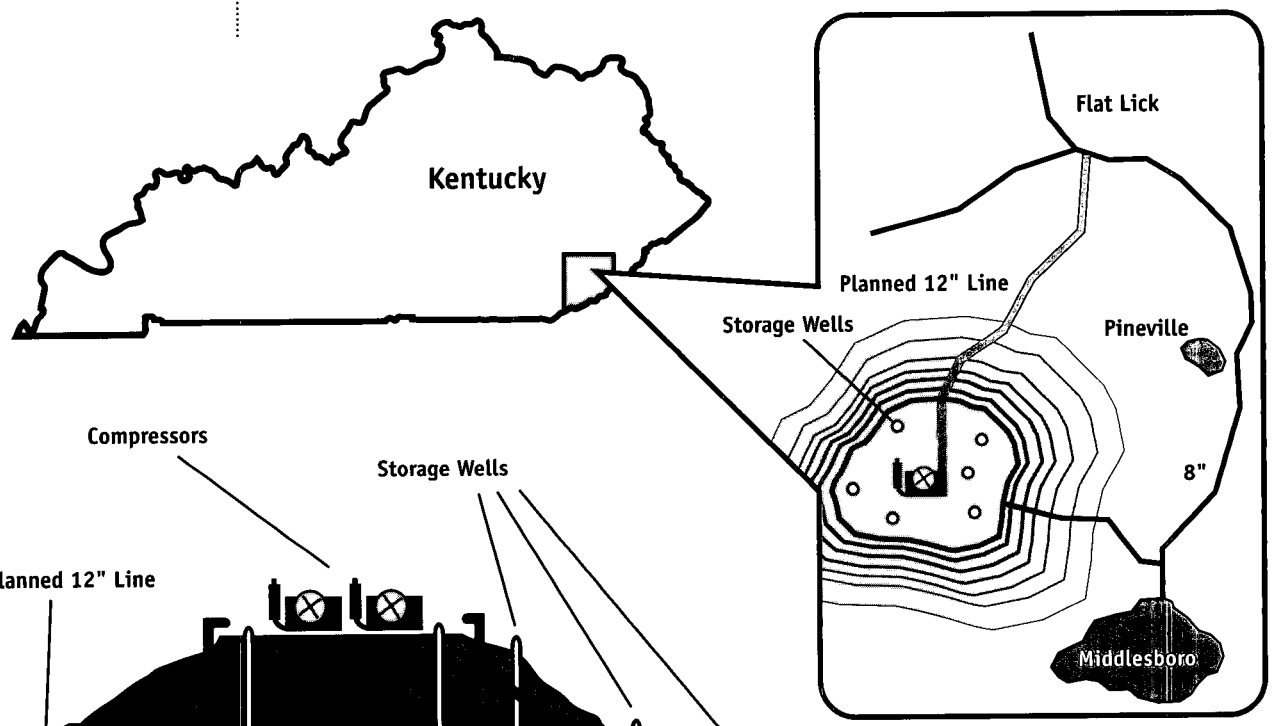
In addition to PSC regulation, Delta may obtain non-exclusive franchises from the cities and communities in which it operates authorizing it to place its facilities in the streets and public grounds. However, no utility may obtain a franchise until it has obtained from the PSC a Certificate of Convenience and Necessity authorizing it to bid on the franchise. Delta holds franchises in four of the ten cities in which it maintains branch offices and in six other communities it serves. In the other cities or communities, either Delta's franchises have expired, the communities do not have governmental organizations authorized to grant franchises, or the local governments have not required, or do not want to offer, a franchise. Delta attempts to acquire or reacquire franchises whenever feasible.

Without a franchise, a local government could require Delta to cease its occupation of the streets and public grounds or prohibit Delta from extending its facilities into any new area of that city or community. To date, the absence of a franchise has had no adverse effect on Delta's operations.

Delta's installation of compressors and related equipment have continued on Canada Mountain throughout the spring and summer of 1996. Injection of gas into the storage zones has begun and pipeline construction is planned to begin this fall.

Gas Storage on Canada Mountain

Delta's storage field on Canada Mountain is northwest of Middlesboro in Bell County. Natural gas is injected into underground storage zones through existing storage wells. The 12" diameter pipeline to be built will connect to Delta's existing transmission pipelines and will facilitate injections and withdrawals after the field is developed.

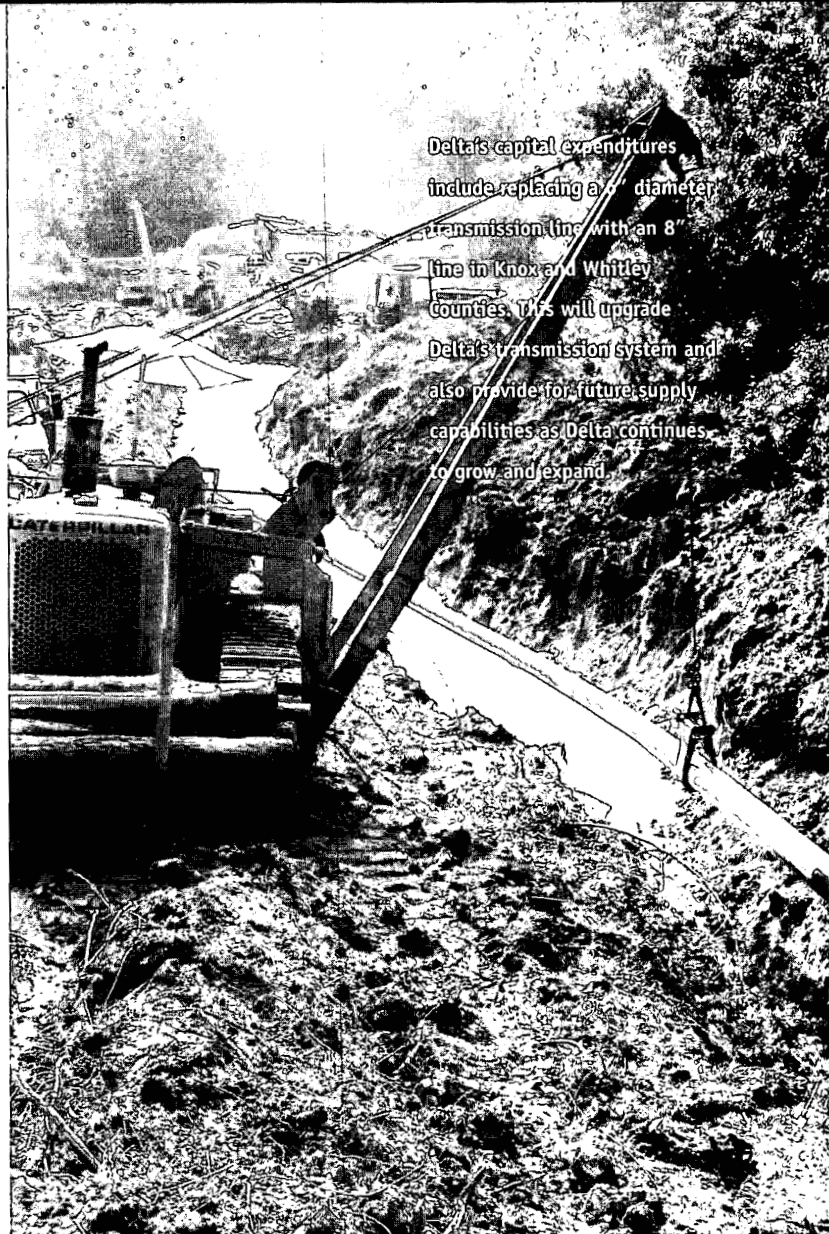


CAPITAL EXPENDITURES Capital expenditures during 1996 were approximately \$13.4 million and for 1997 are estimated to be approximately \$16.4 million. These include planned expenditures for development of underground natural gas storage, system extensions, computer system upgrades, and the replacement and improvement of existing transmission, distribution, gathering and general facilities.

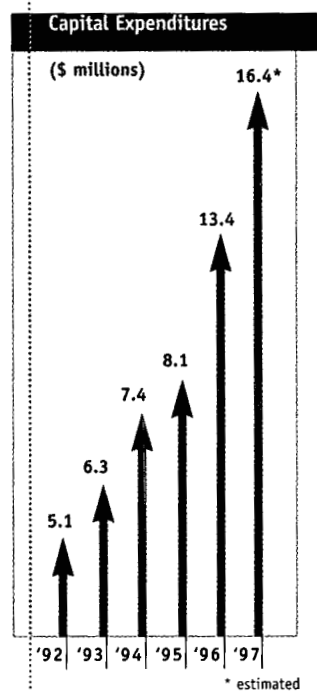
FINANCING The Company's capital expenditures and operating cash requirements are met through the use of internally generated funds and a short-term line of credit. The available line of credit at June 30, 1996, was \$20 million of which approximately \$14.7 million had been borrowed. These short-term borrowings are periodically repaid with long-term debt and equity securities, as was done in July, 1996, when the net proceeds of approximately \$20.4 million from the sale of \$15 million of debentures and 400,000 shares of common stock were used to repay short-term notes payable and for working capital.

Present plans are to utilize the short-term line of credit to help meet planned capital expenditures and operating cash requirements. The amounts and types of future long-term debt and equity financings will depend upon the Company's capital needs and market conditions.

During 1996 the requirements of the Employee Stock Purchase Plan were met through the issuance of 5,822 shares of common stock resulting in an increase of approximately \$99,000 in Delta's common shareholders' equity. The Dividend Reinvestment and Stock Purchase Plan (see Note 3 of the Notes to Consolidated Financial Statements) resulted in the issuance of 28,024 shares of common stock providing an increase of approximately \$453,000 in Delta's common shareholders' equity.



Delta's capital expenditures include replacing a 4' diameter transmission line with an 8' line in Knox and Whitley Counties. This will upgrade Delta's transmission system and also provide for future supply capabilities as Delta continues to grow and expand.



COMMON STOCK DIVIDENDS AND PRICES Delta has paid cash dividends on its common stock each year since 1964. While it is the intention of the Board of Directors to continue to declare dividends on a quarterly basis, the frequency and amount of future dividends will depend upon the Company's earnings, financial requirements and other relevant factors, including limitations imposed by the indenture for the Debentures. There were 2,382 record holders of Delta's common stock as of August 1, 1996.

Delta's common stock is traded in the National Association of Securities Dealers Automated Quotation ("NASDAQ") National Market System under the symbol DGAS. The accompanying table reflects the high and low sales prices during each quarter as reported by NASDAQ and the quarterly dividends declared per share.

Quarter	Range of Stock Prices(\$)		Dividends Per Share(\$)
	High	Low	
Fiscal 1996			
First	17 1/4	15 3/4	.28
Second	18 1/4	15 1/2	.28
Third	18	16	.28
Fourth	16 3/4	15 1/2	.28
Fiscal 1995			
First	20	17 1/2	.28
Second	18	15 3/4	.28
Third	18 3/4	16	.28
Fourth	18 1/2	16 3/4	.28

Management's Discussion and Analysis

of Financial Condition and Results of Operations

LIQUIDITY AND CAPITAL RESOURCES The Company's utility operations are subject to regulation by the PSC, which approves rates that are intended to permit a specified rate of return on investment. The Company's rate tariffs allow the cost of gas to be passed through to customers.

Delta's business is temperature-sensitive. Accordingly, the Company's operating results in any given period reflect, in addition to other factors, the impact of weather, with colder temperatures resulting in increased sales. The Company anticipates that this sensitivity to seasonal and weather conditions will continue to be so reflected in the Company's operating results in future periods.

Capital expenditures for Delta for fiscal 1997 are expected to be approximately \$16,400,000. Delta generates internally only a portion of the cash necessary for its capital expenditure requirements and finances the balance of its capital expenditures on an interim basis through the use of its borrowing capability under its short-term line of credit. The current available line of credit is \$20,000,000, of which approximately \$18,075,000 was borrowed at June 30, 1996. The line of credit, which is with Bank One, Kentucky, NA, expires during November, 1996. These short-term borrowings are periodically repaid with the net proceeds from the sale of long-term debt and equity securities, as was done in July, 1996 when the net proceeds of approximately \$20,400,000 from the sale of \$15,000,000 of debentures and 400,000 shares of common stock was used to repay short-term debt and for working capital.

Because of the seasonal nature of Delta's sales, the smallest proportion of cash generated from operations is received during the warmer months when sales volumes decrease considerably. Additionally, most construction activity takes place during the non-heating season because of more favorable weather conditions. Therefore, during the warmer, non-heating months, cash needs for operations and construction are partially met through short-term borrowings.

The primary cash flows during the last three years are summarized below:

	1996	1995	1994
Provided by operating activities	\$ 3,094,809	\$ 6,943,183	\$ 6,172,019
Used in investing activities	(13,373,416)	(8,122,838)	(7,374,747)
Provided by financing activities	10,294,461	1,158,887	1,144,396
Net increase (decrease) in cash and cash equivalents	\$ 15,854	\$ (20,768)	\$ (58,332)

Results of Operations

OPERATING REVENUES The increase in operating revenues for 1996 of approximately \$4,732,000 was due primarily to an increase in retail sales volumes of approximately 980,000 Mcf as a result of the colder winter weather in 1996. Billed degree days were approximately 112% of normal weather for 1996 as compared with approximately 90% for 1995. In addition, on-system transportation volumes for 1996 increased approximately 180,000 Mcf, or 8%. These increases were partially offset by decreases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause and by a decrease in off-system transportation volumes of approximately 318,000 Mcf, or 22%, due primarily to reduced deliveries from local producers.

The decrease in operating revenues for 1995 of approximately \$3,003,000 was due primarily to a decrease in retail sales volumes of approximately 609,000 Mcf as a result of the warmer winter weather in 1995 (approximately 90% of normal weather compared to approximately 106% for 1994) and an approximate \$162,000 (545,000 Mcf) decrease in off-system transportation due to reduced deliveries from some local production. The decrease was partially offset by an increase in on-system transportation of approximately \$278,000 due to a 204,000 Mcf increase in volumes transported and by an increase in customers served of approximately 1,100, or 3.5%.

OPERATING EXPENSES The increase in purchased gas expense for 1996 of approximately \$1,893,000 was due primarily to the increased gas purchases for retail sales resulting from the colder winter weather during 1996. The increase was partially offset by decreases in the cost of gas purchased for retail sales.

The decrease in purchased gas expense for 1995 of approximately \$1,753,000 was due primarily to the decreased retail sales volumes resulting from the warmer winter weather during 1995.

The increase in operation and maintenance expenses during 1996 of approximately \$640,000 was due primarily to increases in payroll and related benefit costs.

The decrease in operation and maintenance expenses during 1995 of approximately \$380,000 was due primarily to decreases in payroll and related benefit costs.

The increases in depreciation expense during 1996 and 1995 of approximately \$327,000 and \$206,000, respectively, were due primarily to additional depreciable plant.

The increases in taxes other than income taxes during 1996 and 1995 of approximately \$173,000 and \$78,000, respectively, were primarily due to increased property taxes which resulted from increased plant and property valuations, and to increased payroll taxes, which resulted from increased wages.

Changes in income taxes during 1996 and 1995 of approximately \$517,000 and \$467,000, respectively, were primarily due to changes in net income.

INTEREST CHARGES The increases in other interest charges during 1996 and 1995 of approximately \$448,000 and \$176,000, respectively, were due primarily to increased average short-term borrowings and increased average interest rates.

Consolidated Statements of Income

For the Years Ended June 30,	1996	1995	1994
Operating Revenues	\$ 36,576,055	\$ 31,844,339	\$ 34,846,941
Operating Expenses			
Purchased gas	\$ 17,389,755	\$ 15,497,156	\$ 17,250,556
Operation and maintenance (Note 1)	8,642,511	8,002,797	8,382,767
Depreciation and depletion (Note 1)	2,510,952	2,183,558	1,977,868
Taxes other than income taxes	1,036,282	863,340	875,477
Income taxes (Note 1)	1,559,500	1,042,400	1,509,600
Total operating expenses	\$ 31,139,000	\$ 27,589,251	\$ 29,996,268
Operating Income	\$ 5,437,055	\$ 4,255,088	\$ 4,850,673
Other Income and Deductions, Net	32,503	50,582	34,987
Income Before Interest Charges	\$ 5,469,558	\$ 4,305,670	\$ 4,885,660
Interest Charges			
Interest on long-term debt	\$ 1,851,768	\$ 1,879,442	\$ 1,879,526
Other interest	867,641	419,693	243,729
Amortization of debt expense	88,800	88,800	91,404
Total interest charges	\$ 2,808,209	\$ 2,387,935	\$ 2,214,659
Net Income	\$ 2,661,349	\$ 1,917,735	\$ 2,671,001
Weighted Average Number of Common Shares Outstanding	1,886,629	1,850,986	1,775,068
Earnings Per Common Share	\$ 1.41	\$ 1.04	\$ 1.50
Dividends Declared Per Common Share	\$ 1.12	\$ 1.12	\$ 1.11

Consolidated Statements of Cash Flows

For the Years Ended June 30,	1996	1995	1994
Cash Flows From Operating Activities:			
Net income	\$ 2,661,349	\$ 1,917,735	\$ 2,671,001
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, depletion and amortization	2,663,475	2,272,358	2,069,013
Deferred income taxes and investment tax credits	1,762,500	(77,000)	874,800
Other - net	484,474	602,180	446,969
(Increase) decrease in assets:			
Accounts receivable	(860,255)	(118,237)	802,197
Materials and supplies	(124,697)	173,319	(229,275)
Prepayments	53,702	(105,903)	25,701
Other assets	31,823	(209,225)	(780)
Increase (decrease) in liabilities:			
Accounts payable	871,207	(178,609)	513,265
Refunds due customers	(456,283)	83,572	358,270
Accrued taxes	(270,394)	(72,210)	(34,543)
Other current liabilities	56,951	69,742	38,675
(Deferred) advance recovery of gas cost	(3,788,143)	2,583,128	(1,372,030)
Advances for construction and other	9,100	2,333	8,756
Net cash provided by operating activities	\$ 3,094,809	\$ 6,943,183	\$ 6,172,019
Cash Flows From Investing Activities:			
Capital expenditures	\$ (13,373,416)	\$ (8,122,838)	\$ (7,374,747)
Net cash used in investing activities	\$ (13,373,416)	\$ (8,122,838)	\$ (7,374,747)
Cash Flows From Financing Activities: (Note 5)			
Dividends on common stock	\$ (2,113,414)	\$ (2,073,374)	\$ (1,972,368)
Issuance of common stock, net	568,875	502,361	3,965,113
Issuance of debentures, net	—	—	14,246,937
Repayment of long-term debt	(561,000)	(240,100)	(11,330,286)
Issuance of notes payable	25,955,000	19,495,000	20,180,000
Repayment of notes payable	(13,555,000)	(16,525,000)	(23,945,000)
Net cash provided by financing activities	\$ 10,294,461	\$ 1,158,887	\$ 1,144,396
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 15,854	\$ (20,768)	\$ (58,332)
Cash and Cash Equivalents, Beginning of Year	135,779	156,547	214,879
Cash and Cash Equivalents, End of Year	\$ 151,633	\$ 135,779	\$ 156,547
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	\$ 2,491,091	\$ 2,253,472	\$ 2,141,705
Income taxes	\$ 193,560	\$ 1,264,942	\$ 715,000

Consolidated Balance Sheets

As of June 30,	1996	1995
Assets		
Gas Utility Plant, at cost	\$ 98,795,623	\$ 84,944,969
Less - Accumulated provision for depreciation	(26,749,774)	(24,588,203)
Net gas plant	\$ 72,045,849	\$ 60,356,766
Current Assets		
Cash and cash equivalents	\$ 151,633	\$ 135,779
Accounts receivable, less accumulated provisions for doubtful accounts of \$105,756 and \$81,608 in 1996 and 1995, respectively	2,096,454	1,236,199
Gas in storage, at average cost	427,164	490,710
Deferred gas costs (Note 1)	2,676,357	—
Materials and supplies, at first-in, first-out cost	652,139	527,442
Prepayments	369,544	423,246
Total current assets	\$ 6,373,291	\$ 2,813,376
Other Assets		
Cash surrender value of officers' life insurance (face amount of \$1,036,009 and \$1,044,355 in 1996 and 1995, respectively)	\$ 304,339	\$ 293,116
Note receivable from officer	126,000	130,000
Unamortized debt expense and other (Note 5)	2,291,158	2,355,458
Total other assets	\$ 2,721,497	\$ 2,778,574
Total assets	\$ 81,140,637	\$ 65,948,716
Liabilities and Shareholders' Equity		
Capitalization (See Consolidated Statements of Capitalization)		
Common shareholders' equity	\$ 23,628,323	\$ 22,511,513
Long-term debt (Notes 5 and 6)	24,488,916	23,702,200
Notes payable refinanced subsequent to yearend (Note 4)	18,075,000	—
Total capitalization	\$ 66,192,239	\$ 46,213,713
Current Liabilities		
Notes payable (Note 4)	\$ —	\$ 5,675,000
Current portion of long-term debt (Notes 5 and 6)	1,084,800	1,057,700
Accounts payable	2,826,438	1,955,231
Accrued taxes	93,554	363,948
Refunds due customers	23,354	479,637
Advance recovery of gas cost	—	1,111,786
Customers' deposits	304,246	331,708
Accrued interest on debt	637,596	473,001
Accrued vacation	485,847	454,728
Other accrued liabilities	238,571	349,872
Total current liabilities	\$ 5,694,406	\$ 12,252,611
Deferred Credits and Other		
Deferred income taxes	\$ 7,318,500	\$ 5,510,400
Investment tax credits	779,400	850,400
Regulatory liability (Note 1)	938,300	912,900
Advances for construction and other	217,792	208,692
Total deferred credits and other	\$ 9,253,992	\$ 7,482,392
Commitments and Contingencies (Note 7)		
Total liabilities and shareholders' equity	\$ 81,140,637	\$ 65,948,716

