CASE NUMBER:

99-176

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF ADJUSTMENT)
OF RATES OF DELTA NATURAL) CASE NO. 99-176
GAS COMPANY, INC.)

FILING REQUIREMENTS
VOLUME 2 OF 3

FILED IN SUPPORT OF PROPOSED CHANGES IN RATES

JULY 2, 1999

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Delta Natural Gas Company, Inc.
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN ADJUSTMENT	)	
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GAS COMPANY, INC.	)	

DIRECT TESTIMONY OF

GLENN R. JENNINGS

AFFIDAVIT

The affiant, Glenn R. Jennings, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 99-176, in the Matter of: An Adjustment of Rates of Delta Natural Gas Company, Inc. and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct testimony.

Affiant further states that he will be present and available for cross-examination and for such additional direct examination as may be appropriate at the hearing in Case No. 99-176 scheduled by the Commission, at which time affiant will further reaffirm the attached prepared testimony as his direct testimony in such case.

Glenn R. Jennings
GLENN R. JENNINGS

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me by Glenn R. Jennings, this the 30th day of June, 1999.

My Commission Expires: 3/8/2000

Emily P. Bennett
Notary Public, State at Large, Kentucky

Q. Please state your name and business address.

A. Glenn R. Jennings, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

Q. What is your present employment?

A. I am presently employed as President and Chief Executive Officer of Delta Natural Gas Company, Inc.

Q. For what period of time have you been so employed?

A. I was employed by Delta as Treasurer in January, 1979. I was appointed Vice President - Finance and Treasurer in 1982; Executive Vice President, Treasurer and Chief Operating Officer in May of 1983; President, Treasurer and Chief Executive Officer in 1985; and President and Chief Executive Officer in 1988.

Q. Would you briefly describe your education and professional experience?

A. I attended Berea College, Berea, Kentucky, from 1969 to 1972, receiving a B.S. in Business Administration. I have also attended two graduate schools working toward an M.B.A. I am a Certified Public Accountant in the states of Kentucky and Ohio. From 1972 to 1973, I was employed by Ford Motor Company in Cincinnati, Ohio as a production supervisor in a plant that manufactured automotive transmissions. I was employed by the accounting firm of Arthur Andersen & Co. in its Cincinnati, Ohio office from 1973 to 1977, specializing in the utility area. From July, 1977 to January, 1979, I was employed by Berea College as Internal Auditor and Assistant to the Vice President for Finance, during which time I prepared rate cases and testified before the Public Service Commission several times. Since January, 1979, I have been employed by Delta. I have appeared before the Public Service Commission on numerous occasions on Delta's behalf.

I served 11 years on the Board of Directors of the Kentucky Gas Association (President in 1991-1992). I am presently a member of the Board of Directors of the Southern Gas Association (Chairman 1997-1998) and the American Gas Association (Chairman of Small Member Council).

Q. Generally what are your duties with Delta?

A. As President and Chief Executive Officer, I have responsibility for all areas of Delta. I supervise four officers who report to me and are responsible for each of their respective segments of the Company.

Q. Mr. Jennings, will you please summarize for the Commission the historical development of Delta's business?

A. Certainly. Delta is a Kentucky corporation with its principal office at 3617 Lexington Road in Winchester, Kentucky. In 1950, Delta completed its first distribution system, which served approximately 300 customers in Owingsville and Frenchburg. Delta expanded its business until 1977 when it was serving 11,000 customers in relatively small communities in central Kentucky. At that time Delta's only source of gas supply was the interstate system and the Company was not large enough to attract the capital sufficient to continue to provide a high degree of service to our customers. Therefore, the decision was made to expand our business by acquiring gas systems in the gas producing regions in southeastern Kentucky. In October, 1977, we acquired Gas Service Company, Inc., Cumberland Valley Pipe Line Co. and Laurel Valley Pipe Line Company. These companies operated the distribution systems in London, Pineville, Middlesboro, Williamsburg and part of Barbourville, the transmission lines linking the towns, except London, and related gathering lines and gas storage facilities. At that point we began serving an additional 8,500 customers and began utilizing locally produced natural gas and gas storage facilities. In January, 1981, we acquired the assets of Peoples Gas Company of Kentucky, a subsidiary of The Wiser Oil Company, which added approximately 8,700 customers in Corbin, Barbourville, Manchester, Oneida and Burning Springs. In January, 1982, we purchased approximately 57 miles of transmission lines from Wiser which run generally from Manchester to Corbin and London. In 1989, we leased the TranEx pipeline, a 43 mile 8 inch diameter pipeline which extends from Manchester to Richmond, and began operating it as a part of our transmission system. We purchased the TranEx pipeline in 1997. Delta has continued to successfully expand its distribution systems by extending to new areas such as Beattyville in 1992. Delta expanded into Fayette County in 1997 and also acquired the North Middletown distribution system in Bourbon County as well as Annville Gas &