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended June 30,	1996	1995	1994
Common Shares			
Balance, beginning of year	\$ 1,868,734	\$ 1,839,340	\$ 1,648,485
\$1.00 par value of 34,846, 29,394 and 190,855 shares issued in 1996, 1995 and 1994, respectively -			
Public issuance of common shares	—	—	170,000
Dividend reinvestment and stock purchase plan	28,024	25,802	15,355
Employee stock purchase plan and other	6,822	3,592	5,500
Balance, end of year	\$ 1,903,580	\$ 1,868,734	\$ 1,839,340
Premium on Common Shares			
Balance, beginning of year	\$ 20,022,643	\$ 19,532,909	\$ 15,562,427
Premium on issuance of common shares-			
Public issuance of common shares	—	—	3,570,000
Dividend reinvestment and stock purchase plan	440,621	425,357	293,782
Employee stock purchase plan and other	108,868	64,377	106,700
Balance, end of year	\$ 20,572,132	\$ 20,022,643	\$ 19,532,909
Capital Stock Expense			
Balance, beginning of year	\$ (1,604,792)	\$ (1,588,025)	\$ (1,391,801)
Issuance of common shares	(15,460)	(16,767)	(196,224)
Balance, end of year	\$ (1,620,252)	\$ (1,604,792)	\$ (1,588,025)
Retained Earnings			
Balance, beginning of year	\$ 2,224,928	\$ 2,380,567	\$ 1,681,934
Net income	2,661,349	1,917,735	2,671,001
Cash dividends declared on common shares (See Consolidated Statements of Income for rates)	(2,113,414)	(2,073,374)	(1,972,368)
Balance, end of year	\$ 2,772,863	\$ 2,224,928	\$ 2,380,567

Consolidated Statements of Capitalization

As of June 30,	1996	1995
Common Shareholders' Equity		
Common shares, par value \$1.00 per share (Notes 2 and 3)		
Authorized - 6,000,000 shares		
Issued and outstanding - 1,903,580 and 1,868,734 shares in 1996 and 1995, respectively	\$ 1,903,580	\$ 1,868,734
Premium on common shares	20,572,132	20,022,643
Capital stock expense	(1,620,252)	(1,604,792)
Retained earnings (Note 5)	2,772,863	2,224,928
Total common shareholders' equity	\$ 23,628,323	\$ 22,511,513
Long-Term Debt (Notes 5 and 6)		
Debtures, 6 5/8%, due 2023	\$ 14,000,000	\$ 14,561,000
Debtures, 9%, due 2011	10,000,000	10,000,000
Promissory note from acquisition of underground storage, non-interest bearing, due through 2001 (less \$398,419 unamortized discount)	1,401,581	—
Other	172,135	198,900
Total long-term debt	\$ 25,573,716	\$ 24,759,900
Less - Amounts due within one year, included in current liabilities	(1,084,800)	(1,057,700)
Net long-term debt	\$ 24,488,916	\$ 23,702,200
Notes payable refinanced subsequent to yearend (Note 4)	\$ 18,075,000	\$ —
Total capitalization	\$ 66,192,239	\$ 46,213,713

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies:

(A) **PRINCIPLES OF CONSOLIDATION** Delta Natural Gas Company, Inc. ("Delta" or "the Company") 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 underground natural gas storage facilities that it leases from Delta. Enpro, Inc. owns and operates production properties. All subsidiaries of Delta are included in the consolidated financial statements. Intercompany balances and transactions have been eliminated.

(B) **CASH EQUIVALENTS** For the purposes of the Consolidated Statements of Cash Flows, all temporary cash investments with a maturity of three months or less at the date of purchase are considered cash equivalents.

(C) **DEPRECIATION** The Company determines its provision for depreciation using the straight-line method and by the application of rates to various classes of utility plant. The rates are based upon the estimated service lives of the properties and were equivalent to composite rates of 2.9%, 2.8%, and 2.7% of average depreciable plant for 1996, 1995 and 1994, respectively.

(D) **MAINTENANCE** All expenditures for maintenance and repairs of units of property are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of utility plant. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal.

(E) **GAS COST RECOVERY** Delta has a Gas Cost Recovery ("GCR") clause which provides for a dollar-tracker that matches revenues and gas costs and provides even-

tual dollar-for-dollar recovery of all gas costs incurred. The Company expenses gas costs based on the amount of gas costs recovered through revenue. Any differences between actual gas costs and those estimated costs billed are deferred and reflected in the computation of future billings to customers using the GCR mechanism.

(F) **REVENUE RECOGNITION** The Company records revenues as billed to its customers on a monthly meter reading cycle. At the end of each month, gas service which has been rendered from the latest date of each cycle meter reading to the month-end is unbilled.

(G) **REVENUES AND CUSTOMER RECEIVABLES** The Company supplies natural gas to approximately 34,000 customers in central and southeastern Kentucky. Revenues and customer receivables arise primarily from sales of natural gas to customers and from transportation services for others. Provisions for doubtful accounts are recorded to reflect the expected net realizable value of accounts receivable.

(H) **USE OF ESTIMATES** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(I) **LONG-LIVED ASSETS** In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121"), effective for fiscal years beginning after December 15, 1995. The Company plans to adopt the provisions of SFAS No. 121 in the first quarter of 1997. The new standard requires that long-lived assets and certain identified intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing such impairment reviews, companies will be required to estimate the sum of future cash flows from an asset and compare such amount to the asset's carrying amount. Any excess of carrying amount over expected cash flows will result in a possible write-down of an asset to its fair value. Based on current operating conditions, legal requirements and

regulatory environment, the Company does not expect adoption of SFAS No. 121 to have a material adverse impact on its financial position or results of operations.

(J) INCOME TAXES The Company provides for income taxes on temporary differences resulting from the use of alternative methods of income and expense recognition for financial and tax reporting purposes. The differences result primarily from the use of accelerated tax depreciation methods for certain properties versus the straight-line depreciation method for financial purposes, differences in recognition of purchased gas cost recoveries and certain other accruals which are not currently deductible for income tax purposes. Investment tax credits were deferred for certain periods prior to fiscal 1987 and are being amor-

tized to income over the estimated useful lives of the applicable properties. The Company utilizes the liability method for accounting for income taxes, which requires that deferred income tax assets and liabilities are computed using tax rates that will be in effect when the book and tax temporary differences reverse. The change in tax rates applied to accumulated deferred income taxes may not be immediately recognized in operating results because of ratemaking treatment. A regulatory liability has been established to recognize the future revenue requirement impact from these deferred taxes. The temporary differences which gave rise to the net accumulated deferred income tax liability for the periods are as follows:

	1996	1995
Deferred Tax Liabilities		
Accelerated depreciation	\$ 8,091,500	\$ 7,186,700
Deferred gas cost	1,055,700	—
Debt expense	399,200	413,500
Other	252,900	178,900
Total	\$ 9,799,300	\$ 7,779,100
Deferred Tax Assets		
Unamortized investment tax credits	\$ 307,400	\$ 335,400
Regulatory liabilities	370,000	360,100
Alternative minimum tax credits	1,305,600	724,300
Deferred gas cost	—	438,500
Other	497,800	410,400
Total	\$ 2,480,800	\$ 2,268,700
Net accumulated deferred income tax liability	\$ 7,318,500	\$ 5,510,400

The components of the income tax provision are comprised of the following for the years ended June 30:

	1996	1995	1994
Components of income tax expense:			
Payable currently:			
Federal	\$ 52,100	\$ 453,900	\$ 306,300
State	(255,100)	194,500	100,800
Total	\$ (203,000)	\$ 648,400	\$ 407,100
Deferred	1,762,500	394,000	1,102,500
Income tax expense	\$ 1,559,500	\$ 1,042,400	\$ 1,509,600

Reconciliation of the statutory federal income tax rate to the effective income tax rate is shown in the table below:

	1996	1995	1994
Statutory federal income tax rate	34.0%	34.0%	34.0%
State income taxes net of federal benefit	5.2	5.2	5.2
Amortization of investment tax credit	(1.7)	(2.4)	(1.8)
Other differences - net	—	(.9)	(.9)
Effective income tax rate	37.5%	35.9%	36.5%

(2) Employee Benefit Plans:

(A) DEFINED BENEFIT RETIREMENT PLAN
Delta has a trustee, noncontributory, defined benefit pension plan covering all eligible employees. Retirement income is based on the number of years of service and annual rates of compensation. The Company makes

annual contributions equal to the amounts necessary to fund the plan adequately. The funded status of the pension plan at March 31, the plan year end, and the amounts recognized in the Company's consolidated balance sheets at June 30 were as follows:

	1996	1995	1994
Plan assets at fair value	\$ 6,058,458	\$ 5,358,108	\$ 5,251,296
Actuarial present value of benefit obligation:			
Vested benefits	\$ 2,789,736	\$ 3,605,363	\$ 4,114,517
Non-vested benefits	9,346	21,742	30,562
Accumulated benefit obligation	\$ 2,799,082	\$ 3,627,105	\$ 4,145,079
Additional amounts related			
to projected salary increases	2,811,907	1,638,014	1,734,413
Total projected benefit obligation	\$ 5,610,989	\$ 5,265,119	\$ 5,879,492
Plan assets in excess of			
(less than) projected benefit obligation	\$ 447,469	\$ 92,989	\$ (628,196)
Unrecognized net assets at date of initial application being amortized over 15 years	(254,365)	(296,759)	(339,153)
Unrecognized net (gain) loss	(13,481)	286,557	950,735
Accrued pension asset (liability)	\$ 179,623	\$ 82,787	\$ (16,614)

The assets of the plan consist primarily of common stocks, bonds and certificates of deposit. Net pension costs for the years ended June 30 include the following:

	1996	1995	1994
Service cost for benefits earned during the year	\$ 382,751	\$ 432,546	\$ 455,097
Interest cost on projected benefit obligation	356,897	382,167	357,372
Actual return on plan assets	(886,211)	(623,972)	(45,100)
Net amortization and deferral	444,044	185,660	(353,530)
Net periodic pension cost	\$ 297,481	\$ 376,401	\$ 413,839

The weighted average discount rates and the assumed rates of increase in future compensation levels used in determining the actuarial present values of the projected benefit obligation at June 30, 1996, 1995 and 1994 were 7.0%, 7.0%, and 6.5%, respectively (discount rates), and 4% (rates of increase). The expected long-term rates of return on plan assets were 8%.

SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits", and SFAS No. 112, "Employers' Accounting for Post-Employment Benefits", do not affect the Company, as Delta does not provide benefits for post-retirement or post-employment other than the pension plan for retired employees.

(B) **EMPLOYEE SAVINGS PLAN** The Company has an Employee Savings Plan ("Savings Plan") under which eligible employees may elect to contribute any whole percentage between 2% and 15% of their annual compensation. The Company will match 50% of the employee's contribution up to a maximum Company contribution of 2% of the employee's annual compensation through June 30, 1996. The maximum Company contribution was increased to 2.5% effective July 1, 1996. For 1996, 1995 and 1994, Delta's Savings Plan expense was approximately \$111,000, \$112,000 and \$107,000, respectively.

(C) **EMPLOYEE STOCK PURCHASE PLAN** The Company has an Employee Stock Purchase Plan ("Stock Plan") under which qualified permanent employees are eligible to participate. Under the terms of the Stock Plan, such employees can contribute on a monthly basis 1% of their annual salary level (as of July 1 of each year) to be used to purchase Delta's common stock. The Company issues Delta common stock, based upon the fiscal year contributions, using an average of the last sale price of Delta's stock as quoted in NASDAQ's National Market System at the close of business for the last five business days in June and matches those shares so purchased. Therefore, stock equivalent to approximately \$100,900 was issued in July, 1996. The continuation and terms of the Stock Plan are subject to approval by Delta's Board of Directors on an annual basis. Delta's Board has continued the Stock Plan through June 30, 1997.

(3) Dividend Reinvestment and Stock Purchase Plan:

The Company's Dividend Reinvestment and Stock Purchase Plan (Reinvestment Plan) provides that shareholders of record can reinvest dividends and also make limited additional investments of up to \$50,000 per year in shares of common stock of the Company. Shares purchased under the Reinvestment Plan are authorized but unissued shares of common stock of the Company, and

28,024 shares were issued in 1996. Delta reserved 200,000 shares under the Reinvestment Plan in December, 1994, and, as of June 30, 1995 there were 154,791 shares still available for issuance.

(4) Notes Payable and Line of Credit:

Substantially all of the cash balances of Delta are maintained to compensate the respective banks for banking services and to obtain lines of credit; however, no specific amounts have been designated as compensating balances, and Delta has the right of withdrawal of such funds. At June 30, 1996, the available line of credit was \$20,000,000, (\$15,000,000 at June 30, 1995) of which \$18,075,000 and \$5,675,000 had been borrowed at an interest rate of 6.285%, and 6.935% for 1996 and 1995, respectively. The maximum amount borrowed during 1996 and 1995 was \$18,075,000 and \$8,430,000, respectively. The interest on this line is, at the option of Delta, either at the daily prime rate or is based upon certificate of deposit rates. The current line of credit expires on November 15, 1996.

These short-term borrowings were repaid in July, 1996, with net proceeds of approximately \$20,400,000 from the sale of \$15 million of debentures and 400,000 shares of common stock.

(5) Long-Term Debt:

On July 19, 1996, Delta issued \$15,000,000 of 8.3% Debentures that mature in July, 2026. Redemption on behalf of deceased holders within 60 days of notice of up to \$25,000 per holder will be made annually, subject to an annual aggregate limitation of \$500,000. The 8.3% Debentures can be redeemed by the Company beginning in August, 2001 at a 5% premium, such premium declining ratably until it ceases in August, 2006. Restrictions under the indenture agreement covering the 8.3% Debentures include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders' equity of the company exceeds \$18,000,000. No retained earnings are restricted under the provisions of the indenture.

On October 18, 1993, Delta issued \$15,000,000 of 6 5/8% Debentures that mature in October, 2023. Each holder may require redemption of up to \$25,000 annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 6 5/8% Debentures can be redeemed by the Company beginning in October, 1998 at a 5% premium, such premium declining ratably until it ceases in October, 2003.

On May 1, 1991, Delta issued \$10,000,000 of 9% Debentures that mature in April, 2011. Each holder may require redemption of up to \$25,000 of the 9% Debentures annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 9% Debentures can be redeemed by the Company beginning in April, 1996 at a 5% premium, such premium declining ratably until it ceases in April, 2001. The Company may not assume any additional mortgage indebtedness in excess of \$1 million without effectively securing the 9% Debentures equally to such additional indebtedness.

Debt issuance expenses are deferred and amortized over the terms of the related debt. Call premium in 1994 of approximately \$475,000 was deferred and is being amortized over the term of the related debt consistent with regulatory treatment.

A non-interest bearing promissory note was issued by Delta on November 10, 1995 in the amount of \$1,800,000, payable in installments of 400,000 in 1998, \$700,000 in 2000 and \$700,000 in 2002. The note was issued when Delta purchased leases and depleted gas wells to develop them for the underground storage of natural gas. Delta secured the promissory note by escrow of 102,858 shares of Delta's common stock. These shares will be issued to the holder of the promissory note only in the event of default in payment by Delta.

This underground natural gas storage field located on Canada Mountain in Bell County, Kentucky will have an estimated working capacity of 4,000,000 Mcf. It is anticipated that this storage capability will permit Delta to purchase and store gas during the non-heating season, and then withdraw and sell the gas during the peak usage winter months. Storage project capital expenditures are estimated at approximately \$6 million

during fiscal 1997. Delta is currently recovering on storage field investments through rates.

Other long-term debt requires principal payments of approximately \$85,000 in 1997 and \$67,000 in 1998.

(6) Fair Values of Financial Instruments:

The fair value of the Company's debentures is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's debentures at June 30, 1996 is estimated to be \$22,073,000. The carrying amount in the accompanying consolidated financial statements is \$24,000,000.

The carrying amounts of the Company's other financial instruments including cash equivalents, accounts receivable, notes receivable, accounts payable, and the non-interest bearing promissory note approximate their fair value.

(7) Commitments and Contingencies:

The Company has entered into individual employment agreements with its five officers. The agreements expire or may be terminated at various times. The agreements provide for continuing monthly payments or lump sum payments and continuation of certain benefits over varying periods in the event employment is altered or terminated following certain changes in ownership of the Company.

(8) Rates:

Reference is made to "Regulatory Matters" herein with respect to rate matters.

(9) Quarterly Financial Data (Unaudited):

The quarterly data reflects, in the opinion of management, all normal recurring adjustments necessary to present fairly the results for the interim periods.

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Earnings (Loss) per Common Share (a)
Fiscal 1996				
September 30	\$ 3,774,849	\$ (147,522)	\$ (760,662)	\$ (.41)
December 31	8,406,787	1,331,803	649,089	.34
March 31	16,023,581	3,421,608	2,725,444	1.44
June 30	8,370,838	831,166	47,478	.03
Fiscal 1995				
September 30	\$ 3,634,262	\$ (45,141)	\$ (633,058)	\$ (.34)
December 31	7,131,698	822,241	228,119	.12
March 31	14,903,281	2,842,418	2,255,994	1.22
June 30	6,175,098	635,570	66,680	.04

(a) Quarterly earnings per share may not equal annual earnings per share due to changes in shares outstanding.

Report of Independent Public Accountants

To the Board of Directors and Shareholders of Delta Natural Gas Company, Inc.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of **Delta Natural Gas Company, Inc.** (a Kentucky corporation) and subsidiary companies as of June 30, 1996 and 1995, and the related *consolidated statements of income, cash flows and changes in shareholders' equity* for each of the three years in the period ended June 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Delta Natural Gas Company, Inc.* and subsidiary companies as of June 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1996, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Louisville, Kentucky
August 16, 1996

Management Report

Management is responsible for the preparation, presentation and integrity of the financial statements and other financial information in this report. In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from these estimates.

The Company maintains a system of accounting and internal controls which management believes provides

reasonable assurance that the accounting records are reliable for purposes of preparing financial statements and that the assets are properly accounted for and protected.

The Board of Directors pursues its oversight role for these financial statements through its Audit Committee which consists of three outside directors. The Audit Committee meets periodically with management to review the work and monitor the discharge of their responsibilities. The Audit Committee also meets periodically with the Company's internal auditor as well as Arthur Andersen LLP, the independent auditors, who have full and free access to the Audit Committee, with or without management present, to discuss internal accounting control, auditing and financial reporting matters.

Consolidated Statistics

For the Years Ended June 30,	1996	1995	1994	1993	1992
Retail Customers Served, End of Period					
Residential	29,840	29,029	27,939	27,293	26,488
Commercial	4,453	4,287	4,242	4,093	4,035
Industrial	75	72	76	75	66
Total	34,368	33,388	32,257	31,461	30,589
Operating Revenues (\$000)					
Residential sales	16,540	14,772	16,597	14,578	13,945
Commercial sales	9,788	8,673	9,663	8,269	7,651
Industrial sales	1,483	1,248	1,671	1,383	1,188
On-system transportation	2,913	2,588	2,310	2,451	2,348
Off-system transportation	418	461	623	836	1,342
Subsidiary sales	5,297	3,959	3,755	3,532	2,580
Other	137	143	228	172	147
Total	36,576	31,844	34,847	31,221	29,201
System Throughput (Million Cu. Ft.)					
Residential sales	2,741	2,173	2,511	2,341	2,202
Commercial sales	1,673	1,328	1,506	1,368	1,235
Industrial sales	291	223	316	281	229
Total retail sales	4,705	3,724	4,333	3,990	3,666
On-system transportation	2,570	2,390	2,186	2,248	2,061
Off-system transportation	1,134	1,452	1,997	2,668	4,580
Total	8,409	7,566	8,516	8,906	10,307
Average Annual Consumption Per End of Period					
Residential Customer (Thousand Cu. Ft.)	92	75	90	86	83
Lexington, Kentucky Degree Days					
Actual	5,266	4,217	4,999	4,676	4,370
Percent of 30 year average (4,712)	111.8	89.5	106.1	99.2	92.7
Average Revenue Per Mcf Sold at Retail (\$)	5.91	6.63	6.44	6.07	6.21
Average Gas Cost Per Mcf Sold at Retail (\$)	2.81	3.37	3.34	2.90	3.01

Directors & Officers

BOARD OF DIRECTORS

Donald R. Crowe (a)
Senior Analyst
Kentucky Department of Insurance
Lexington, Kentucky

Jane Hylton Green (c)
Retired Vice President-
Human Resources and
Corporate Secretary

Billy Joe Hall (a)(b)
Investment Broker
LPL Financial Services
Mount Sterling, Kentucky

Glenn R. Jennings (d)
President and Chief Executive Officer

Harrison D. Peet (d)
Chairman of the Board
Retired President
and Chief Executive Officer

Virgil E. Scott (b)(c)
Retired Vice President-
Administration

Henry C. Thompson (b)(c)
President
Triple Land Co., Inc.
(land development and real estate)
Retired President
Henry Thompson Construction Co., Inc.
both of Nicholasville, Kentucky

Arthur E. Walker, Jr. (a)(d)
President
The Walker Company
(general and highway construction)
Mount Sterling, Kentucky

DIRECTORS EMERITI

Roger A. Byron
John D. Harrison

OFFICERS

Johnny L. Caudill
Vice President-
Administration and Customer Service

John F. Hall
Vice President-
Finance, Secretary and Treasurer

Robert C. Hazelrigg
Vice President-
Public and Consumer Affairs

Alan L. Heath
Vice President-
Operations and Engineering

Glenn R. Jennings
President and Chief Executive Officer

- (a) Member of Nominating Committee
(b) Member of Compensation Committee
(c) Member of Audit Committee
(d) Member of Executive Committee

Corporate Information

Shareholders' Inquiries

Communications regarding stock transfer requirements, lost certificates, changes of address or other items may be directed to the Transfer Agent and Registrar. Communications regarding dividends, the above items or any other shareholder inquiries may be directed to Investor Relations, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

Independent Public Accountants

Arthur Andersen LLP
2300 Meidinger Tower
The Louisville Galleria
Louisville, Kentucky 40202

Disbursement Agent, Transfer Agent and Registrar for Common Shares

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, Ohio 45202

Trustee and Interest Paying Agents for Debentures

6 5/8% due 2023; 9% due 2011

Corporate Trust Bank One
235 W. Schrock Rd.
Westerville, Ohio 43081

8.3% due 2026

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, Ohio 45202

Dividend Reinvestment and Stock Purchase Plan Administrator and Agent

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, Ohio 45202

1996 Annual Report

This annual report and the financial statements contained herein are submitted to the shareholders of the Company for their general information and not in connection with any sale or offer to sell, or solicitation of any offer to buy, any securities.

1996 Annual Meeting

The annual meeting of shareholders of the Company will be held at the General Office of the Company in Winchester, Kentucky on November 21, 1996, at 10:00 a.m. Proxies for the annual meeting will be requested from shareholders when notice of meeting, proxy statement and form of proxy are mailed on or about October 13, 1996.

SEC Form 10-K

A copy of Delta's most recent annual report on SEC Form 10-K is available, without charge, upon written request to John F. Hall, Vice President—Finance, Secretary and Treasurer, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

Dividend Reinvestment and Stock Purchase Plan

This plan provides shareholders of record with a convenient way to acquire additional shares of the Company's common stock without paying brokerage fees. Participants may reinvest their dividends and make optional cash payments to acquire additional shares. Fifth Third Bank administers the Plan and is the agent for the participants. For more information, inquiries may be directed to Emily P. Bennett, Director - Corporate Services, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

Delta Natural Gas Company, Inc.
and Subsidiary Companies

3617 Lexington Road
Winchester, Kentucky 40391
Tel. 606 744-6171
Fax 606 744-6552

~~SECRET~~

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3. Please provide Delta's Form 10-Q submitted to the SEC and Delta's Quarterly Report to the Stockholders for the first quarter of 1999.

RESPONSE:

See attached.

WITNESS: John Hall



DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

First Quarter Report - Fiscal 1999
For the period ending September 30, 1998

QUARTERLY LETTER TO SHAREHOLDERS

Earnings continued to improve as expected during the first quarter of fiscal 1999 as a result of increased rates from our rate case last year. Despite the warmer than normal weather, 93% for the twelve months ended September 30, 1998 compared with 103.6% for the similar period in 1997, our net income per share increased from \$0.70 in 1997 to \$1.09 in 1998, an increase of 55%.

We are continuing to expand our system to serve new customers. These additions are due to new construction as well as conversions from other energy sources. We have been very busy this fall connecting new customers.

Transportation deliveries to on-system customers for the twelve months ended September 30, 1998 increased by 16% as compared to the previous period. This increase in deliveries reflects new industries such as AFG Industries, now our largest volume customer, at its glass plant located in the Richmond, Kentucky industrial park. This plant

was completed in June and thus has been in operation this past quarter.

We have completed the planned summer injection of volumes into our Canada Mountain underground storage facility. The storage field now contains 3,600,000 Mcf, 2,000,000 Mcf of which is base, or cushion, gas and 1,600,000 of which is working gas that will be withdrawn as needed to meet our customers' requirements this winter. With this gas deliverability and our transmission system in place, we are well prepared for the upcoming heating season.

Our sales rates were reduced effective November 1, 1998 as a result of reductions in gas costs that are passed through to our customers. This resulted in our rates for gas usage by residential customers declining by 9%. We have no rate requests before the Public Service Commission at this time.

Delta Natural Gas Company, Inc. and Subsidiary Companies

Consolidated Statements of Income (Unaudited)

	Three Months Ended September 30		Twelve Months Ended September 30	
	1998	1997	1998	1997
OPERATING REVENUES	\$ 4,938,135	\$ 5,215,272	\$ 43,978,166	\$ 43,310,125
OPERATING EXPENSES				
Purchased gas	1,521,079	2,108,688	21,911,879	23,907,765
Operation and maintenance	2,152,048	2,229,271	6,888,290	8,822,381
Depreciation and depletion	938,929	846,154	3,538,158	3,054,221
Taxes other than income taxes	311,161	330,454	1,192,765	1,141,020
Income taxes	(416,775)	(481,200)	1,465,425	923,400
Total operating expenses	\$ 4,506,442	\$ 5,033,367	\$ 36,996,517	\$ 37,848,787
OPERATING INCOME	\$ 431,693	\$ 181,905	\$ 6,981,649	\$ 5,461,338
OTHER INCOME AND DEDUCTIONS, NET	4,595	4,413	68,093	31,284
INCOME BEFORE INTEREST CHARGES	\$ 436,288	\$ 186,318	\$ 7,049,742	\$ 5,492,622
INTEREST CHARGES	1,130,065	1,000,300	4,478,264	3,848,043
NET INCOME (LOSS)	\$ (693,777)	\$ (813,982)	\$ 2,571,478	\$ 1,644,579
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,382,071	2,348,453	2,368,302	2,334,164
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	\$ (.29)	\$ (.35)	\$ 1.09	\$.70
DIVIDENDS DECLARED PER COMMON SHARE	\$.285	\$.285	\$ 1.14	\$ 1.14

The nominees to the Board of Directors, Donald R. Crowe, Billy Joe Hall, and John D. Harrison, were elected yesterday at the Annual Meeting of Shareholders held at our Winchester office. A total of 2,134,581 shares, or 89.4% of the shares issued and outstanding, were voted at the meeting.

At the Board of Directors' meeting following the shareholder's meeting a dividend of \$.285 per common share was declared, to be paid December 15 to shareholders of record December 1. Also, the Chairman and officers were re-elected at the meeting.

Thank you for your interest in, and support of, Delta.

Sincerely,

Glenn R. Jennings

Glenn R. Jennings
President and Chief Executive Officer

November 20, 1998

For information or inquiry:

Emily P. Bennett
Director - Corporate Services
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

Telephone: (606) 744-6171
Fax: (606) 744-6552
Internet: www.deltagas.com
Email: delta@mis.net

Consolidated Balance Sheets (Unaudited)

ASSETS	September 30, 1998	September 30, 1997
UTILITY PLANT	\$ 129,173,462	\$ 121,085,327
Less-Accumulated provision for depreciation	(35,976,662)	(32,684,990)
Net gas plant	<u>\$ 93,196,800</u>	<u>\$ 88,400,337</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 194,422	\$ 169,731
Accounts receivable - net	1,416,525	1,313,799
Gas in storage	4,106,886	2,368,774
Deferred gas costs	—	2,631,094
Materials and supplies	547,122	688,607
Prepayments	246,809	250,615
Total current assets	<u>\$ 6,511,764</u>	<u>\$ 7,422,620</u>
OTHER ASSETS		
Cash surrender value of officers' life insurance	\$ 347,789	\$ 329,917
Note receivable from officer	104,000	128,000
Unamortized debt expense and other	4,719,301	3,695,646
Total other assets	<u>\$ 5,171,090</u>	<u>\$ 4,153,563</u>
Total assets	<u><u>\$ 104,879,654</u></u>	<u><u>\$ 99,976,520</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CAPITALIZATION		
Common shareholders' equity	\$ 28,660,763	\$ 28,192,000
Long-term debt	52,507,485	38,117,638
Total capitalization	<u>\$ 81,168,248</u>	<u>\$ 66,309,638</u>
CURRENT LIABILITIES		
Notes payable	\$ 7,050,000	\$ 15,485,000
Current portion of long-term debt	1,790,000	1,987,600
Accounts payable	1,854,078	3,096,744
Accrued taxes	245,527	238,147
Refunds due customers	89,604	566,142
Advance recovery of gas costs	1,894	—
Customers' deposits	449,093	392,158
Accrued interest on debt	1,591,563	1,241,222
Accrued vacation	528,952	516,032
Other accrued liabilities	404,810	405,796
Total current liabilities	<u>\$ 14,005,521</u>	<u>\$ 23,928,841</u>
DEFERRED CREDITS AND OTHER		
Deferred income taxes	\$ 8,023,475	\$ 7,921,100
Investment tax credits	637,300	708,400
Regulatory liability	825,050	892,100
Advances for construction and other	220,060	216,441
Total deferred credits and other	<u>\$ 9,705,885</u>	<u>\$ 9,738,041</u>
Total liabilities and shareholders' equity	<u><u>\$ 104,879,654</u></u>	<u><u>\$ 99,976,520</u></u>

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1998

____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 0-8788

DELTA NATURAL GAS COMPANY, INC.
(Exact Name of Registrant as Specified in its Charter)

Incorporated in the State of Kentucky 61-0458329
(I.R.S. Employer Identification No.)

3617 LEXINGTON ROAD, WINCHESTER, KENTUCKY 40391
(Address of Principal Executive Offices) (Zip Code)

606-744-6171
(Registrant's Telephone Number)

Indicate by check mark whether the registrant (1) has
filed all reports required to be filed by Section 13 or
15(d) of the Securities Exchange Act of 1934 during the
preceding 12 months and (2) has been subject to such
filing requirements for the past 90 days.

YES X . NO _____ .

Common Shares, Par Value \$1.00 Per Share
2,387,989 Shares Outstanding as of September 30, 1998.

PART 1 - FINANCIAL INFORMATION

1. FINANCIAL STATEMENTS.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
OPERATING REVENUES	\$ 4,938,135	\$ 5,215,272	\$ 43,978,166	\$ 43,310,125
OPERATING EXPENSES				
Purchased gas	\$ 1,521,079	\$ 2,108,688	21,911,879	\$ 23,907,765
Operation and maintenance	2,152,048	2,229,271	8,888,290	8,822,381
Depreciation and depletion	938,929	846,154	3,538,158	3,054,221
Taxes other than income taxes	311,161	330,454	1,192,765	1,141,020
Income taxes	(416,775)	(481,200)	1,465,425	923,400
Total operating expenses	\$ 4,506,442	\$ 5,033,367	36,996,517	\$ 37,848,787
OPERATING INCOME	\$ 431,693	\$ 181,905	6,981,649	\$ 5,461,338
OTHER INCOME AND DEDUCTIONS, NET	4,595	4,413	68,093	31,284
INCOME BEFORE INTEREST CHARGES	\$ 436,288	\$ 186,318	7,049,742	\$ 5,492,622
INTEREST CHARGES	1,130,065	1,000,300	4,478,264	3,848,043
NET INCOME (LOSS)	\$ (693,777)	\$ (813,982)	\$ 2,571,478	\$ 1,644,579
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,382,071	2,348,453	2,368,302	2,334,164
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	\$ (.29)	\$ (.35)	\$ 1.09	\$.70
DIVIDENDS DECLARED PER COMMON SHARE	\$.285	\$.285	\$ 1.14	\$ 1.14

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	September 30, 1998	June 30, 1998	September 30, 1997
GAS UTILITY PLANT	\$ 129,173,462	\$ 127,028,159	\$ 121,085,327
Less-Accumulated provision for depreciation	(35,976,662)	(34,929,481)	(32,684,990)
Net gas plant	<u>\$ 93,196,800</u>	<u>\$ 92,098,678</u>	<u>\$ 88,400,337</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 194,422	\$ 118,536	\$ 169,731
Accounts receivable - net	1,416,525	2,538,800	1,313,799
Gas in storage	4,106,886	2,050,000	2,368,774
Deferred gas costs	-	-	2,631,094
Materials and supplies	547,122	520,362	688,607
Prepayments	246,809	241,731	250,615
Total current assets	<u>\$ 6,511,764</u>	<u>\$ 5,469,429</u>	<u>\$ 7,422,620</u>
OTHER ASSETS			
Cash surrender value of Officers' life insurance	\$ 347,789	\$ 339,215	\$ 329,917
Note receivable from officer	104,000	110,000	128,000
Unamortized debt expense and other	4,719,301	4,849,291	3,695,646
Total other assets	<u>\$ 5,171,090</u>	<u>\$ 5,298,506</u>	<u>\$ 4,153,563</u>
Total assets	<u>\$ 104,879,654</u>	<u>\$ 102,866,613</u>	<u>\$ 99,976,520</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CAPITALIZATION			
Common shareholders' equity	\$ 28,660,763	\$ 29,810,294	\$ 28,192,000
Long-term debt	52,507,485	52,612,494	38,117,638
Total capitalization	<u>\$ 81,168,248</u>	<u>\$ 82,422,788</u>	<u>\$ 66,309,638</u>
CURRENT LIABILITIES			
Notes payable	\$ 7,050,000	\$ 1,875,000	\$ 15,485,000
Current portion of long-term debt	1,790,000	1,790,000	1,987,600
Accounts payable	1,854,078	2,050,628	3,096,744
Accrued taxes	245,527	1,085,766	238,147
Refunds due customers	89,604	117,123	566,142
Advance recovery of gas costs	1,894	1,148,019	-
Customers' deposits	449,093	438,134	392,158
Accrued interest on debt	1,591,563	1,215,265	1,241,222
Accrued vacation	528,952	528,952	516,032
Other accrued liabilities	404,810	485,018	405,796
Total current liabilities	<u>\$ 14,005,521</u>	<u>\$ 10,733,905</u>	<u>\$ 23,928,841</u>
DEFERRED CREDITS AND OTHER			
Deferred income taxes	\$ 8,023,475	\$ 8,023,475	\$ 7,921,100
Investment tax credits	637,300	637,300	708,400
Regulatory liability	825,050	831,425	892,100
Advances for construction and other	220,060	217,720	216,441
Total deferred credits and other	<u>\$ 9,705,885</u>	<u>\$ 9,709,920</u>	<u>\$ 9,738,041</u>
Total liabilities and shareholders' equity	<u>\$ 104,879,654</u>	<u>\$ 102,866,613</u>	<u>\$ 99,976,520</u>

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended		Twelve Months Ended	
	September 30		September 30	
	1998	1997	1998	1997
CASH FLOWS FROM OPERATING				
ACTIVITIES:				
Net income (loss)	\$ (693,777)	\$ (813,982)	\$ 2,571,478	\$ 1,644,579
Adjustments to reconcile net income (loss) to net cash from operating activities:				
Depreciation, depletion and amortization	1,036,810	902,512	3,884,545	3,270,189
Deferred income taxes and investment tax credits	(6,375)	-	(35,775)	485,400
Other, net	210,903	160,285	749,201	692,449
(Increase) decrease in other Assets	(2,047,348)	(327,792)	1,244,226	(2,926,294)
Increase (decrease) in other liabilities	(754,919)	(51,854)	(1,288,995)	2,733,759
Net cash provided by (used in) operating activities	\$ (2,254,706)	\$ (130,831)	\$ 7,124,680	\$ 5,900,082
CASH FLOWS FROM INVESTING				
ACTIVITIES:				
Capital expenditures	\$ (2,262,654)	\$ (4,314,597)	\$ (9,141,669)	\$ (15,485,538)
Net cash used in investing activities	\$ (2,262,654)	\$ (4,314,597)	\$ (9,141,669)	\$ (15,485,538)
CASH FLOWS FROM FINANCING				
ACTIVITIES:				
Dividends on common stock	\$ (679,190)	\$ (669,494)	\$ (2,699,928)	\$ (2,660,781)
Issuance of common stock, net	223,436	200,907	597,213	606,252
Issuance of long-term debt, net	-	-	23,707,499	-
Repayment of long-term debt	(126,000)	(16,677)	(11,128,104)	(580,356)
Issuance of notes payable	7,205,000	8,230,000	25,175,000	34,190,000
Repayment of notes payable	(2,030,000)	(3,610,000)	(33,610,000)	(22,060,000)
Net cash provided by financing activities	\$ 4,593,246	\$ 4,134,736	\$ 2,041,680	\$ 9,495,115
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 75,886	\$ (310,692)	\$ 24,691	\$ (90,341)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	118,536	480,423	169,731	260,072
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 194,422	\$ 169,731	\$ 194,422	\$ 169,731
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	\$ 794,057	\$ 764,398	\$ 4,264,865	\$ 3,143,138
Income taxes (net of refunds)	\$ 380,400	\$ 563,200	\$ 1,459,564	\$ 262,037

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

- (1) Delta Natural Gas Company, Inc. (Delta or the Company) has five wholly-owned subsidiaries. Delta Resources, Inc. (Resources) buys gas and resells it to industrial or other large use 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. TranEx Corporation owns a 43 mile intrastate pipeline. All subsidiaries are included in the consolidated financial statements. Intercompany balances and transactions have been eliminated.
- (2) The accompanying information reflects, in the opinion of management, all normal recurring adjustments necessary to present fairly the results for the interim periods. Reference should be made to Delta's Form 10-K for the year ending June 30, 1998 for additional footnote disclosures, including a summary of significant accounting policies.
- (3) Effective November 30, 1997, Delta received approval from the Kentucky Public Service Commission (PSC) for an annual revenue increase of \$1,670,000. This resulted from a general rate case that Delta had filed with the PSC during March, 1997. Effective May 1, 1998, resulting from a rehearing of certain tax-related items in this rate case, Delta also received approval from the PSC for an additional annual revenue increase of \$117,000.
- (4) On March 23, 1998, Delta completed the issuance and sale of \$25,000,000 of 7.15% Debentures that mature in March, 2018. The net proceeds of approximately \$24.1 million were used to repay short-term notes payable and to redeem the company's 9% Debentures that would have matured in April, 2011. The redemption of this debt, the outstanding principal amount of which was \$10,000,000, was completed on April 30, 1998. Loss on extinguishment of debt of \$632,000, which included \$332,000 of unamortized debt issuance expense and call premium of \$300,000 on the redeemed 9% Debentures, was deferred and is being amortized over the term of the related debt consistent with regulatory treatment.
- (5) In June 1997, Statement of Financial Accounting Standards No. 130 (SFAS 130), "Comprehensive Income," was issued. SFAS 130 establishes standards for reporting and

display of comprehensive income and its components in a full set of general purpose financial statements. SFAS 130 was adopted in the financial statements for the quarter ended September 30, 1998. The adoption of this statement had no impact on the financial statements of the Company.

- (6) - Reference is made to Part II - Item 1 relative to the status of legal proceedings.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS.

LIQUIDITY AND CAPITAL RESOURCES

Because of the seasonal nature of Delta's sales, the smallest proportion of cash generated from operations is received during the warmer months when sales volumes decrease considerably. Additionally, most construction activity takes place during the non-heating season because of more favorable weather conditions. During the warmer, non-heating months, therefore, cash needs for operations and construction are partially met through short-term borrowings.

Capital expenditures for Delta for fiscal 1999 are expected to be \$6.8 million, of which \$2.5 million was expended during the three months ended September 30, 1998. Delta generates internally only a portion of the cash necessary for its capital expenditure requirements and finances the balance of its capital expenditures on an interim basis through the use of its borrowing capability under its short-term line of credit. The current available line of credit is \$25 million, of which \$7.1 million was borrowed at September 30, 1998. The line of credit, which is with Bank One, Kentucky, NA, requires renewal during November, 1998 at which time Delta plans to extend the line of credit through November, 1999. These short-term borrowings are periodically repaid with the net proceeds from the sale of long-term debt and equity securities, as was done in March, 1998, when the net proceeds of \$24.1 million from the sale of \$25 million of debentures were used to repay short-term debt and to redeem the Company's 9% debentures, that would have matured in 2011, in the amount of \$10 million.