Transmission in Jackson County. We have an application pending before the Commission currently to purchase the Mt. Olivet gas system located in Robertson and Mason Counties.

Delta has thus grown to a system of approximately 38,000 customers in primarily rural areas of Kentucky with 10 branch offices, two warehouses and approximately 2,100 miles of transmission, distribution, service and gathering pipeline in 21 counties in central and southeastern Kentucky. This includes transmission lines that interconnect with Richmond, Berea, Manchester, London, Corbin, Middlesboro, Barbourville, Pineville and Williamsburg. In addition, transmission lines interconnect the other communities we serve with each other and/or the sources of gas. The gathering systems are located in Bell, Knox, Whitley and Clay counties in the vicinity of wells from which Delta acquires some of its natural gas supplies. Delta owns, operates and maintains service lines as well. Also, Delta has four wholly-owned subsidiaries. Two of those companies buy and sell natural gas, one owns production properties and one leases the Canada Mountain storage field and related pipeline facilities from Delta and operates the field.

Delta is a small, independent, investor-owned utility. Our system is mainly in smaller Kentucky communities or rural areas, and there are no large concentrations of customers. Thus, we are faced with a significant challenge to control the upward pressure on rates while still providing our customers with a high degree of service as well as maintaining an adequate return to our shareholders so that we can continue to raise the capital needed.

Q. Mr. Jennings, please tell the Commission the reason an adjustment in rates is required.

A. In this filing, our rate base, capital and operating costs reflect current and known levels. We based our proposed rates on data for the test year ended December 31, 1998, or as of the end of the test year, and included known facts which are reflected as adjustments consistent with our last rate case. We have proposed a rate design similar to that approved by the Commission in our last case with adjustments to reflect our updated cost of service study as well as current market conditions.

Our last rate filing in 1997 utilized a test year ending December 31, 1996. Thus, by the time rates are expected to be implemented from this case, three years will have passed since the test year end for the last case. This current request reflects an overall increase in revenues of only 6.76% in order to update our rates to reflect current levels of operating expenses, taxes, depreciation and interest as well as to recover a reasonable return on equity investments.

Q. Mr. Jennings, can you comment upon Delta's competitive environment today and what impact this has upon rate design and other marketing considerations?

A. Yes, I can. It is important that we keep all our rates as low as possible, as we have competition for gas sales from many alternate fuel sources including electricity, coal, oil, wood, propane and other natural gas suppliers.

In our residential and commercial markets we compete directly with several electric utilities, including Kentucky Utilities, various RECCs, Berea College and municipal systems, for space heating, water heating, clothes drying and cooking.

Our larger volume customers with alternate fuels available in the case of interruption could switch to those alternate fuels such as oil or propane at any time, and in the past some of our larger volume customers have converted to coal. Such customer losses place a greater burden on Delta and all remaining customers. It is advantageous to Delta, and Delta's smaller volume customers, to retain the larger volume load customers. We also need to be competitive for new industrial prospects, since this too will benefit all our customers.

On and off-system transportation are a significant component of our total throughput. We have been physically bypassed in some instances. We are under frequent threat of additional physical bypass with respect to transportation and thus competitive transportation rates are very important to us.

We believe that continuing toward fully allocated costs has us pointed in the right direction, and our experience has reinforced that belief. Our proposed lower interruptible rates should help to retain our larger volume customers as well as attract new ones. If a larger volume customer is lost to other energy sources, the revenue requirement to be provided by others in such an event would be smaller than otherwise. This will help to lessen the future rate impact of a lost large volume customer on all other smaller customers.