The primary cash flows during the three and twelve month periods ending September 30, 1998 and 1997 are summarized below:

	<u>Three Months Ended September 30</u>	
	<u>1998</u>	<u>1997</u>
Provided by (used in)		
Operating activities	\$ (2,254,706)	\$ (130,831)
Used in investing activities	(2,262,654)	(4,314,597)
Provided by financing activities	<u>4,593,246</u>	<u>4,134,736</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 75,886</u>	<u>\$ (310,692)</u>

	<u>Twelve Months Ended September 30</u>	
	<u>1998</u>	<u>1997</u>
Provided by operating activities	\$ 7,124,680	\$ 5,900,082
Used in investing activities	(9,141,669)	(15,485,538)
Provided by financing activities	<u>2,041,680</u>	<u>9,495,115</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 24,691</u>	<u>\$ (90,341)</u>

RESULTS OF OPERATIONS

Operating Revenues

The decrease in operating revenues for the three months ended September 30, 1998 of \$280,000 was due primarily to a decrease in retail sales volumes of 38,000 Mcf (13.7%) and a decrease in sales volumes to Resources customers of 55,000 Mcf (9.6%). These decreases were partially offset by the general rate increase effective November 30, 1997.

The increase in operating revenues for the twelve months ended September 30, 1998 of \$665,000, was due primarily to the general rate increase effective November 30, 1997 and to increases in on-system and off-system transportation volumes of 510,000 Mcf and 216,000 Mcf, respectively. These increases were partially offset by a decrease in retail sales volumes of 245,000 Mcf as a result of the warmer winter weather in 1998. Billed heating degree days were only 93% of thirty year average ("normal") degree days for 1998 as compared with 103.6% in 1997.

Operating Expenses

The decreases in purchased gas expense of \$588,000 and \$1,996,000 for the three and twelve months ended September 30, 1998, respectively, were due primarily to the decreased gas purchases for retail sales resulting from the warmer winter weather in 1998 and decreases in the cost of gas purchased for retail sales.

The increases in depreciation and depletion expense for the three and twelve months ended September 30, 1998 of \$93,000 and \$484,000, respectively, were primarily due to additional depreciable plant.

The changes in income taxes for the three and twelve months ending September 30, 1998 of \$64,000 and \$542,000, respectively, were primarily due to the changes in net income.

Interest Charges

The increases in interest charges for the three and twelve months ended September 30, 1998 of \$130,000 and \$630,000, respectively, were due primarily to increased borrowings for the periods.

THE "YEAR 2000" ISSUE

The Company is working to determine the potential impact of the Year 2000 on the ability of Delta's computerized information systems to accurately process information that may be date-sensitive. Any of Delta's programs that recognize a date using "00" as the Year 1900 rather than the Year 2000 could result in errors or system failures. The Company uses a number of computer programs across its entire operation.

In recent years, Delta has replaced virtually all of its financial computer systems (both hardware and software) with systems from third party vendors who certify their products as being Year 2000 compliant.

The Company has established a Year 2000 committee, comprised of members of management, to coordinate an extensive inventory of all operational systems, including information technology (IT) hardware and software, as well as non-IT embedded systems such as process controls for gas delivery and metering systems. The purpose of this effort is to determine which items might be adversely affected by date-sensitive materials. In addition, the Company has been diligently working to insure that each of these items are either repaired or replaced so as not to cause business interruption or data integrity problems on January 1, 2000. Moreover, Delta is currently in the process of testing its equipment to determine what work remains to be done in this regard. The Company has not completed its assessment, but currently

believes that costs of addressing this issue will not have a material adverse impact on the Company's financial position.

Like most businesses, the Company relies upon various suppliers and vendors in order to provide services and supplies to its customers. Delta understands that even though it is taking necessary steps to prepare it could, nevertheless, be adversely affected by the failures and/or delays caused by any non-compliant equipment used by its suppliers or vendors. Therefore, Delta is currently gathering information regarding the steps its "mission-critical" suppliers and vendors are taking to become Year 2000 compliant. For instance, Delta intends to send each of these parties a letter inquiring about the nature and extent of their efforts.

Although the Company intends to complete all Year 2000 remediation and testing activities by the end of the third quarter of 1999, and although the Company has initiated Year 2000 communications with significant customers, key vendors, service suppliers and other parties material to the Company's operations and is diligently monitoring the progress of such third parties in Year 2000 compliance, such third parties nonetheless represent a risk that cannot be assessed with precision or controlled with certainty.

The major applications which pose the greatest Year 2000 risks for the Company if implementation of the Year 2000 compliance program is not successful are the gas delivery, metering and billing systems. Potential problems related to these systems include service interruptions to customers, interrupted revenue data gathering and poor customer relations resulting from delayed billing.

The Company intends to develop contingency plans to address alternatives in the event that Year 2000 failures of automatic systems and equipment occur. Preliminary discussions have been held regarding the contingency plan and a final contingency plan is scheduled to be completed by mid-year 1999.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The detailed information required by Item 1 has been disclosed in previous reports filed with the Commission and is unchanged from the information as presented in Item 3 of Form 10-K for the period ending June 30, 1998.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

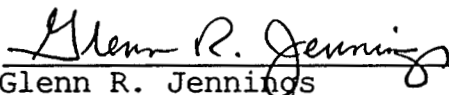
- (a) Exhibits. No exhibits are required to be filed with this report.
- (b) Reports on Form 8-K. No reports on Form 8-K have been filed by the Registrant during the quarter for which this report is filed.

SIGNATURES

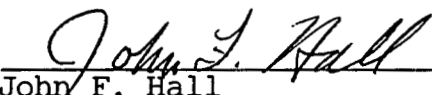
Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELTA NATURAL GAS COMPANY, INC.
(Registrant)

DATE: November 3, 1998



Glenn R. Jennings
President and Chief Executive Officer
(Duly Authorized Officer)



John F. Hall
Vice President - Finance, Secretary
and Treasurer
(Principal Financial Officer)

4. Please provide copies of prospectuses for any security issuances that took place for Delta from the end of 1996 through to date.

RESPONSE:

See attached.

WITNESS: John Hall

PROSPECTUS



DELTA NATURAL GAS COMPANY, INC.

\$25,000,000 7.15% Debentures due 2018

The 7.15% Debentures due 2018 (the "Debentures") will be issued in the form of one global security (the "Global Security") registered in the name of the nominee of The Depository Trust Company (the "Depository"), and such nominee will be the sole holder of the Debentures. An owner of an interest in the Debentures ("Beneficial Owner") will not be entitled to the delivery of a definitive security except in limited circumstances. A Beneficial Owner's interest in the Global Security will be recorded on and transfers will be effected only through records maintained by the Depository and its participants. See "Description of Debentures".

Interest on the Debentures is payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 1998. At the option of any deceased Beneficial Owner's Representative (as defined below), interests in the Debentures are redeemable at 100% of their principal amount, plus accrued interest, at any time, subject to the maximum principal amounts of \$25,000 per deceased Beneficial Owner and \$750,000 in the aggregate for all deceased Beneficial Owners during the initial period ending April 1, 1999 and during each twelve-month period thereafter, within 60 days after presentment to the Depository of a satisfactory request for redemption by a deceased Beneficial Owner's Representative. Otherwise, neither the Company nor a Beneficial Owner can require redemption of the Debentures until April 1, 2003, although the Company may, but is not required to, redeem interests in the Debentures tendered in excess of the above limitations. After April 1, 2003, however, interests in the Debentures will be redeemable at 100% of the principal amount redeemed plus accrued interest to the redemption date, in whole or in part, at the option of the Company. There can be no assurance that a Beneficial Owner's or a deceased Beneficial Owner's interest in the Debentures will be redeemed before maturity. The Debentures will be unsecured obligations of the Company payable out of the Company's general operating funds, and no mandatory sinking fund will exist to provide for the repayment of the indebtedness represented by the Debentures. See "Description of Debentures".

The Debentures will be issued in denominations of \$1,000 or integral multiples thereof.

There is no market for the Debentures, and no assurance can be given that one will develop.

See "RISK FACTORS" commencing on page 5 for information that should be considered by prospective investors.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount and Commissions(1)	Proceeds to Company(2)
Per Debenture	100%	3.25%	96.75%
Total	\$25,000,000	\$812,500	\$24,187,500

- (1) The Company has agreed to indemnify Edward D. Jones & Co., L.P. (the "Underwriter") against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting".
- (2) Before deduction of expenses payable by the Company estimated at \$85,000.

The Debentures are offered by the Underwriter, subject to prior sale, when, as and if issued to and accepted by the Underwriter, subject to its right to reject any order in whole or in part and subject to certain other conditions. The Debentures will bear interest from the date of delivery of the Global Security to the Underwriter, which is expected to be on or about March 27, 1998.

Edward D. Jones & Co., L.P.

The date of this Prospectus is March 23, 1998.

AVAILABLE INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement on Form S-2 with respect to the securities offered hereby (herein, together with all amendments and exhibits, referred to as the "Registration Statement") under the Securities Act of 1933, as amended (the "Act"). This Prospectus does not contain all of the information set forth in such Registration Statement, certain parts of which are omitted in accordance with the Rules and Regulations of the Commission. For further information pertaining to these securities and the Company, reference is made to the Registration Statement.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Commission. Reports, proxy and information statements, and other information filed by the Company can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the following Regional Offices of the Commission: New York Regional Office, 75 Park Place, New York, New York 10007; and Chicago Regional Office, 500 West Madison Street, Chicago, Illinois 60661. Copies of such materials also can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Commission maintains an internet web site that contains reports, proxy and information statements, and other information regarding the Company, and the address of such site is <http://www.sec.gov>.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, which have heretofore been filed by the Company with the Commission pursuant to the Exchange Act, are incorporated by reference into this Prospectus and shall be deemed to be a part hereof as of their respective dates:

1. The annual report of the Company on Form 10-K for the fiscal year ended June 30, 1997.
2. The quarterly reports of the Company on Form 10-Q for the fiscal quarters ended September 30, 1997, and December 31, 1997.

Any statement contained in a document incorporated by reference herein or deemed to be incorporated by reference shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any subsequently filed document which is deemed to be incorporated herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide, without charge, to each person, including any beneficial owner, to whom this Prospectus is delivered, upon the written or oral request of any such person, a copy of any or all documents incorporated by reference into this Prospectus (without exhibits other than exhibits specifically incorporated by reference into such documents). Requests should be directed to: John F. Hall, Vice President - Finance, Secretary and Treasurer, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391, telephone number (606) 744-6171, Fax number (606) 744-6552.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE DEBENTURES. SUCH TRANSACTIONS MAY INCLUDE STABILIZING THE PURCHASE OF DEBENTURES TO COVER SYNDICATE SHORT POSITIONS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING".

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements (and notes thereto) contained elsewhere in this Prospectus and in the documents incorporated herein by reference.

The Company

Delta Natural Gas Company, Inc. ("Delta" or the "Company"), a regulated public utility organized in 1949, is engaged in the distribution and transmission of natural gas to approximately 38,000 residential, commercial and industrial customers in central and southeastern Kentucky. The Company also owns and operates underground storage facilities and certain oil and gas production properties and transports gas for others.

The Company plans to continue its efforts to increase its retail customer base through continued expansion within its existing service areas and will continue to consider acquisitions of other gas systems. The Company also anticipates continuing activity in the gas storage, production and transportation areas and plans to pursue and increase these activities whenever practicable.

The Offering

Debentures Offered\$25,000,000 in aggregate principal amount

MaturityApril 1, 2018

Interest7.15% payable, semi-annually on each April 1 and October 1, commencing October 1, 1998

Beneficial Owner's Redemption

PrivilegeAt the option of any deceased Beneficial Owner's Representative, interests in the Debentures are redeemable at 100% of their principal amount, plus accrued interest, subject to the maximum principal amounts of \$25,000 per deceased Beneficial Owner and \$750,000 in the aggregate for all deceased Beneficial Owners during the initial period ending April 1, 1999 and during each twelve-month period thereafter. See "Description of Debentures—Limited Right of Redemption upon Death of Beneficial Owner".

Company's Redemption PrivilegeThe Debentures can be redeemed by the Company, in whole or in part, upon not less than 30 days notice, on or after April 1, 2003, at 100% of the principal amount to be redeemed plus accrued interest to the redemption date. See "Description of Debentures—Redemption at the Option of the Company".

Use of ProceedsTo redeem the Company's outstanding 9% Debentures due 2011 and to reduce short-term notes payable.

Summary Consolidated Financial Information

The following table sets forth certain summary consolidated financial information of the Company and its subsidiaries and the ratio of earnings to fixed charges as of December 31, 1997 and for the twelve months then ended, and as of and for each of the three fiscal years ended June 30, 1997. The summary financial information is qualified by reference to the consolidated financial statements and other information and data set forth elsewhere in this Prospectus.

	<u>For the Twelve Months Ended December 31, 1997</u>	<u>For the Fiscal Years Ended June 30,</u>		
		<u>1997</u>	<u>1996</u>	<u>1995</u>
INCOME DATA				
Operating Revenues	\$45,074,546	\$42,169,185	\$36,576,055	\$31,844,339
Operating Income	6,096,993	5,315,582	5,437,055	4,255,088
Net Income	2,038,238	1,724,265	2,661,349	1,917,735
Basic Earnings per Common Share .....	.87	.75	1.41	1.04
Diluted Earnings per Common Share .....	.87	.75	1.41	1.04
Dividends Declared per Common Share	1.14	1.14	1.12	1.12
		<u>December 31, 1997</u>		
		<u>Actual</u>	<u>As Adjusted(1)</u>	
CAPITALIZATION				
Long-Term Debt (Including Current Portion)	\$39,530,373	58.3%	\$54,530,373	65.9%
Common Shareholders' Equity	<u>28,255,698</u>	<u>41.7</u>	<u>28,255,698</u>	<u>34.1</u>
Total Capitalization	<u>\$67,786,071</u>	<u>100.0%</u>	<u>\$82,786,071</u>	<u>100.0%</u>
SHORT-TERM NOTES PAYABLE	<u>\$19,395,000</u>		<u>\$ 5,592,500</u>	
		<u>For the Twelve Months Ended December 31, 1997</u>	<u>For the Fiscal Years Ended June 30,</u>	
		<u>1997</u>	<u>1996</u>	<u>1995</u>
RATIO OF EARNINGS TO FIXED CHARGES(2)				
Actual	1.78x	1.74x	2.50x	2.24x
Pro Forma(1)	1.74x			

- (1) Adjusted to reflect the issuance of the Debentures offered hereby and the application of the estimated net proceeds of \$24,102,500 therefrom. See "Use of Proceeds and Capital Expenditures".
- (2) The ratio of earnings to fixed charges represents the number of times that fixed charges are covered by earnings. Earnings for the calculation consist of net income before income taxes and fixed charges. Fixed charges consist of interest expense and amortization of debt expense.

RISK FACTORS

Prospective purchasers should carefully consider, together with the other information contained and incorporated by reference in this Prospectus, the following risk factors before purchasing the Debentures offered hereby. Prospective purchasers should note, in particular, that this Prospectus contains forward-looking statements and that actual results could differ materially from those contemplated by such statements. Prospective purchasers should also refer to the factors discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors That May Affect Future Results”.

Factors Affecting the Gas Utility Industry and the Company’s Operations

The natural gas utility industry in general and the Company’s operations in particular are subject to numerous regulations and uncertainties. Issues which have affected or may affect the Company from time to time include the following:

- Fluctuations in demand attributable to weather (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview”);
- New business and operational requirements for gas supply resulting from changes in federal regulation of interstate pipelines;
- Competition with other sources of gas supply;
- Competition with alternative sources of energy (see “Business—Distribution and Transmission of Natural Gas”);
- Uncertainty in achieving an adequate return on invested capital due to inflation;
- Difficulty in obtaining rate increases from regulatory authorities in adequate amounts and on a timely basis (see “Business—Regulatory Matters”);
- Uncertainty in recovery of gas cost (gas supply, pipeline capacity and storage) through the Gas Cost Recovery clause of Delta’s rates (see “Business—Regulatory Matters”);
- Attrition in earnings produced by the combination of increasing expenses and the costs of new capital which may exceed allowed rates of return;
- The availability of pipeline transportation capacity necessary to secure supplies of gas;
- Bypass of the Company’s intrastate gas transportation system by customers installing private transmission mains from the interstate transmission system;
- Volatility in the price of natural gas;
- Increases in construction and operating costs;
- Environmental regulations and costs of environmental remediation;
- The possibility of state regulation requiring the unbundling of various elements of gas distribution and service (see “Business—Regulatory Matters”);
- Rates and margin for gas transportation service and customer choice of transportation service without gas sales service (see “Business—Distribution and Transmission of Natural Gas”);
- The possibility of change from cost-based rate regulation; and
- Uncertainty in the projected rate of growth of customers’ energy requirements.

Absence of Public Market for Debentures

There is no public trading market for the Debentures, and the Company does not intend to apply for listing of the Debentures on any national securities exchange or for quotation of the Debentures on any automated dealer quotation system. The Company has been advised by the Underwriter that it presently intends to make a market in the Debentures after the consummation of the offering contemplated hereby, although the Underwriter is under no

obligation to do so, and may discontinue any market-making activities at any time without any notice. No assurance can be given as to the liquidity of the trading market for the Debentures or that an active public market for the Debentures will develop. If an active public trading market for the Debentures does not develop, the market price and liquidity of the Debentures may be adversely affected. If the Debentures are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, performance of the Company, and certain other factors.

Effects of Weather

The Company’s business is influenced by seasonal weather conditions. The amount of gas sold and transported for central and space heating purposes and, to a lesser extent, water heating is directly related to the ambient air temperature. Consequently, more gas is sold and transported during the winter months than during the summer months, resulting in seasonal differences in revenues. Because the Company’s rates are set based on normal temperatures, warmer than normal temperatures will have an adverse impact on the Company’s revenues and earnings. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

THE COMPANY

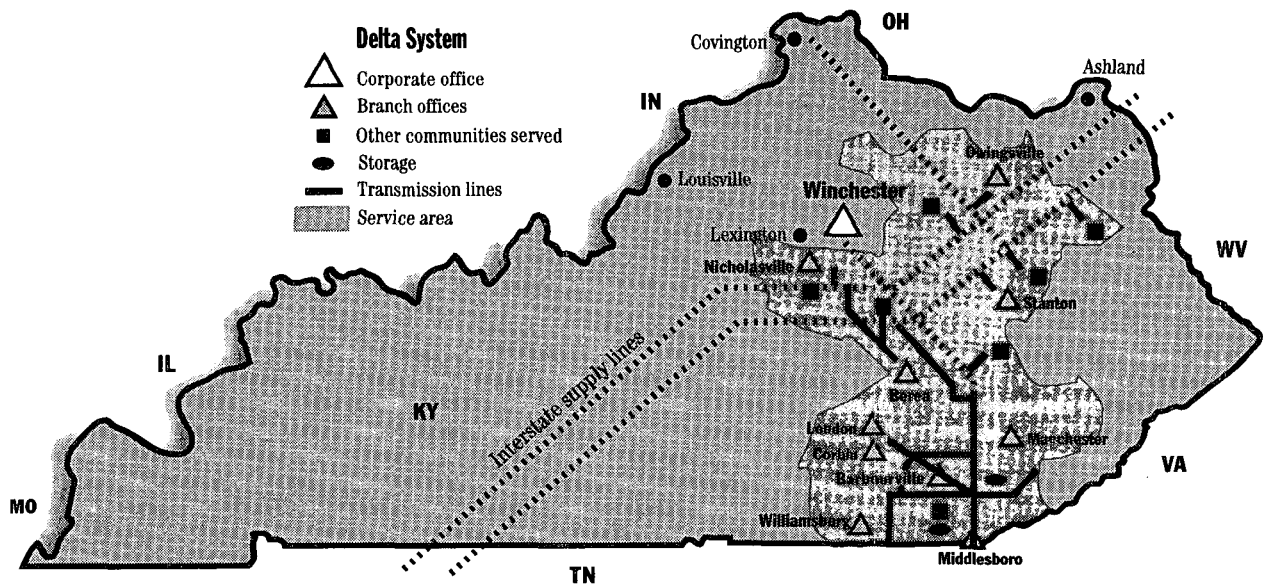
Delta is engaged primarily in the distribution, transmission and storage of natural gas with its facilities which are located in 20 counties in central and southeastern Kentucky. Delta serves 38,000 residential, commercial, industrial and transportation customers and makes transportation deliveries to several interconnected pipelines.

Unless the context requires otherwise, references to Delta include Delta’s wholly-owned subsidiaries, Delta Resources, Inc. (“Resources”), Delgasco, Inc. (“Delgasco”), Deltran, Inc. (“Deltran”), Enpro, Inc. (“Enpro”) and TranEx Corporation (“TranEx”). Resources buys gas and resells it to industrial customers on Delta’s system and to Delta for system supply. Delgasco buys gas and resells it to Resources and to customers not on Delta’s system. Deltran operates an underground natural gas storage field that it leases from Delta. Enpro owns and operates production properties and undeveloped acreage. TranEx owns a 43 mile intrastate pipeline. Delta and its subsidiaries are under common executive management.

Delta’s principal executive offices are located at 3617 Lexington Road, Winchester, Kentucky 40391. Its telephone number is (606) 744-6171, its Fax number is (606) 744-6552 and its internet address is www.deltagas.com.

SYSTEM MAP

This map displays Delta’s service area. The map is an outline of the state of Kentucky with symbols indicating the location of Delta’s corporate office, branch offices, communities served, storage facilities and transmission lines. The map also indicates the location of interstate supply lines from which Delta receives a portion of its supply.



USE OF PROCEEDS AND CAPITAL EXPENDITURES

The net proceeds to Delta from the sale of the Debentures, after deducting the underwriter's commission and the other expenses of the offering, are estimated to be approximately \$24,102,500 and will be used to (i) redeem Delta's 9% Debentures due 2011, the outstanding principal amount of which, as of March 4, 1998, was \$10,000,000; (ii) pay an early redemption premium of \$300,000 on the 9% Debentures; and (iii) reduce short-term notes payable, which at March 4, 1998 were \$16,425,000. The short-term notes payable were incurred pursuant to Delta's bank credit line under a \$25,000,000 revolving credit loan agreement that expires November 15, 1998 and bears interest based, at the option of the Company, on either the daily prime rate or certain certificate of deposit rates, which interest rate as of March 4, 1998 was 6.835%. Delta's short-term notes payable were incurred to provide funds for general operating expenses and capital expenditures. The capital expenditures were made primarily for replacement and upgrading of existing facilities, system extensions, and development of an underground storage field. Delta's capital expenditures were \$16,649,000, \$13,373,000 and \$8,123,000 in fiscal years 1997, 1996 and 1995, respectively. For the six months ended December 31, 1997, Delta's capital expenditures were \$7,660,000, and Delta estimates total capital expenditures for fiscal 1998 at \$11,600,000. Capital expenditures for fiscal 1999 are estimated at \$8,000,000 and will be primarily used for system extensions and the replacement and improvement of existing facilities. Capital expenditures are financed through internally generated funds and short-term borrowings. Such borrowings are replaced from time to time with long-term debt and equity financings, the amount and types of which depend upon the Company's capital needs and market conditions.

CONSOLIDATED CAPITALIZATION

The following tables set forth the consolidated capitalization and short-term debt of the Company as of December 31, 1997, and as adjusted to reflect the issuance of the Debentures offered hereby and the application of the net proceeds as described in "Use of Proceeds and Capital Expenditures". This table should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this Prospectus.

	<u>Actual</u>		<u>As Adjusted</u>		
Long-term debt (including current portion)					
9% Debentures, due 2011	\$10,000,000		\$ —		
6 %%% Debentures, due 2023	13,325,000		13,325,000		
8.3% Debentures, due 2026	15,000,000		15,000,000		
7.15% Debentures, due 2018	—		25,000,000		
Other long-term debt	<u>1,205,373</u>		<u>1,205,373</u>		
Total long-term debt	<u>\$39,530,373</u>	58.3%	<u>\$54,530,373</u>	65.9%	
Common shareholders' equity					
Common shares, par value \$1 per share					
Authorized—6,000,000 shares					
Outstanding—2,361,922 shares	\$ 2,361,922		\$ 2,361,922		
Premium on common shares	27,528,243		27,528,243		
Capital stock expense	(1,917,020)		(1,917,020)		
Retained earnings	<u>282,553</u>		<u>282,553</u>		
Total common shareholders' equity	<u>\$28,255,698</u>	<u>41.7%</u>	<u>\$28,255,698</u>	<u>34.1%</u>	
Total capitalization	<u>\$67,786,071</u>	<u>100.0%</u>	<u>\$82,786,071</u>	<u>100.0%</u>	
Short-term notes payable	<u>\$19,395,000</u>		<u>\$ 5,592,500</u>		

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth certain selected consolidated financial information of the Company and the ratio of earnings to fixed charges as of December 31, 1997 and for the twelve months then ended and as of and for each of the five fiscal years ended June 30, 1997. The selected consolidated financial information is qualified by reference to the consolidated financial statements and other information and data set forth elsewhere in this Prospectus.

	As of and for the Twelve Months Ended December 31, 1997	As of and for the Fiscal Years Ended June 30,				
		1997(a)	1996(a)	1995	1994(b)	1993
Summary of Operations (\$)						
Operating revenues.....	45,074,546	42,169,185	36,576,055	31,844,339	34,846,941	31,221,410
Operating income	6,096,993	5,315,582	5,437,055	4,255,088	4,850,673	4,791,816
Net income	2,038,238	1,724,265	2,661,349	1,917,735	2,671,001	2,620,664
Basic earnings per common share .....	.87	.75	1.41	1.04	1.50	1.60
Diluted earnings per common share .....	.87	.75	1.41	1.04	1.50	1.60
Dividends declared per common share	1.14	1.14	1.12	1.12	1.11	1.09
Average Number of Common Shares Outstanding	2,342,910	2,294,134	1,886,629	1,850,986	1,775,068	1,635,945
Total Assets (\$)	105,259,338	96,681,165	81,140,637	65,948,716	61,932,480	55,129,912
Capitalization (\$)						
Common shareholders' equity	28,255,698	29,474,569	23,628,323	22,511,513	22,164,791	17,501,045
Long-term debt.....	37,976,596	38,107,860	24,488,916	23,702,200	24,500,000	19,596,401
Notes payable refinanced subsequent to year end....	—	—	18,075,000	—	—	—
Total capitalization	<u>66,232,294</u>	<u>67,582,429</u>	<u>66,192,239</u>	<u>46,213,713</u>	<u>46,664,791</u>	<u>37,097,446</u>
Short-Term Debt (\$) (c)	20,948,777	12,852,600	1,084,800	6,732,700	3,205,000	7,729,000
Other Items (\$)						
Capital expenditures	14,236,815	16,648,994	13,373,416	8,122,838	7,374,747	6,289,508
Gross plant	123,913,386	116,829,158	98,795,623	84,944,969	77,882,135	71,187,860
Ratio of Earnings to Fixed Charges(d)						
Actual.....	1.78x	1.74x	2.50x	2.24x	2.89x	2.88x
Pro forma(e)	1.74x					

(a) During July, 1996, \$15,000,000 of debentures and 400,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and for general corporate purposes. The balance of the note payable at June 30, 1996 (\$18,075,000) is included in total capitalization as a result of the subsequent refinancing.

(b) During October, 1993, \$15,000,000 of debentures and 170,000 shares of common stock were sold, and the proceeds were used to repay short-term debt and to refinance certain long-term debt.

(c) Includes current portion of long-term debt.

(d) The ratio of earnings to fixed charges represents the number of times that fixed charges are covered by earnings. Earnings for the calculation consist of net income before income taxes and fixed charges. Fixed charges consist of interest expense and amortization of debt expense.

(e) As adjusted to reflect the issuance of the Debentures offered hereby and the application of the net proceeds therefrom.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

**For complete consolidated financial statements of the Company,
see Pages F-1 through F-13.**

Overview

The Company's utility operations are subject to regulation by the Public Service Commission of Kentucky ("PSC"), which plays a significant role in determining the Company's return on equity. The PSC approves rates that are intended to permit a specified rate of return on investment. The Company's rate tariffs allow the cost of gas to be passed through to customers. See "Business—Regulatory Matters".

The Company's business is temperature-sensitive. Accordingly, the Company's operating results in any given period reflect, in addition to other factors, the impact of weather, with colder temperatures generally resulting in increased sales by the Company. The Company anticipates that this sensitivity to seasonal and weather conditions will continue to be so reflected in the Company's operating results in future periods.

Liquidity and Capital Resources

Because of the seasonal nature of Delta's sales, the smallest proportion of cash generated from operations is received during the warmer months when sales volumes decrease considerably. Additionally, most construction activity takes place during the non-heating season because of more favorable weather conditions. During the warmer, non-heating months, therefore, cash needs for operations and construction are partially met through short-term borrowings.

Capital expenditures for Delta for fiscal 1998 are expected to be \$11,600,000, of which \$7,660,000 was expended during the six months ended December 31, 1997. Delta generates internally only a portion of the cash necessary for its capital expenditure requirements and finances the balance of its capital expenditures on an interim basis through the use of its borrowing capability under its short-term line of credit. The current available line of credit is \$25,000,000, of which \$19,400,000 was borrowed at December 31, 1997. The line of credit, which is with Bank One, Kentucky, NA, expires during November, 1998. These short-term borrowings are periodically repaid with the net proceeds from the sale of long-term debt and equity securities, as was done in July, 1996 when the net proceeds of \$20,400,000 from the sale of \$15,000,000 of debentures and 400,000 shares of common stock were used to repay short-term debt and for working capital.

The primary cash flows during the twelve months ended December 31, 1997 and the fiscal years ended June 30, 1997, 1996 and 1995 are summarized below:

	Twelve Months Ended December 31, 1997	Fiscal Years Ended		
		June 30, 1997	June 30, 1996	June 30, 1995
Provided by operating activities.....	\$ 5,902,623	\$ 6,209,226	\$ 3,094,809	\$ 6,943,183
Used in investing activities	(14,236,815)	(16,648,994)	(13,373,416)	(8,122,838)
Provided by financing activities	8,760,395	10,768,558	10,294,461	1,158,887
Net increase (decrease) in cash and cash equivalents.....	<u>\$ 426,203</u>	<u>\$ 328,790</u>	<u>\$ 15,854</u>	<u>\$ (20,768)</u>

Cash provided by operating activities consists of net income and noncash items including depreciation, depletion, amortization and deferred income taxes. Additionally, changes in working capital are also included in cash provided by operating activities. The Company expects that internally generated cash, coupled with short-term borrowings, will be sufficient to satisfy its operating, normal capital expenditure and dividend requirements.

Results of Operations

Operating Revenues

The increase in operating revenues of \$2,906,000 for the twelve months ended December 31, 1997 over fiscal 1997 was due primarily to increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause and to the general rate increase effective November 30, 1997. On-system transportation volumes for the twelve months ended December 31, 1997 increased 431,000 Mcf, or 15.1% as compared with fiscal 1997. Retail sales volumes increased 109,000 Mcf, or 2.5%, as heating degree days billed were 107% of the thirty year average ("normal") degree days for the twelve months ended December 31, 1997 as compared with 103% for fiscal 1997.

The increase in operating revenues of \$5,593,000 for fiscal 1997 was due primarily to increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause. This was partially offset by a decrease in retail sales volumes of 406,000 Mcf as a result of the warmer winter weather in fiscal 1997. Billed degree days were 103% of normal for fiscal 1997 as compared with 112% for fiscal 1996. In addition, on-system transportation volumes for fiscal 1997 increased 293,000 Mcf, or 11.4%.

The increase in operating revenues of \$4,732,000 for fiscal 1996 was due primarily to an increase in retail sales volumes of 980,000 Mcf as a result of the colder winter weather in fiscal 1996. Billed degree days were 112% of normal for fiscal 1996 as compared with 89% for fiscal 1995. In addition, on-system transportation volumes for fiscal 1996 increased 180,000 Mcf, or 8%. These increases were partially offset by decreases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause and by a decrease in off-system transportation volumes of 318,000 Mcf, or 22%, due primarily to reduced deliveries from local producers.

Operating Expenses

The increase in purchased gas expense of \$1,298,000 for the twelve months ended December 31, 1997 over fiscal 1997 was due primarily to increases in the cost of gas purchased for retail sales and increased gas purchases for retail sales resulting from the colder winter weather during the twelve months ended December 31, 1997.

The increase in purchased gas expense of \$5,875,000 for fiscal 1997 was due primarily to increases in the cost of gas purchased for retail sales. The increase was partially offset by the decreased gas purchases for retail sales resulting from the warmer winter weather in fiscal 1997.

The increase in purchased gas expense of \$1,893,000 for fiscal 1996 was due primarily to the increased gas purchases for retail sales resulting from the colder winter weather during fiscal 1996. The increase was partially offset by decreases in the cost of gas purchased for retail sales.

The increase in operation and maintenance expenses of \$640,000 during fiscal 1996 was due primarily to increases in payroll and related benefit costs.

The increases in depreciation expense during the twelve months ended December 31, 1997, fiscal 1997 and fiscal 1996 of \$266,000, \$424,000 and \$327,000, respectively, were due primarily to additional depreciable plant.

The increases in taxes other than income taxes during the twelve months ended December 31, 1997 over fiscal 1997 and fiscal 1996 over fiscal 1995 of \$105,000 and \$173,000, respectively, were primarily due to increased property taxes which resulted from increased plant and property valuations, and to increased payroll taxes, which resulted from increased wages.

Changes in income taxes during the twelve months ended December 31, 1997, fiscal 1997 and fiscal 1996 of approximately \$189,000, \$595,000 and \$517,000, respectively, were primarily due to changes in net income.

Interest Charges

The increase in interest on long-term debt during fiscal 1997 of \$1,146,000 was due primarily to the issuance during July, 1996 of the \$15,000,000 of 8.3% Debentures due 2026.

The increase in other interest charges of \$304,000 during the twelve months ended December 31, 1997 over fiscal 1997 was due primarily to increased average short-term borrowings.

The decrease in other interest charges during fiscal 1997 of \$348,000 was due primarily to decreased average short-term borrowings as short-term debt was repaid with the net proceeds from the sale of long-term debt and equity securities during July, 1996.

The increase in other interest charges during fiscal 1996 of \$448,000 was due primarily to increased average short-term borrowings and increased average interest rates.

Basic Earnings Per Common Share

For the twelve months ended December 31, 1997 and fiscal 1997, basic earnings per common share were diluted, as compared with previous periods, by the increased average common shares outstanding that resulted from the additional 400,000 shares of common stock issued in July, 1996, as well as the common shares issued under Delta's dividend reinvestment plan and shares issued to employees during the periods.

Balance Sheet

The Company experienced significant fluctuations in Balance Sheet line items on December 31, 1997 compared with June 30, 1997. Those differences were primarily the result of seasonal changes in Accounts Receivable, Gas in Storage, Prepayments and Accounts Payable.

Factors That May Affect Future Results

Statements in Management's Discussion and Analysis of Financial Condition and Results of Operations and the other sections of this Prospectus to which it refers, that are not statements of historical fact, are forward-looking statements, which concern (among other things) the impact of changes in the cost of gas, projected capital expenditures, sources of cash to fund expenditures and regulatory recovery mechanisms. Such statements are accordingly subject to important risks and uncertainties which could cause the Company's actual results to differ materially from those expressed in any such forward-looking statements made herein. The aforesaid uncertainties include, but are not limited to: uncertainty as to the regulatory allowance of recovery of changes in the cost of gas, uncertain demands for capital expenditures, the availability of cash from various sources and uncertainty as to regulatory approval of the full recovery of costs and regulatory assets. See "Risk Factors".

The "Year 2000" Issue

Many computer systems are currently based on storing two digits to identify the year of a transaction (for example, "97" for 1997), rather than a full four digits, and are not programmed to consider the start of a new century. Significant processing inaccuracies and even inoperability could result in the year 2000 and thereafter. The Company's principal computer systems are currently capable of processing the year 2000, or are in the process of being upgraded or replaced by systems that are similarly capable. The Company does not expect that the costs of addressing the "Year 2000" issue will have a material impact on the Company's financial position or results of operations.

BUSINESS

Summary of Business Development

In 1951, Delta established its first retail gas distribution system, which provided service to 300 customers in Owingsville and Frenchburg, Kentucky. As a result of acquisitions, as well as expansions of its customer base within its existing service areas, Delta currently provides retail gas distribution service to 38,000 customers in central and southeastern Kentucky and, additionally, provides transportation service to industrial customers and interconnected pipelines located in the area.

During fiscal 1996, Delta acquired leases for 8,000 acres on Canada Mountain in Bell County, Kentucky, for the storage of natural gas. Delta has completed the development of the property as an underground natural gas storage facility with an estimated capacity to store 4,000,000 Mcf of natural gas. This storage facility permits Delta to purchase and store gas during the non-heating months and withdraw and sell the gas during the peak usage winter months.

Distribution and Transmission of Natural Gas

The Company purchases and produces gas for distribution to its retail customers and also provides transportation service to industrial customers and inter-connected pipelines with its facilities that are located in 20 predominantly rural counties in central and southeastern Kentucky. The economy of Delta's service area is based principally on coal mining, farming and light industry. The communities in Delta's service area typically contain populations of less than 20,000. The four largest service areas are Nicholasville, Corbin, Berea and Middlesboro, where Delta serves 6,700, 6,500, 4,000 and 3,700 customers, respectively.

The communities served by Delta continue to expand, resulting in growth opportunities for the Company. Industrial parks have been developed in certain areas and have resulted in new industrial customers, some of which are on-system transportation customers. As a result of this growth, Delta's total customer count increased by 3.4% for the twelve months ended December 31, 1997.

Currently, over 99% of Delta's customers are residential and commercial. Delta's remaining, light industrial customers purchased approximately 7% of the total volume of gas sold by Delta at retail during the twelve months ended December 31, 1997.

The Company's revenues are affected by various factors, including rates billed to customers, the cost of natural gas, economic conditions in the areas that the Company serves, weather conditions and competition. Delta competes for customers and sales with alternative sources of energy, including electricity, coal, oil, propane and wood. The Company's marketing subsidiaries, which purchase gas and resell it to various industrial customers and others, also compete for their customers with producers and marketers of natural gas. Gas costs, which the Company is generally able to pass through to customers, may influence customers to conserve, or, in the case of industrial customers, to use alternative energy sources. Also, the potential bypass of Delta's system by industrial customers and others is a competitive concern that Delta has addressed and will continue to address as the need arises.

Delta's retail sales are seasonal and temperature-sensitive as the majority of the gas sold by Delta is used for heating. This seasonality impacts Delta's liquidity position and its management of its working capital requirements during each twelve month period, and changes in the average temperature during the winter months impact its revenues year-to-year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Retail gas sales for the twelve months ended December 31, 1997 were 4,408,000 Mcf, generating \$34,951,000 in revenues, as compared to 4,299,000 Mcf and \$33,561,000 in revenues for fiscal 1997. Heating degree days billed during the twelve months ended December 31, 1997 were 107% of normal as compared with 103% in fiscal 1997. Sales volumes increased by 109,000 Mcf, or 2.5%, for the twelve months ended December 31, 1997 as compared to fiscal 1997.

Delta's transportation of natural gas during the twelve months ended December 31, 1997 generated revenues of \$4,124,000 as compared with \$3,596,000 during fiscal 1997. Of the total transportation for the twelve months ended December 31, 1997, \$3,686,000 (3,294,000 Mcf) and \$438,000 (1,372,000 Mcf) were earned for transportation for on-

system and off-system customers, respectively. Of the total transportation for fiscal 1997, \$3,214,000 (2,863,000 Mcf) and \$382,000 (1,205,000 Mcf) were earned for transportation for on-system and off-system customers, respectively.

As an active participant in many areas of the natural gas industry, Delta plans to continue its efforts to expand its gas distribution system. Delta continues to consider acquisitions of other gas systems, some of which are contiguous to its existing service areas, as well as expansion within its existing service areas. During November, 1996, Delta acquired the City of North Middletown gas system in Bourbon County, consisting of 180 primarily residential customers. During July, 1997, Delta purchased the gas system of Annville Gas & Transmission Corporation in Jackson County, which serves several industrial and residential customers. This system was expanded by Delta during the first part of fiscal 1998 to provide gas service to customers in the City of Annville.

The Company also anticipates continuing activity in gas production and transportation and plans to pursue and increase these activities wherever practicable. The Company will continue to consider the construction or acquisition of additional transmission, storage and gathering facilities to provide for increased transportation, enhanced supply and system flexibility. During June, 1997, Delta acquired TranEx Corporation, which owns a 43 mile, 8 inch diameter steel pipeline that extends from Clay County to Madison County. Delta is utilizing the pipeline to deliver natural gas for injection into its Canada Mountain storage field as well as for a portion of Delta's system supply.

Operating Statistics

Set forth in the following table is information indicative of Delta's business during the periods indicated.