Q. In developing proposed rates in this case, how has Delta considered its cost of service study?

A. The cost of service study determined revenue requirements for each customer class. Delta's rate design considers the cost of service study. Delta's proposed rates provide for a reduction in rates to larger volume customers as well as a reduction in the rate differential between the GS and interruptible classes. This should help to keep Delta's rates in its service areas attractive for economic development.

Q Mr. Jennings, how do the transportation revenues reflected in this rate filing benefit Delta's rate payers?

A. Delta's sales customers benefit from transportation since the revenue provided by on-system and off-system transportation rates reduces the revenue requirement otherwise required from Delta's other customers. Delta continues to try to maximize transportation deliveries for others. We are concerned about whether the test year level of transportation revenues will continue in the future, since continued deliveries are dependent upon many variables, including weather, producers' production capabilities, levels of end user operations, supply needs, system capabilities, federal regulations and bypass. In fact, our off-system transportation volumes have declined in the past few years.

Q Do you agree with the return on common equity as recommended by Mr. Blake?

A. Yes. Delta is small in comparison to major utilities, yet, as an independent, investor-owned company, it must compete in the same financial markets for its new capital. Delta must be able to raise common equity to enable it to continue to issue long-term debt securities. Also, common equity issuance is a necessity in order to be able to continue or expand short-term lines of credit.

We are in contact with brokers, analysts, investment bankers, investors, shareholders and market makers on a routine basis, discussing Delta and their concerns as they relate to Delta. The most important and repetitive concerns raised are stability of dividends, future growth in dividends and stock value and maintenance of an adequate return on common equity to provide for these items. We must be able to maintain reasonable retained earnings over and above our dividend payments to shareholders.

As pointed out in Mr. Blake's testimony, Delta's earnings over the past few years have been inadequate. This trend continued during 1998 and Delta's December 31, 1998, net income provided an inadequate return on common equity. Delta's consolidated reported earnings per share for the twelve months ended December 31, 1998 were only $.94, or only a 7.8% return on common equity which was well below Delta's authorized return. Delta's dividends paid during that period were $1.14 per share. As a result, Delta's retained earnings have continued to decline. This trend must be reversed if Delta is to be financially viable.

Delta's requested return is required in order to produce a reasonable yield to investors and to continue our dividends. Such a return should thus strengthen the shareholders' confidence in investing in Delta's common stock. This will also provide Delta the opportunity to fulfill its future capital needs in the common equity markets at a fair cost to both customers and stockholders.

Q Could you please review Delta's current financial condition and financing needs?

A. Yes. Our earnings for calendar 1998, the test year, are not adequate. Financial indicators such as return on common equity and payout ratio indicate that Delta's financial condition needs to improve. We must improve earnings to be able to continue our dividend and we must be able to continue our dividend in order to raise equity capital effectively. Fiscal 1999 will be Delta's third year in a row of not earning as much per share as the dividend it has paid out. This situation cannot continue.

We utilize short-term debt, along with internally generated cash flow from operations, to meet our construction expenditure needs. We periodically repay these short-term borrowings as capital markets permit and as our needs dictate. In March, 1998, we refinanced our short-term debt with long-term debt and redeemed $10 million of 9% debentures, replacing them with 7.15% debentures. Delta had borrowed approximately $9 million under its short-term line of credit as of the end of the test period, and we will have to refinance those short-term borrowings at some point in the not too distant future. The continuing availability of our line of credit is closely tied to our ability to refinance those borrowings from time to time. Our continuing ability to raise debt and equity capital, and thus to be able to continue to finance our construction expenditures, is a direct result of our financial stability.

An expedient approval of the rates as requested would be fair to both Delta's shareholders and customers and would help to keep our cost of capital as low as possible.

Q. Please describe Delta's response to industry changes that have taken place in the past few years.

A. Delta attempts to deal with industry change with the best interests of its customers in mind. Prior to deregulation of natural gas wellhead prices in the 1980's, Delta began transporting for larger volume customers, producers and off-system customers and those additional revenues helped to keep our other rates lower. We have had a mix of supplies from producers, marketers, pipelines and our own supplies and this has helped to balance our supplies and prices and keep our gas costs as low as possible. In order to further respond to the changes, we have acquired and developed the Canada Mountain underground natural gas storage field in Bell County, Kentucky. This storage field is operational and is assisting us in meeting our seasonal supply needs.