	For the Twelve Months Ended December 31, 1997	For the Fiscal Years Ended June 30,				
		1997	1996	1995	1994	1993
Retail Customers Served, End of Period						
Residential.....	32,637	31,380	29,840	29,029	27,939	27,293
Commercial	5,081	4,761	4,453	4,287	4,242	4,093
Industrial.....	<u>71</u>	<u>74</u>	<u>75</u>	<u>72</u>	<u>76</u>	<u>75</u>
Total.....	<u>37,789</u>	<u>36,215</u>	<u>34,368</u>	<u>33,388</u>	<u>32,257</u>	<u>31,461</u>
Operating Revenues (\$000)						
Residential sales.....	20,526	19,694	16,540	14,772	16,597	14,578
Commercial sales	12,449	11,977	9,788	8,673	9,663	8,269
Industrial sales.....	1,976	1,890	1,483	1,248	1,671	1,383
On-system transportation.....	3,686	3,214	2,913	2,588	2,310	2,451
Off-system transportation.....	438	382	418	461	623	836
Subsidiary sales.....	5,889	4,904	5,297	3,959	3,755	3,532
Other.....	<u>111</u>	<u>108</u>	<u>137</u>	<u>143</u>	<u>228</u>	<u>172</u>
Total.....	<u>45,075</u>	<u>42,169</u>	<u>36,576</u>	<u>31,844</u>	<u>34,847</u>	<u>31,221</u>
System Throughput (Million Cu. Ft.)						
Residential sales.....	2,528	2,464	2,741	2,173	2,511	2,341
Commercial sales	1,591	1,557	1,673	1,328	1,506	1,368
Industrial sales.....	<u>289</u>	<u>278</u>	<u>291</u>	<u>223</u>	<u>316</u>	<u>281</u>
Total retail sales.....	4,408	4,299	4,705	3,724	4,333	3,990
On-system transportation	3,294	2,863	2,570	2,390	2,186	2,248
Off-system transportation.....	<u>1,372</u>	<u>1,205</u>	<u>1,134</u>	<u>1,452</u>	<u>1,997</u>	<u>2,668</u>
Total.....	<u>9,074</u>	<u>8,367</u>	<u>8,409</u>	<u>7,566</u>	<u>8,516</u>	<u>8,906</u>
Average Annual Consumption Per End of Period Residential Customer (Thousand Cu. Ft.)						
	77	79	92	75	90	86
Lexington, Kentucky Degree Days						
Actual.....	5,073	4,869	5,280	4,215	4,999	4,688
Percent of 30 year average (4,727)	107.3	103.0	111.7	89.2	105.8	99.2
Average Revenue Per Mcf Sold at Retail (\$)	7.93	7.81	5.91	6.63	6.44	6.07
Average Gas Cost Per Mcf Sold at Retail (\$)	4.73	4.62	2.81	3.37	3.34	2.90

Gas Supply

Delta receives its gas supply from a combination of interstate and Kentucky sources:

Delta's interstate gas supply is transported and/or stored by Tennessee Gas Pipeline Company ("Tennessee"), Columbia Gas Transmission Corporation ("Columbia"), Columbia Gulf Transmission Company ("Columbia Gulf") and Texas Eastern Transmission Corporation ("Texas Eastern"). Delta acquires its interstate gas supply from gas marketers.

Delta's agreements with Tennessee extend until 2000 and thereafter continue on a year-to-year basis until terminated by either party. Tennessee is obligated under the agreements to transport up to 17,600 Mcf per day for Delta. Delta acquires its gas for transportation by Tennessee under an agreement with a gas marketer. During the twelve months ended December 31, 1997, Delta purchased 1,806,000 Mcf from the gas marketer under an agreement that extends through April, 1999.

Delta's agreements with Columbia and Columbia Gulf extend until 2008 and thereafter continue on a year-to-year basis until terminated by one of the parties to the particular agreement. Columbia and Columbia Gulf are obligated under the agreements to transport up to 12,000 Mcf per day and 4,000 Mcf per day, respectively, for Delta. Delta acquires its gas for transportation by Columbia and Columbia Gulf under agreements with a gas marketer. During the twelve months ended December 31, 1997, Delta purchased a total of 909,000 Mcf from the gas marketer under agreements that extend through April, 2000.

Delta has an agreement with The Wiser Oil Company ("Wiser") to purchase natural gas from Wiser through October, 1999. Delta and Wiser annually determine the daily deliverability from Wiser, and Wiser is committed to deliver that volume. Wiser currently is obligated to deliver 9,900 Mcf per day to Delta through October 31, 1998 and 8,910 Mcf per day on and after November 1, 1998. Delta purchased 1,670,000 Mcf from Wiser during the twelve months ended December 31, 1997.

Delta has agreements with Enpro to purchase all the natural gas produced from Enpro's wells on certain leases in Bell, Knox and Whitley Counties, Kentucky. These agreements remain in force so long as gas is produced in commercial quantities from the wells on the leases. Remaining proved, developed natural gas reserves are estimated at 4,400,000 Mcf. Delta purchased a total of 198,000 Mcf from those properties during the twelve months ended December 31, 1997. Enpro also produces oil from certain of these leases, but oil production has not been significant.

Delta purchases gas under agreements with various marketers and Kentucky producers. The combined volumes of gas purchased from these sources during the twelve months ended December 31, 1997 were 55,000 Mcf.

Resources and Delgasco purchase gas under agreements with marketers and Kentucky producers. The gas is resold to industrial customers on Delta's system, to Delta for system supply and to others. The combined volumes of gas purchased by Resources and Delgasco from these sources during the twelve months ended December 31, 1997 were 2,965,000 Mcf.

Delta has completed the development of an underground natural gas storage field with an estimated eventual working capacity of 4,000,000 Mcf. See "Business—Properties". This field has been used to provide a portion of Delta's winter supply needs since 1996. This storage capability permits Delta to purchase and store gas during the non-heating months, and then withdraw and sell the gas during the peak usage months.

Although there are competitors for the acquisition of gas supplies, Delta continues to seek additional new gas supplies from all available sources, including those in the proximity of its facilities in southeastern Kentucky. Also, Resources and Delgasco continue to pursue acquisitions of new gas supplies from Kentucky producers and others.

Some producers in Delta's service area can access certain pipeline delivery systems other than Delta, which provides competition from others for transportation of such gas. Delta will continue its efforts to purchase or transport any natural gas available that is produced in reasonable proximity to its facilities. Delta will continue to maintain an active gas supply management program that emphasizes long-term reliability and the pursuit of cost effective sources of gas for its customers.

Regulatory Matters

Delta is subject to the regulatory authority of the Public Service Commission of Kentucky ("PSC") with respect to various aspects of Delta's business, including rates and service to retail and transportation customers. The Company monitors the need to file a general rate case as a way to adjust its sales prices. Delta currently has no general rate cases filed with the PSC. The history of Delta's general rate cases since 1985 is as follows:

<u>Date of Application</u>	<u>Annual Revenue Increase Requested</u>	<u>Annual Revenue Increase Approved</u>		<u>Test Year (Twelve Months Ended)</u>	<u>Authorized Return on Common Equity</u>
		<u>Date Effective</u>	<u>Amount</u>		
May 31, 1985	\$1,600,000	November 15, 1985	\$ 452,000	March 31, 1985	15.0%
		December 30, 1985	\$ 77,000		
		January 28, 1986	\$ 154,000		
December 14, 1990	\$2,937,000	May 23, 1991	\$2,050,000	June 30, 1990	(a)
March 14, 1997	\$2,962,000	November 30, 1997	\$1,670,000(b)	December 31, 1996	11.6%(c)

- (a) Delta requested a 14% return on common equity. The rate case was settled with all intervenors and approved by the PSC. No specific return on common equity was stated in the settlement.
- (b) The PSC has granted a rehearing, scheduled for April 2, 1998, on tax-related items that could result in \$157,000 of additional annual revenues.
- (c) Delta requested a 13% return on common equity.

Delta currently has a Gas Cost Recovery ("GCR") clause, which permits changes in Delta's gas costs to be reflected in the rates charged to customers. The GCR requires Delta to make quarterly filings with the PSC, but such procedure does not require a general rate case. Although the PSC is allowing Delta through its GCR clause to recover its costs in connection with its recently developed storage facilities on Canada Mountain (see "Business—Summary of Business Development"), this recovery through rates, which amounts to approximately \$0.56 per Mcf, is currently under review by the PSC and thus is currently being billed to Delta's customers subject to refund. Delta can currently predict neither the outcome of this review nor the impact on Delta's rates, if any.

During 1997, the PSC established a proceeding to investigate affiliate transactions. Delta is a party to this proceeding, and Delta responded to a PSC data request relating to Delta's subsidiaries. Delta can currently predict neither the outcome of this proceeding nor the impact on Delta's rates, if any.

The PSC convened meetings during 1997 with various regulated utilities and other interested parties to discuss the potential unbundling of natural gas rates and services in Kentucky. Delta participated actively in these meetings and plans to continue to provide comments in future discussions concerning regulatory and legislative issues relating to unbundling.

In addition to PSC regulation, Delta may obtain non-exclusive franchises from the cities and communities in which it operates authorizing it to place its facilities in the streets and public grounds. However, no utility may obtain a franchise until it has obtained from the PSC a Certificate of Convenience and Necessity authorizing it to bid on the franchise. Delta holds franchises in four of the ten cities in which it maintains branch offices and in seven other communities it serves. In the other cities and communities served by the Company, either Delta's franchises have expired, the communities do not have governmental organizations authorized to grant franchises, or the local governments have not required or do not want to offer a franchise. Delta attempts to acquire or reacquire franchises whenever feasible.

Without a franchise, a local government could require Delta to cease its occupation of the streets and public grounds or prohibit Delta from extending its facilities into any new area of that city or community. To date, the absence of a franchise has had no adverse effect on Delta's operations.

Properties

Delta owns its corporate headquarters in Winchester, Kentucky. In addition, Delta owns buildings used for branch operations in nine of the cities it serves and rents an office building in one other city. Also, Delta owns a building in Laurel County used for training as well as equipment and materials storage.

The Company owns approximately 1,960 miles of natural gas gathering, transmission, distribution and service lines. These lines range in size up to twelve inches in diameter. There are no significant encumbrances on these assets.

Delta holds leases for the storage of natural gas under approximately 8,000 acres located in Bell County, Kentucky. This property was developed for the underground storage of natural gas and has an estimated capacity to store 4,000,000 Mcf of gas.

Delta owns the rights to any oil and gas underlying approximately 3,500 acres in Bell County. Portions of these properties are used by Delta for the storage of natural gas. The maximum capacity of the storage facilities is 550,000 Mcf. These properties otherwise are currently non-producing, and no reserve studies have been undertaken on the properties.

Enpro owns interests in certain oil and gas leases relating to approximately 11,000 acres located in Bell, Knox and Whitley Counties. There presently are 56 gas wells and 7 oil wells producing from these properties. Enpro's remaining proved, developed natural gas reserves are estimated at 4,400,000 Mcf. Oil production from the property has not been significant. Also, Enpro owns the oil and gas underlying 11,500 additional acres in Bell, Clay and Knox Counties. These properties are currently non-producing, and no reserve studies have been performed on the properties.

Under the terms of an agreement with a producer relating to approximately 14,000 acres of Enpro's undeveloped holdings, the producer is conducting exploration activities on the acreage. Enpro reserved the option to participate in wells drilled and also retained certain working and royalty interests in any production from future wells.

There are no significant encumbrances on the Company's assets.

Employees

On December 31, 1997, Delta had 181 full-time employees. Delta considers its relationship with its employees to be satisfactory. Delta's employees are not represented by unions or subject to any collective bargaining agreements.

Legal Proceedings

Delta and its subsidiaries are not parties to any legal proceedings which are expected to have a materially adverse impact on the financial condition or results of operations of the Company.

DESCRIPTION OF DEBENTURES

General

The Debentures are to be issued under an Indenture dated as of March 1, 1998 (the "Indenture"), by and between the Company and The Fifth Third Bank, Cincinnati, Ohio, as Trustee. A copy of the Indenture has been filed as an exhibit to the Registration Statement of which this Prospectus is a part. The terms of the Debentures include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939 (the "Trust Indenture Act") as in effect on the date of the Indenture. Potential investors are referred to the Indenture and the Trust Indenture Act for a statement of such terms. The following statements relating to the Debentures and certain provisions of the Indenture are summaries, do not purport to be complete, and are subject to and are qualified in their entirety by reference to the provisions of the Indenture. Unless otherwise stated, capitalized terms defined in the Indenture have the same meanings when used herein.

The Company does not intend to list the Debentures on a national securities exchange. There is presently no trading market for the Debentures, and there can be no assurance that such a market will develop or, if developed, that it will be maintained.

Book-Entry Only System

The Debentures will be issued in the aggregate initial principal amount of \$25,000,000 and will be represented by one certificate (the "Global Security") to be registered in the name of the nominee of The Depository Trust Company ("DTC") or any successor depository (the "Depository"). The Depository will maintain the Debentures in denominations of \$1,000 and integral multiples thereof through its book-entry facilities. In accordance with its normal procedures, the Depository will record the interests of each Depository participating firm (e.g., brokerage firm) ("Participant") in the Debentures, whether held for its own account or as a nominee for another person.

So long as the nominee of the Depository is the registered owner of the Debentures, such nominee will be considered the sole owner or holder of the Debentures for all purposes under the Indenture and any applicable laws, except as noted below. A Beneficial Owner, as hereinafter defined, of interests in the Debentures will not be entitled to receive a physical certificate representing such ownership interest and will not be considered an owner or holder of the Debentures under the Indenture, except as otherwise provided below. A Beneficial Owner is the person who has the right to sell, transfer or otherwise dispose of an interest in the Debentures and the right to receive the proceeds therefrom, as well as interest and principal payable in respect thereof. A Beneficial Owner's interest in the Debentures will be recorded, in integral multiples of \$1,000, on the records of the Participant that maintains such Beneficial Owner's account for such purpose. In turn, the Participant's interest in such Debentures will be recorded, in integral multiples of \$1,000, on the records of the Depository. Therefore, the Beneficial Owner must rely on the foregoing arrangements to evidence its interest in the Debentures. Beneficial ownership of the Debentures may be transferred only by compliance with the procedures of a Beneficial Owner's Participant (e.g., brokerage firm) and the Depository.

All rights of ownership must be exercised through the Depository and the book-entry system, except that a Beneficial Owner is entitled to exercise directly its rights under Section 316(b) of the Trust Indenture Act with respect to the payment of interest and principal on the Debentures. Notices that are to be given to registered owners by the Company or the Trustee will be given only to the Depository. It is expected that the Depository will forward the notices to the Participants by its usual procedures, so that such Participants may forward such notices to the Beneficial Owners. Neither the Company nor the Trustee will have any responsibility or obligation to assure that any notices are forwarded by the Depository to the Participants or by any Participants to the Beneficial Owners.

DTC has advised the Company and the Underwriter as follows: DTC is a limited-purpose trust company organized under the Banking Law of the State of New York, a member of the Federal Reserve System, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities of Participants and facilitates the clearance and settlement of securities transactions among Participants in such securities transactions through electronic book-entry changes in accounts of Participants, thereby eliminating the need for physical movement of securities certificates. Participants include securities brokers and dealers (including the Underwriter), banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to DTC's book-entry system is also available to others, such as banks,

brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly. Persons who are not Participants may beneficially own securities held by DTC only through Participants.

Interest and Payment

The Debentures will mature on April 1, 2018. The Debentures will bear interest from the date of issuance at the rate per annum stated on the cover page hereof, calculated on the basis of a 360-day year of twelve 30-day months, payable semi-annually on April 1 and October 1 of each year, commencing October 1, 1998 to the Persons in whose names the Debentures are registered at the close of business on the 15th day of the month prior to such Interest Payment Date. If any payment date would otherwise be a day that is a Legal Holiday, the payment will be postponed to the next day that is not a Legal Holiday, and no interest on such payment shall accrue for the period from and after such otherwise scheduled payment date for the purposes of the payment to be made on such next succeeding day.

So long as the nominee of the Depository is the registered owner of the Debentures, payments of interest and principal in respect of the Debentures will be made to the Depository. The Depository will be responsible for crediting the amount of such distributions to the accounts of the Participants entitled thereto, in accordance with the Depository's normal procedures. Each Participant will be responsible for disbursing such distributions to the Beneficial Owners of the interests in Debentures that it represents. Neither the Company nor the Trustee will have any responsibility or liability for any aspect of the records relating to, notices to, or payments made on account of, beneficial ownership interests in the Debentures; maintaining, supervising or reviewing any records relating to such beneficial ownership interests; the selection of any Beneficial Owner to receive payment in the event of a partial redemption of the Global Security; or consents given or other action taken on behalf of any Beneficial Owner.

Redemption at the Option of the Company

The Debentures will be redeemable at any time on or after April 1, 2003, as a whole or in part, at the election of the Company, at a Redemption Price equal to 100% of the principal amount thereof plus accrued interest to the Redemption Date.

If less than all the Debentures are redeemed, the particular Debentures to be redeemed will be selected by the Trustee by lot.

Notice of redemption will be mailed at least 30 days before the Redemption Date to each holder of Debentures to be redeemed at the holder's registered address. The Company has the right to rescind any notice of redemption at any time at least five days prior to the Redemption Date.

On and after the Redemption Date, interest will cease to accrue on Debentures or portions thereof called for redemption, unless the Company shall default in the payment of the Redemption Price.

Limited Right of Redemption Upon Death of Beneficial Owner

Unless the Debentures have been declared due and payable prior to their maturity by reason of an Event of Default, the Representative (as hereinafter defined) of a deceased Beneficial Owner has the right to request redemption at par of all or part of his interest expressed in integral multiples of \$1,000 principal amount, in the Debentures for payment prior to maturity, and the Company will redeem the same subject to the limitations that the Company will not be obligated to redeem during the period from the original issuance of the Debentures through and including April 1, 1999 (the "Initial Period"), and during any twelve-month period which ends on and includes each April 1 thereafter (each such twelve-month period being hereinafter referred to as a "Subsequent Period") (i) on behalf of a deceased Beneficial Owner any interest in the Debentures which exceeds an aggregate principal amount of \$25,000 or (ii) interests in the Debentures in an aggregate principal amount exceeding \$750,000. A request for redemption may be presented to the Trustee by the Representative of a Deceased Beneficial Owner at any time and in any principal amount. Representatives of deceased Beneficial Owners must make arrangements with the Participant through whom such interest is owned in order that timely presentation of redemption requests can be made by the Participant and, in turn, by the Depository to the Trustee. If the Company, although not obligated to do so, chooses to redeem interests of a deceased Beneficial Owner in the Debentures in the Initial Period or in any Subsequent Period in excess of the \$25,000 limitation, such redemption, to the extent that it exceeds the \$25,000

limitation for any deceased Beneficial Owner, shall not be included in the computation of the \$750,000 aggregate limitation for such Initial Period or such Subsequent Period, as the case may be, or for any succeeding Subsequent Period.

Subject to the \$25,000 and the \$750,000 limitations, the Company will upon the death of any Beneficial Owner redeem the interest of the Beneficial Owner in the Debentures within 60 days following receipt by the Trustee of a Redemption Request, as hereinafter defined, from such Beneficial Owner's personal representative, or surviving joint tenant(s), tenant(s) by the entirety or tenant(s) in common, or other persons entitled to effect such a Redemption Request (each, a "Representative"). If Redemption Requests exceed the aggregate principal amount of interests in Debentures required to be redeemed during the Initial Period or any Subsequent Period, then such excess Redemption Requests will be applied to successive Subsequent Periods, regardless of the number of Subsequent Periods required to redeem such interests.

A request for redemption of an interest in the Debentures may be made by delivering a request to the Participant through whom the deceased Beneficial Owner owned such interest, in form satisfactory to the Participant, together with evidence of the death of the Beneficial Owner and evidence of the authority of the Representative satisfactory to the Participant and Trustee. A Representative of a deceased Beneficial Owner may make the request for redemption and shall submit such other evidence of the right to such redemption as the Participant or Trustee shall require. The request shall specify the principal amount of interest in the Debentures to be redeemed. A request for redemption in form satisfactory to the Participant and accompanied by the documents relevant to the request as above provided, together with a certification by the Participant that it holds the interest on behalf of the deceased Beneficial Owner with respect to whom the request for redemption is being made (a "Redemption Request"), shall be provided to the Depository by a Participant, and the Depository will forward the request to the Trustee. Redemption Requests shall be in form satisfactory to the Trustee.

The price to be paid by the Company for an interest in the Debentures to be redeemed pursuant to a request on behalf of a deceased Beneficial Owner is one hundred percent (100%) of the principal amount thereof plus accrued but unpaid interest to the date of payment. Subject to arrangements with the Depository, payment for interests in the Debentures which are to be redeemed shall be made to the Depository upon presentation of Debentures to the Trustee for redemption in the aggregate principal amount specified in the Redemption Requests submitted to the Trustee by the Depository which are to be fulfilled in connection with such payment. Any acquisition of Debentures by the Company or its Subsidiaries other than by redemption at the option of any Representative of a deceased Beneficial Owner shall not be included in the computation of either the \$25,000 or the \$750,000 limitation for the Initial Period or for any Subsequent Period.

Interests in the Debentures held in tenancy by the entirety, joint tenancy or by tenants in common will be deemed to be held by a single Beneficial Owner, and the death of a tenant in common, tenant by the entirety or joint tenant will be deemed the death of a Beneficial Owner. The death of a person who, during such person's lifetime, was entitled to substantially all of the rights of a Beneficial Owner of an interest in the Debentures will be deemed the death of the Beneficial Owner, regardless of the recordation of such interest on the records of the Participant, if such rights can be established to the satisfaction of the Participant and the Trustee. Such interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife (including individual retirement accounts or Keogh [H.R.10] plans maintained solely by or for the decedent or by or for the decedent and any spouse), and trust and certain other arrangements where one person has substantially all of the rights of a Beneficial Owner during such person's lifetime.

In the case of a Redemption Request which is presented on behalf of a deceased Beneficial Owner and which has not been fulfilled at the time the Company gives notice of its election to redeem the Debentures, the interests in the Debentures which are the subject of such Redemption Request shall not be eligible for redemption pursuant to the Company's option to redeem but shall remain subject to redemption pursuant to such Redemption Request.

Subject to the provisions of the immediately preceding paragraph, any Redemption Request may be withdrawn upon delivery of a written request for such withdrawal given to the Trustee by the Depository prior to payment for redemption of the interest in the Debentures by reason of the death of a Beneficial Owner.

The Company is legally obligated to redeem Debentures and interests of Beneficial Owners therein properly presented for redemption pursuant to a Redemption Request in accordance with and subject to the terms, conditions and limitations of the Indenture, as summarized above. The Company's redemption obligation is not cumulative. Nothing in the Indenture prohibits the Company from redeeming, in fulfillment of Redemption Requests made pursuant to the Indenture, Debentures or interests therein of Beneficial Owners in excess of the principal amount the Company is obligated to redeem, nor does anything in the Indenture prohibit the Company from purchasing any Debentures or interests therein in the open market. However, the Company may not use any Debentures redeemed or purchased as described in the immediately preceding sentence as a credit against its redemption obligation.

Because of the limitations of the Company's requirement to redeem, no Beneficial Owner can have any assurance that its interest in the Debentures will be paid prior to maturity.

Sinking Fund; Non-Convertibility

The Debentures are not subject to a sinking fund and are not convertible.

Debentures Unsecured

The Debentures will be unsecured obligations and will rank on a parity with all of the other unsecured and unsubordinated Indebtedness of the Company outstanding from time to time. Subject only to the restrictive covenants described below (see "Restrictive Covenants"), the Indenture does not limit the amount of Indebtedness which the Company or its Subsidiaries may incur.

Restrictive Covenants

The Company covenants in the Indenture that neither the Company nor any of its Subsidiaries will create, issue, incur, guarantee or assume any Funded Indebtedness which ranks prior to or on a parity with the Debentures in right of payment, unless immediately thereafter, and after giving effect thereto and to the application of the proceeds thereof, Consolidated Net Utility Fixed Assets are at least equal to Consolidated Funded Indebtedness. Consolidated Net Utility Fixed Assets is defined in the Indenture to include the net book value (determined in accordance with generally accepted accounting principles) of all physical property of the Company and any Subsidiary used or useful to the Company or such Subsidiary in the business of furnishing or distributing, as a public utility, gas service. Funded Indebtedness is defined in the Indenture as all Indebtedness other than Current Indebtedness and would include the Debentures. Consolidated Funded Indebtedness is defined to include Funded Indebtedness of the Company and Funded Indebtedness of Consolidated Subsidiaries. At December 31, 1997, after giving effect to the issuance of the Debentures offered hereby, and the application of the proceeds therefrom, Consolidated Net Utility Fixed Assets would have exceeded Consolidated Funded Indebtedness by \$36,131,000.

The Company also covenants that it will not declare or pay any dividends or make any other distribution upon its Common Stock (other than dividends and distributions payable only in shares of Common Stock) and will not directly or indirectly apply any of the assets of the Company to the redemption, retirement, purchase or other acquisition of any stock of the Company of any class, except purchases or redemptions in compliance with any mandatory sinking fund or purchase fund or redemption requirement in respect of any preferred stock of the Company, whether now or hereafter authorized or issued, unless after giving effect to such declaration, payment, distribution or application of assets the Consolidated Tangible Net Worth of the Company shall be at least equal to \$21,500,000 as reflected on the Company's latest available balance sheet. Consolidated Tangible Net Worth is defined in the Indenture as the shareholders' equity of the Company, less intangible assets. At December 31, 1997, after giving effect to the issuance of the Debentures, the Consolidated Tangible Net Worth of the Company would have been \$28,255,698.

Subject to certain exceptions described in the Indenture (including Liens to secure Indebtedness having an outstanding principal balance aggregating not more than \$4,000,000), the Company also covenants that it will not issue, assume or guarantee any Indebtedness secured by a Lien (as defined in the Indenture) on any property or asset at any time owned by it, without effectively securing, prior to or concurrently with the issuance, assumption or guarantee of any such Indebtedness, the Debentures equally and ratably with (or, at the Company's option, prior to) such Indebtedness.

Except as described in the preceding three paragraphs, the Indenture does not afford any protection to holders of Debentures solely on account of the Company's involvement in highly leveraged transactions.

Successor Corporation

The Company covenants in the Indenture that it will not consolidate with, merge into or transfer or lease all or substantially all of its assets to another Person, unless immediately after such transaction no Default will exist, such Person assumes all the obligations of the Company under the Debentures and the Indenture, and certain other requirements are met.

Events of Default; Notice and Waiver

The following constitute events of default under the Indenture: (a) default in the payment of principal of the Debentures when due; (b) default in the payment of any interest on the Debentures when due, continued for 30 days; (c) default in the performance of any other agreement of the Company in the Debentures or the Indenture, continued for 60 days after written notice; (d) acceleration of certain indebtedness of the Company or its Subsidiaries for borrowed money under the terms of any instrument under which indebtedness of \$100,000 or more is issued or secured; and (e) certain events in bankruptcy, insolvency or reorganization.

The Indenture provides that the Trustee will, within 90 days after the occurrence of a default, give the holders of Debentures notice of all continuing defaults (as defined) known to it; but, except in the case of a default in the payment of the principal or interest in respect of any of the Debentures, the Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interests of such holders.

If any event of default shall occur and be continuing, the Trustee or the holders of at least 25% in principal amount of then outstanding Debentures may declare the Debentures immediately due and payable. Any such acceleration may be rescinded by the holders of a majority in principal amount of the Debentures then outstanding, upon the conditions provided in the Indenture.

An existing default and its consequences may be waived by the holders of a majority in principal amount of the Debentures, upon the conditions provided in the Indenture, other than an uncured default in payment of principal or interest in respect of the Debentures, an uncured failure to make any redemption payment or an uncured default with respect to a provision which cannot be modified under the terms of the Indenture without the consent of each holder affected.

The Indenture includes a covenant that the Company will file annually with the Trustee, within 120 days after the end of each fiscal year, a statement regarding compliance by the Company with the terms thereof and specifying any defaults by the Company of which the signers may have knowledge.

Modification of the Indenture

Modifications and amendments of the Indenture which materially affect the rights of the holders of the Debentures may be made by the Company and the Trustee only with the consent of the holders of not less than a majority in principal amount of the Debentures then outstanding; provided that no such modification or amendment may change the stated maturity of any Debenture, or reduce the principal amount of or interest rate on any Debenture or change the interest payment date or otherwise modify the terms of payment of the principal of or interest on the Debentures, or reduce the percentage required for any consent, waiver or modification, or modify certain other provisions of the Indenture, without the consent of each holder of any Debenture affected thereby.

Discharge of the Indenture

The Indenture will be discharged and canceled upon payment of all the Debentures or upon deposit with the Trustee, within no more than one year prior to the maturity or the redemption of all the Debentures, of funds or U.S. Government Obligations sufficient to pay the principal of and premium, if any, and interest on the Debentures.

Trustee

The Indenture contains a provision entitling the Trustee, subject to the duty of the Trustee during default to act with the required standard of care, to be indemnified by the holders of Debentures before proceeding to exercise any right or power under the Indenture at the request of the holders of Debentures. The Indenture provides that the holders of a majority in principal amount of the outstanding Debentures may direct the time, method and place of

conducting any proceeding and any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee.

The Fifth Third Bank ("Fifth Third"), the Trustee and Debenture Registrar under the Indenture, has its corporate trust office in Cincinnati, Ohio. Fifth Third serves as Registrar, Transfer Agent and Dividend Disbursement Agent for Delta's Common Stock, Agent for Delta's Dividend Reinvestment and Stock Purchase Plan, as well as Trustee and Debenture Registrar for Delta's 8.3% Debentures due 2026.

UNDERWRITING

Edward D. Jones & Co., L.P. (the "Underwriter") has agreed, subject to the terms and conditions of the Underwriting Agreement, the form of which is filed as an exhibit to the Registration Statement, to purchase from the Company the Debentures.

The Underwriting Agreement provides that the obligations of the Underwriter to pay for and accept delivery of the Debentures are subject to the approval of certain legal matters by counsel and to certain other conditions. The Underwriter is obligated to take and pay for all of the Debentures offered hereby if any are taken.

The Underwriter has advised the Company that it proposes to offer the Debentures being purchased by it directly to the public at the initial public offering price set forth on the cover page of this Prospectus.

Until the distribution of the Debentures is completed, rules of the Commission may limit the ability of the Underwriter to bid for and purchase the Debentures. As an exception to these rules, the Underwriter is permitted to engage in certain transactions that stabilize the price of the Debentures. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Debentures.

If the Underwriter creates a short position in the Debentures in connection with the Offering, i.e., if it sells more Debentures than are set forth on the cover page of this Prospectus, the Underwriter may reduce that short position by purchasing Debentures in the open market.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the securities.

Neither the Company nor the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Debentures. In addition, neither the Company nor the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The offering of the Debentures is made for delivery when, as and if accepted by the Underwriter and subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Underwriter reserves the right to reject any order for the purchase of Debentures in whole or in part.

The Company has agreed to indemnify the Underwriter and persons who control the Underwriter against certain liabilities that may be incurred in connection with the offering contemplated hereby, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the Underwriter may be required to make in respect thereof.

EXPERTS

The audited consolidated financial statements and schedules of the Company included or incorporated by reference in this Prospectus and elsewhere in the Registration Statement have been audited by Arthur Andersen LLP, independent public accountants as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

LEGAL OPINIONS

The validity of the Debentures will be passed upon for the Company by its special counsel, Stoll, Keenon & Park, LLP, Lexington, Kentucky, and certain matters will be passed upon for the Underwriter by Armstrong, Teasdale, Schlafly & Davis, St. Louis, Missouri.

Attorneys in the firm of Stoll, Keenon & Park, LLP who have participated in the firm's representation of Delta and members of such attorneys' immediate families own collectively 6,056 shares of Delta's Common Stock.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
of Delta Natural Gas Company, Inc.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Delta Natural Gas Company, Inc. (a Kentucky corporation) and subsidiary companies as of June 30, 1997 and 1996, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delta Natural Gas Company, Inc. and subsidiary companies as of June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Louisville, Kentucky
August 15, 1997

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Twelve Months Ended December 31, 1997 (Unaudited)	For the Fiscal Years Ended June 30,		
		1997	1996	1995
Operating Revenues	<u>\$45,074,546</u>	<u>\$42,169,185</u>	<u>\$36,576,055</u>	<u>\$31,844,339</u>
Operating Expenses				
Purchased gas	\$24,562,876	\$23,265,222	\$17,389,755	\$15,497,156
Operation and maintenance (Note 1)	8,896,894	8,631,635	8,642,511	8,002,797
Depreciation and depletion (Note 1)	3,201,585	2,935,257	2,510,952	2,183,558
Taxes other than income taxes	1,161,923	1,056,689	1,036,282	863,340
Income taxes (Note 2)	<u>1,154,275</u>	<u>964,800</u>	<u>1,559,500</u>	<u>1,042,400</u>
Total operating expenses	<u>\$38,977,553</u>	<u>\$36,853,603</u>	<u>\$31,139,000</u>	<u>\$27,589,251</u>
Operating Income	\$ 6,096,993	\$ 5,315,582	\$ 5,437,055	\$ 4,255,088
Other Income and Deductions, Net	<u>28,794</u>	<u>40,874</u>	<u>32,503</u>	<u>50,582</u>
Income Before Interest Charges	<u>\$ 6,125,787</u>	<u>\$ 5,356,456</u>	<u>\$ 5,469,558</u>	<u>\$ 4,305,670</u>
Interest Charges				
Interest on long-term debt	\$ 3,152,939	\$ 2,997,393	\$ 1,851,768	\$ 1,879,442
Other interest	823,010	519,432	867,641	419,693
Amortization of debt expense	<u>111,600</u>	<u>115,366</u>	<u>88,800</u>	<u>88,800</u>
Total interest charges	<u>\$ 4,087,549</u>	<u>\$ 3,632,191</u>	<u>\$ 2,808,209</u>	<u>\$ 2,387,935</u>
Net Income	<u>\$ 2,038,238</u>	<u>\$ 1,724,265</u>	<u>\$ 2,661,349</u>	<u>\$ 1,917,735</u>
Weighted Average Number of Common Shares				
Outstanding	2,342,910	2,294,134	1,886,629	1,850,986
Basic Earnings Per Common Share	\$.87	\$.75	\$ 1.41	\$ 1.04
Diluted Earnings Per Common Share	\$.87	\$.75	\$ 1.41	\$ 1.04
Dividends Declared Per Common Share	\$ 1.14	\$ 1.14	\$ 1.12	\$ 1.12

The accompanying notes to consolidated financial statements are an integral part of these statements.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Twelve Months Ended December 31, 1997	For the Fiscal Years Ended June 30,		
	(Unaudited)	1997	1996	1995
Cash Flows From Operating Activities				
Net income	\$ 2,038,238	\$ 1,724,265	\$ 2,661,349	\$ 1,917,735
Adjustments to reconcile net income to net cash from operating activities				
Depreciation, depletion and amortization	3,436,840	3,049,229	2,663,475	2,272,358
Deferred income taxes and investment tax credits	473,275	485,400	1,762,500	(77,000)
Other—net	688,134	666,798	484,474	602,180
(Increase) decrease in assets				
Accounts receivable	(1,396,817)	(318,178)	(860,255)	(118,237)
Gas in storage	3,995,951	(782,007)	63,546	(138,138)
Advance (deferred) recovery of gas cost	(3,385,041)	495,751	(3,788,143)	2,583,128
Materials and supplies	(69,636)	(120,969)	(124,697)	173,319
Prepayments	(213,592)	(346,532)	53,702	(105,903)
Other assets	(582,623)	(541,669)	(31,723)	(71,087)
Increase (decrease) in liabilities				
Accounts payable	(587,907)	(439,721)	871,207	(178,609)
Refunds due customers	379,087	554,520	(456,283)	83,572
Accrued taxes	776,972	1,038,761	(270,394)	(72,210)
Other current liabilities	354,593	744,054	56,951	69,742
Advances for construction and other	(4,851)	(476)	9,100	2,333
Net cash provided by operating activities	<u>\$ 5,902,623</u>	<u>\$ 6,209,226</u>	<u>\$ 3,094,809</u>	<u>\$ 6,943,183</u>
Cash Flows From Investing Activities				
Capital expenditures	\$(14,236,815)	\$(16,648,994)	\$(13,373,416)	\$ (8,122,838)
Net cash used in investing activities	<u>\$(14,236,815)</u>	<u>\$(16,648,994)</u>	<u>\$(13,373,416)</u>	<u>\$ (8,122,838)</u>
Cash Flows From Financing Activities				
Dividends on common stock	\$ (2,671,093)	\$ (2,651,073)	\$ (2,113,414)	\$ (2,073,374)
Issuance of common stock, net	639,809	6,773,054	568,875	502,361
Issuance of long-term debt, net	—	14,334,833	—	—
Repayment of long-term debt	(813,321)	(478,256)	(561,000)	(240,100)
Issuance of short-term debt	35,280,000	30,975,000	25,955,000	19,495,000
Repayment of short-term debt	(23,675,000)	(38,185,000)	(13,555,000)	(16,525,000)
Net cash provided by financing activities	<u>\$ 8,760,395</u>	<u>\$ 10,768,558</u>	<u>\$ 10,294,461</u>	<u>\$ 1,158,887</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 426,203	\$ 328,790	\$ 15,854	\$ (20,768)
Cash and Cash Equivalents, Beginning of Year	<u>18,201</u>	<u>151,633</u>	<u>135,779</u>	<u>156,547</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 444,404</u></u>	<u><u>\$ 480,423</u></u>	<u><u>\$ 151,633</u></u>	<u><u>\$ 135,779</u></u>
Supplemental Disclosures of Cash Flow Information				
Cash paid during the year for				
Interest	\$ 4,008,286	\$ 3,019,881	\$ 2,491,091	\$ 2,253,472
Income taxes	\$ 366,032	\$ (432,163)	\$ 193,560	\$ 1,264,942

The accompanying notes to consolidated financial statements are an integral part of these statements.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

	As of December 31, 1997 (Unaudited)	As of June 30,	
		1997	1996
Assets			
Gas Utility Plant , at cost.....	\$123,913,386	\$116,829,158	\$ 98,795,623
Less—Accumulated provision for depreciation	(33,251,728)	(31,734,976)	(26,749,774)
Net gas plant	\$ 90,661,658	\$ 85,094,182	\$ 72,045,849
Current Assets			
Cash and cash equivalents	\$ 444,404	\$ 480,423	\$ 151,633
Accounts receivable, less accumulated provisions for doubtful accounts of \$83,647, \$113,945 and \$105,756 as of December 31, 1997 and June 30, 1997 and 1996, respectively.....	3,615,358	2,414,632	2,096,454
Gas in storage, at average cost	1,855,202	1,209,171	427,164
Deferred gas costs (Note 1)	3,796,666	2,180,606	2,676,357
Materials and supplies, at first-in, first-out cost	710,358	773,108	652,139
Prepayments	388,449	716,076	369,544
Total current assets	\$ 10,810,437	\$ 7,774,016	\$ 6,373,291
Other Assets			
Cash surrender value of officers' life insurance (face amount of \$1,036,009).....	\$ 329,913	\$ 321,339	\$ 304,339
Note receivable from officer	122,000	134,000	126,000
Unamortized debt expense and other (Note 6)	3,335,330	3,357,628	2,291,158
Total other assets	\$ 3,787,243	\$ 3,812,967	\$ 2,721,497
Total assets	\$105,259,338	\$ 96,681,165	\$ 81,140,637
Liabilities and Shareholders' Equity			
Capitalization (See Consolidated Statements of Capitalization)			
Common shareholders' equity	\$ 28,255,698	\$ 29,474,569	\$ 23,628,323
Long-term debt (Note 6)	37,976,596	38,107,860	24,488,916
Notes payable refinanced subsequent to year end ..	—	—	18,075,000
Total capitalization	\$ 66,232,294	\$ 67,582,429	\$ 66,192,239
Current Liabilities			
Notes payable (Note 5)	\$ 19,395,000	\$ 10,865,000	\$ —
Current portion of long-term debt (Note 6)	1,553,777	1,987,600	1,084,800
Accounts payable	4,391,125	2,386,717	2,826,438
Accrued taxes.....	592,850	1,132,315	93,554
Refunds due customers.....	461,147	577,874	23,354
Customers' deposits	498,566	368,561	304,246
Accrued interest on debt	1,081,096	1,033,220	637,596
Accrued vacation	516,032	516,032	485,847
Other accrued liabilities	385,701	492,501	238,571
Total current liabilities	\$ 28,875,294	\$ 19,359,820	\$ 5,694,406
Deferred Credits and Other			
Deferred income taxes	\$ 8,393,000	\$ 7,921,100	\$ 7,318,500
Investment tax credits	673,500	708,400	779,400
Regulatory liability (Note 2).....	867,675	892,100	938,300
Advances for construction and other	217,575	217,316	217,792
Total deferred credits and other	\$ 10,151,750	\$ 9,738,916	\$ 9,253,992
Commitments and Contingencies (Note 8)			
Total liabilities and shareholders' equity....	\$105,259,338	\$ 96,681,165	\$ 81,140,637

The accompanying notes to consolidated financial statements are an integral part of these statements.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	For the Twelve Months Ended December 31, 1997 (Unaudited)	For the Fiscal Years Ended June 30,		
		1997	1996	1995
Common Shares				
Balance, beginning of year	\$ 2,325,333	\$ 1,903,580	\$ 1,868,734	\$ 1,839,340
\$1.00 par value of 36,589, 438,643, 34,846 and 29,394 shares issued during the twelve months ended December 31, 1997 and fiscal years 1997, 1996 and 1995, respectively				
Public issuance of common shares.....	—	400,000	—	—
Dividend reinvestment and stock purchase plan	29,843	31,187	28,024	25,802
Employee stock purchase plan and other	6,746	7,456	6,822	3,592
Balance, end of year	<u>\$ 2,361,922</u>	<u>\$ 2,342,223</u>	<u>\$ 1,903,580</u>	<u>\$ 1,868,734</u>
Premium on Common Shares				
Balance, beginning of year	\$26,924,496	\$20,572,132	\$20,022,643	\$19,532,909
Premium on issuance of common shares				
Public issuance of common shares.....	—	6,000,000	—	—
Dividend reinvestment and stock purchase plan	491,113	519,478	440,621	425,357
Employee stock purchase plan and other	112,634	111,701	108,868	64,377
Balance, end of year	<u>\$27,528,243</u>	<u>\$27,203,311</u>	<u>\$20,572,132</u>	<u>\$20,022,643</u>
Capital Stock Expense				
Balance, beginning of year	\$(1,916,493)	\$(1,620,252)	\$(1,604,792)	\$(1,588,025)
Issuance of common shares	(527)	(296,768)	(15,460)	(16,767)
Balance, end of year	<u>\$(1,917,020)</u>	<u>\$(1,917,020)</u>	<u>\$(1,620,252)</u>	<u>\$(1,604,792)</u>
Retained Earnings				
Balance, beginning of year	\$ 915,408	\$ 2,772,863	\$ 2,224,928	\$ 2,380,567
Net income	2,038,238	1,724,265	2,661,349	1,917,735
Cash dividends declared on common shares (See Consolidated Statements of Income for rates)	(2,671,093)	(2,651,073)	(2,113,414)	(2,073,374)
Balance, end of year	<u>\$ 282,553</u>	<u>\$ 1,846,055</u>	<u>\$ 2,772,863</u>	<u>\$ 2,224,928</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	As of December 31, 1997 <small>(Unaudited)</small>	As of June 30,	
		1997	1996
Common Shareholders' Equity			
Common shares, par value \$1.00 per share (Notes 3 and 4)			
Authorized—6,000,000 shares			
Issued and outstanding—2,361,922, 2,342,223 and 1,903,580 shares as of December 31, 1997 and June 30, 1997 and 1996, respectively	\$ 2,361,922	\$ 2,342,223	\$ 1,903,580
Premium on common shares	27,528,243	27,203,311	20,572,132
Capital stock expense	(1,917,020)	(1,917,020)	(1,620,252)
Retained earnings (Note 6)	<u>282,553</u>	<u>1,846,055</u>	<u>2,772,863</u>
Total common shareholders' equity	<u>\$28,255,698</u>	<u>\$29,474,569</u>	<u>\$23,628,323</u>
Long-Term Debt (Notes 6 and 7)			
Debentures, 8.3%, due 2026	\$15,000,000	\$15,000,000	\$ —
Debentures, 6 3/4%, due 2023	13,325,000	13,505,000	14,000,000
Debentures, 9%, due 2011	10,000,000	10,000,000	10,000,000
Promissory note payable, due through 2001	1,151,596	1,502,901	1,401,581
Other	<u>53,777</u>	<u>87,559</u>	<u>172,135</u>
Total long-term debt	\$39,530,373	\$40,095,460	\$25,573,716
Less—Amounts due within one year, included in current liabilities	<u>(1,553,777)</u>	<u>(1,987,600)</u>	<u>(1,084,800)</u>
Net long-term debt	<u>\$37,976,596</u>	<u>\$38,107,860</u>	<u>\$24,488,916</u>
Notes Payable Refinanced Subsequent to Year End (Note 5)	<u>\$ —</u>	<u>\$ —</u>	<u>\$18,075,000</u>
Total capitalization	<u>\$66,232,294</u>	<u>\$67,582,429</u>	<u>\$66,192,239</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Including notes applicable to unaudited periods)

(1) Summary of Significant Accounting Policies

(a) **Principles of Consolidation**—Delta Natural Gas Company, Inc. (“Delta” or the “Company”) has five 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 underground natural gas storage facilities that it leases from Delta. Enpro, Inc. owns and operates production properties. TranEx Corporation owns a 43 mile intrastate pipeline. All subsidiaries of Delta are included in the consolidated financial statements. Intercompany balances and transactions have been eliminated.

(b) **Cash Equivalents**—For the purposes of the Consolidated Statements of Cash Flows, all temporary cash investments with a maturity of three months or less at the date of purchase are considered cash equivalents.

(c) **Depreciation**—The Company determines its provision for depreciation using the straight-line method and by the application of rates to various classes of utility plant. The rates are based upon the estimated service lives of the properties and were equivalent to composite rates of 3.1%, 3.0%, 2.9% and 2.8% of average depreciable plant for the twelve months ended December 31, 1997, fiscal 1997, 1996 and 1995 respectively.

(d) **Maintenance**—All expenditures for maintenance and repairs of units of property are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition and retirement of utility plant. At the time of such a retirement, the accumulated provision for depreciation is charged with the original cost of the property retired and also for the net cost of removal.

(e) **Gas Cost Recovery**—Delta has a Gas Cost Recovery (“GCR”) clause which provides for a dollar-tracker that matches revenues and gas costs and provides eventual dollar-for-dollar recovery of all gas costs incurred. The Company expenses gas costs based on the amount of gas costs recovered through revenue. Any differences between actual gas costs and those estimated costs billed are deferred and reflected in the computation of future billings to customers using the GCR mechanism.

(f) **Revenue Recognition**—The Company records revenues as billed to its customers on a monthly meter reading cycle. At the end of each month, gas service which has been rendered from the latest date of each cycle meter reading to the month-end is unbilled.

(g) **Revenues and Customer Receivables**—The Company supplies natural gas to 38,000 customers in central and southeastern Kentucky. Revenues and customer receivables arise primarily from sales of natural gas to customers and from transportation services for others. Provisions for doubtful accounts are recorded to reflect the expected net realizable value of accounts receivable.

(h) **Use of Estimates**—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) **New Accounting Pronouncements**—In March, 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of”, effective for fiscal years beginning after December 15, 1995. The Company adopted the provisions of SFAS No. 121 in the first quarter of fiscal 1997. The new standard requires that long-lived assets and certain identified intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing such impairment reviews, companies will be required to estimate the sum of future cash flows from an asset and compare such amount to the asset’s carrying amount. Any excess of carrying amount over expected cash flows will result in a possible write-down of an asset to its fair value. Adoption of SFAS No. 121 did not have a material adverse impact on the Company’s financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For companies with June 30 fiscal yearends, SFAS No. 123, "Accounting for Stock-Based Compensation", was required to be adopted as of June 30, 1997. This standard is currently inapplicable to Delta because the Company has no stock based compensation arrangements.

Delta adopted SFAS No. 128, "Earnings per Share", during the second quarter of fiscal 1998. The adoption of this standard had no effect upon current or prior period earnings per share.

(2) Income Taxes

The Company provides for income taxes on temporary differences resulting from the use of alternative methods of income and expense recognition for financial and tax reporting purposes. The differences result primarily from the use of accelerated tax depreciation methods for certain properties versus the straight-line depreciation method for financial purposes, differences in recognition of purchased gas cost recoveries and certain other accruals which are not currently deductible for income tax purposes. Investment tax credits were deferred for certain periods prior to fiscal 1987 and are being amortized to income over the estimated useful lives of the applicable properties. The Company utilizes the liability method for accounting for income taxes, which requires that deferred income tax assets and liabilities are computed using tax rates that will be in effect when the book and tax temporary differences reverse. The change in tax rates applied to accumulated deferred income taxes may not be immediately recognized in operating results because of ratemaking treatment. A regulatory liability has been established to recognize the future revenue requirement impact from these deferred taxes. The temporary differences which gave rise to the net accumulated deferred income tax liability for the periods are as follows:

	As of June 30,	
	1997	1996
Deferred Tax Liabilities		
Accelerated depreciation	\$ 9,018,800	\$8,091,500
Deferred gas cost	860,100	1,055,700
Accrued pension	433,000	252,900
Debt expense	384,900	399,200
Total	\$10,696,800	\$9,799,300
Deferred Tax Assets		
Alternative investment tax credit	\$ 1,534,100	\$1,305,600
Regulatory liabilities	339,400	370,000
Unbilled revenue	327,500	236,100
Investment tax credit	279,400	307,400
Other	295,300	261,700
Total	\$ 2,775,700	\$2,480,800
Net accumulated deferred income tax liability	\$ 7,921,100	\$7,318,500

The components of the income tax provision are comprised of the following:

	As of June 30,		
	1997	1996	1995
Components of income tax expense			
Payable currently			
Federal	\$242,200	\$ 52,100	\$ 453,900
State	(31,300)	(255,100)	194,500
Total	\$210,900	\$ (203,000)	\$ 648,400
Deferred	753,900	1,762,500	394,000
Income tax expense	\$964,800	\$1,559,500	\$1,042,400

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reconciliation of the statutory federal income tax rate to the effective income tax rate is shown in the table below:

	<u>For the Years Ended June 30,</u>		
	<u>1997</u>	<u>1996</u>	<u>1995</u>
Statutory federal income tax rate.....	34.0%	34.0%	34.0%
State income taxes net of federal benefit.....	5.0	5.2	5.2
Amortization of investment tax credit.....	(2.6)	(1.7)	(2.4)
Other differences—net.....	—	—	(.9)
Effective income tax rate.....	<u>36.4%</u>	<u>37.5%</u>	<u>35.9%</u>

(3) Employee Benefit Plans

(a) *Defined Benefit Retirement Plan*—Delta has a trustee, noncontributory, defined benefit pension plan covering all eligible employees. Retirement income is based on the number of years of service and annual rates of compensation. The Company makes annual contributions equal to the amounts necessary to fund the plan adequately. The funded status of the pension plan at March 31, the plan year end, and the amounts recognized in the Company's consolidated balance sheets at June 30 were as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Plan assets at fair value.....	<u>\$6,835,393</u>	<u>\$6,058,458</u>	<u>\$5,358,108</u>
Actuarial present value of benefit obligation			
Vested benefits.....	\$4,505,619	\$2,789,736	\$3,605,363
Non-vested benefits.....	<u>11,025</u>	<u>9,346</u>	<u>21,742</u>
Accumulated benefit obligation.....	\$4,516,644	\$2,799,082	\$3,627,105
Additional amounts related to projected salary increases.....	<u>1,828,856</u>	<u>2,811,907</u>	<u>1,638,014</u>
Total projected benefit obligation.....	<u>\$6,345,500</u>	<u>\$5,610,989</u>	<u>\$5,265,119</u>
Plan assets in excess of projected benefit obligation.....	\$ 489,893	\$ 447,469	\$ 92,989
Unrecognized net assets at date of initial application being amortized over 15 years.....	(211,972)	(254,365)	(296,759)
Unrecognized net (gain) loss.....	<u>125,777</u>	<u>(13,481)</u>	<u>286,557</u>
Accrued pension asset.....	<u>\$ 403,698</u>	<u>\$ 179,623</u>	<u>\$ 82,787</u>

The assets of the plan consist primarily of common stocks, bonds and certificates of deposit. Pension expense for the twelve months ended December 31, 1997 was approximately \$262,000. Net pension costs for the years ended June 30 included the following:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Service cost for benefits earned during the year.....	\$ 405,386	\$ 382,751	\$ 432,546
Interest cost on projected benefit obligation.....	392,539	356,897	382,167
Actual return on plan assets.....	(407,965)	(886,211)	(623,972)
Net amortization and deferral.....	<u>(136,843)</u>	<u>444,044</u>	<u>185,660</u>
Net periodic pension cost.....	<u>\$ 253,117</u>	<u>\$ 297,481</u>	<u>\$ 376,401</u>

The weighted average discount rates and the assumed rates of increase in future compensation levels used in determining the actuarial present values of the projected benefit obligation at June 30, 1997, 1996 and 1995 were 7.0% (discount rates), and 4% (rates of increase). The expected long-term rates of return on plan assets were 8%.

SFAS No. 106, "Employers' Accounting for Post-Retirement Benefits", and SFAS No. 112, "Employers' Accounting for Post-Employment Benefits", do not affect the Company, as Delta does not provide benefits for post-retirement or post-employment other than the pension plan for retired employees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(b) **Employee Savings Plan**—The Company has an Employee Savings Plan (“Savings Plan”) under which eligible employees may elect to contribute any whole percentage between 2% and 15% of their annual compensation. The Company will match 50% of the employee’s contribution up to a maximum Company contribution of 2.5% of the employee’s annual compensation. For the twelve months ended December 31, 1997 and the fiscal years ended June 30, 1997, 1996 and 1995, Delta’s Savings Plan expense was approximately \$140,000, \$151,000, \$111,000 and \$112,000, respectively.

(c) **Employee Stock Purchase Plan**—The Company has an Employee Stock Purchase Plan (“Stock Plan”) under which qualified permanent employees are eligible to participate. Under the terms of the Stock Plan, such employees can contribute on a monthly basis 1% of their annual salary level (as of July 1 of each year) to be used to purchase Delta’s common stock. The Company issues Delta common stock, based upon the fiscal year contributions, using an average of the last sale price of Delta’s stock as quoted in NASDAQ’s National Market System at the close of business for the last five business days in June and matches those shares so purchased. Therefore, stock equivalent to approximately \$101,000 was issued in July, 1997. The continuation and terms of the Stock Plan are subject to approval by Delta’s Board of Directors on an annual basis. Delta’s Board has continued the Stock Plan through June 30, 1998.

(4) Dividend Reinvestment and Stock Purchase Plan

The Company’s Dividend Reinvestment and Stock Purchase Plan (Reinvestment Plan) provides that shareholders of record can reinvest dividends and also make limited additional investments of up to \$50,000 per year in shares of common stock of the Company. Shares purchased under the Reinvestment Plan are authorized but unissued shares of common stock of the Company, and 29,843, 31,187, 28,024 and 25,802 shares were issued during the twelve months ended December 31, 1997 and the fiscal years ended June 30, 1997, 1996 and 1995. Delta reserved 200,000 shares under the Reinvestment Plan in December, 1994, and as of December 31, 1997 there were 109,651 shares still available for issuance.

(5) Notes Payable and Line of Credit

Substantially all of the cash balances of Delta are maintained to compensate the respective banks for banking services and to obtain lines of credit; however, no specific amounts have been designated as compensating balances, and Delta has the right of withdrawal of such funds. The available line of credit was \$25,000,000, \$20,000,000 and \$20,000,000 at December 31, 1997, June 30, 1997 and June 30, 1996, of which \$19,395,000, \$10,865,000 and \$18,075,000 had been borrowed at an interest rate of 6.935%, 6.785% and 6.285%, respectively. The maximum amount borrowed during the twelve months ended December 31, 1997 and the fiscal years ended June 30, 1997 and 1996 was \$20,160,000, \$10,865,000 and \$18,075,000, respectively. The interest on this line is, at the option of Delta, either at the daily prime rate or is based upon certificate of deposit rates. The current line of credit expires during November, 1998.

Short-term borrowings at June 30, 1996 were repaid in July, 1996, with the net proceeds of approximately \$20,400,000 from the sale of \$15,000,000 of debentures and 400,000 shares of common stock.

(6) Long-Term Debt

On July 19, 1996, Delta issued \$15,000,000 of 8.3% Debentures that mature in July, 2026. Redemption on behalf of deceased holders within 60 days of notice of up to \$25,000 per holder will be made annually, subject to an annual aggregate limitation of \$500,000. The 8.3% Debentures can be redeemed by the Company beginning in August, 2001 at a 5% premium, such premium declining ratably until it ceases in August, 2006. Restrictions under the indenture agreement covering the 8.3% Debentures include, among other things, a restriction whereby dividend payments cannot be made unless consolidated shareholders’ equity of the Company exceeds \$18,000,000. No retained earnings are restricted under the provisions of the indenture.

On October 18, 1993, Delta issued \$15,000,000 of 6%% Debentures that mature in October, 2023. Each holder may require redemption of up to \$25,000 annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 6%% Debentures can be redeemed by the Company beginning in October, 1998 at a 5% premium, such premium declining ratably until it ceases in October, 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On May 1, 1991, Delta issued \$10,000,000 of 9% Debentures that mature in April, 2011. Each holder may require redemption of up to \$25,000 annually, subject to an annual aggregate limitation of \$500,000. Such redemption will also be made on behalf of deceased holders within 60 days of notice, subject to the annual aggregate \$500,000 limitation. The 9% Debentures can be redeemed by the Company at a 3% premium, such premium declining ratably until it ceases in April, 2001. The Company may not assume any additional mortgage indebtedness in excess of \$1 million without effectively securing the 9% Debentures equally to such additional indebtedness.

Debt issuance expenses are deferred and amortized over the terms of the related debt. In addition, losses on extinguishment of debt are deferred and amortized over the terms of the related debt, consistent with regulatory treatment.

A non-interest bearing promissory note was issued by Delta on November 10, 1995 in the amount of \$1,800,000, and remaining installments are due in the amounts of \$700,000 in 2000 and \$700,000 in 2002. The note was issued when Delta purchased leases and depleted gas wells to develop them for the underground storage of natural gas. The promissory note installments are secured by escrow of 80,000 shares of Delta's common stock. These shares will be issued to the holder of the promissory note only in the event of default in payment by Delta.

Other long-term debt requires principal payments of \$54,000 for the twelve months ending December 31, 1998, at which time other long-term debt will be fully repaid.

(7) Fair Values of Financial Instruments

The fair value of the Company's debentures is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's debentures at December 31, 1997, June 30, 1997 and 1996 was estimated to be \$40,402,000, \$37,723,000 and \$22,073,000, respectively. The carrying amount in the accompanying consolidated financial statements as of December 31, 1997, June 30, 1997 and 1996 is \$38,325,000, \$38,505,000 and \$24,000,000, respectively.

The carrying amount of the Company's other financial instruments including cash equivalents, accounts receivable, notes receivable, accounts payable and the non-interest bearing promissory note approximate their fair value.

(8) Commitments and Contingencies

The Company has entered into individual employment agreements with its five officers. The agreements expire or may be terminated at various times. The agreements provide for continuing monthly payments or lump sum payments and continuation of certain benefits over varying periods in the event employment is altered or terminated following certain changes in ownership of the Company.

(9) Rates

Reference is made to "Regulatory Matters" herein with respect to rate matters.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Quarterly Financial Data (Unaudited)

The quarterly data reflects, in the opinion of management, all normal recurring adjustments necessary to present fairly the results for the interim periods.

<u>Quarter Ended</u>	<u>Operating Revenues</u>	<u>Operating Income (Loss)</u>	<u>Net Income (Loss)</u>	<u>Basic Earnings (Loss) Per Common Share(a)</u>	<u>Diluted Earnings (Loss) Per Common Share(a)</u>
Fiscal 1996					
September 30	\$ 3,774,849	\$ (147,522)	\$ (760,662)	\$ (.41)	\$ (.41)
December 31	8,406,787	1,331,803	649,089	.34	.34
March 31	16,023,581	3,421,608	2,725,444	1.44	1.44
June 30	8,370,838	831,166	47,478	.03	.03
Fiscal 1997					
September 30	\$ 4,074,332	\$ 36,149	\$ (734,296)	\$ (.33)	\$ (.33)
December 31	10,023,399	1,090,513	198,153	.09	.09
March 31	18,651,406	3,034,844	2,050,318	.88	.88
June 30	9,420,048	1,154,076	210,090	.09	.09
Fiscal 1998					
September 30	\$ 5,215,272	\$ 181,905	\$ (813,982)	\$ (.35)	\$ (.35)
December 31	11,787,820	1,726,169	591,312	.25	.25

(a) Quarterly earnings per share may not equal annual earnings per share due to changes in shares outstanding.

No dealer, salesman or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus, and if given or made such information or representations must not be relied upon as having been authorized by the Company or by the underwriter. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any state or jurisdiction to any person to whom it is unlawful to make such offer in such state or jurisdiction. The delivery of this Prospectus at any time or any sales made hereunder shall not imply that the information herein is correct as of any time subsequent to its date.

DELTA NATURAL GAS COMPANY, INC.



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\$25,000,000

7.15% Debentures due 2018

PROSPECTUS

Edward D. Jones & Co., L.P.

March 23, 1998

5. From 12/31/96 through to date, provide a detailed schedule listing all of the capital finances (by financing type) that have taken place, as well as the impact of these actual financings on the Company's actual capital structure to date.

RESPONSE:

See Item No. 4 of this AG data request for Delta's last financing since 12/31/96.

WITNESS: John Hall

6. For 1999 through the year 2004 (or, if not available for this 5-year period, at least for the years 1999, 2000, 2001), provide a detailed financing plan listing all of the planned capital finances (by financing type) that will be issued, as well as the impact of these planned financings on the Company's budgeted capital structure during these future years.

RESPONSE:

Delta has no financing plans through fiscal year 2001.

WITNESS: John Hall

7. What is the Company's actual capital structure at this time, and what is the Company's objective for its capital structure for the next 3 to 5 years. In addition, explain why the Company has this objective and how specifically it plans to achieve this objective capital structure.

RESPONSE:

See Item No. 47 of this AG data request for Delta's actual capital structure at this time. As stated in Item No. 6, Delta has no financing plans through fiscal year 2001.

WITNESS: John Hall