As a further response to our changing industry, Delta proposed alternative regulatory tariffs that are under consideration by the Commission in Case No. 99-046. This proposed approach shares the risk and reward of efficiencies with Delta and its customers and provides a means to keep rates current without the enormous expense of money and time required by general rate cases. It also provides appropriate reviews and controls to provide suitable Commission oversight of Delta in this era of regulatory change.

We have considered the current industry trend toward retail unbundling for residential and small commercial customers. While we are familiar with some of the anticipated benefits, we are still not confident that all problems that this raises have been adequately addressed. We are concerned about many areas that will need to be properly addressed, including such issues as transition costs (pipeline, storage, supply), backup supplies in the event of supply failure by marketers, the obligation to serve standard in an unbundled environment, supplier of last resort issues and the impact of unbundling on lower income customers. We are still evaluating this area and considering the programs recently implemented in other states and proposed by some in Kentucky. Thus, while we are unbundled for some transportation services already, we are not in a position to propose any further unbundling at this time.

Q. Does this conclude your testimony at this time?

A. Yes.

Notes

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.	)))	CASE NO. 99-176

DIRECT TESTIMONY OF

JOHN F. HALL

AFFIDAVIT

The affiant, John F. Hall, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 99-176, in the Matter of: An Adjustment of Rates of Delta Natural Gas Company, Inc. and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct testimony.

Affiant further states that he will be present and available for cross-examination and for such additional direct examination as may be appropriate at the hearing in Case No. 99-176 scheduled by the Commission, at which time affiant will further reaffirm the attached prepared testimony as his direct testimony in such case.

John F. Hall
JOHN F. HALL

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me by John F. Hall, this the 29th day of June, 1999.

My Commission Expires: 3/8/2000

Emily P. Bennett
Notary Public, State at Large, Kentucky

A. Item FR 6(e) contains a comparison of average bills at present rates with average bills at proposed rates. Average bills are presented separately for the different customer classes. The percentage of increase in annual revenues to Delta will approximate 6.8%. The effect upon consumer bills will vary depending upon usage.

Q. Please explain FR 6(h), the determination of the revenue requirement.

A. Item FR 6(h) contains the nine schedules of the revenue requirement study and supporting workpapers. Schedule 2 shows the calculation of revenue at present rates. It contains the bill frequency analysis required for item FR 6(g). The supporting workpapers present the calculation of the proposed adjustments included in the revenue deficiency study. The attached workpapers, together with the description of the adjustments, provide the description and explanation of proposed adjustments required for item FR 6(a).

Q. What is the amount of the revenue deficiency?

A. The amount of revenue deficiency to be recovered by proposed rates is shown in Schedule 1. This deficiency of $2,511,797 is calculated by comparing the total cost of service to the revenues at present rates. This revenue deficiency requires a rate increase of approximately 6.8% of normalized revenues. Schedules 2 through 9 present the components of the cost of service.

Q. Briefly describe Schedules 2 through 9.

A. These Schedules present more detail related to the test year actual data and adjustments which were made to arrive at the revenue deficiency.

Q. Please explain Schedule 2.

A. Schedule 2 shows actual billing determinants for the twelve months ended December 31, 1998 and the proposed adjustments to the billing determinants.

Q. Please explain Schedule 3.

A. I am sponsoring the following:

FR 1-7	Proposed tariffs
FR 1-8(a)	Present and proposed tariffs in comparative form
FR 6(a)	Description and explanation of proposed adjustments
FR 6(d)	Statement of effect that the new rates will have on revenues
FR 6(e)	The effect on the average bill for each customer class
FR 6(g)	Billing analysis
FR 6(h)	Determination of revenue requirement
FR 6(i)	Reconciliation of rate base and capital
FR 6(p)	The prospectus of the Company's most recent stock or bond public offering
FR 6(q)	Annual reports to shareholders for the last two years and supplements thereto
FR 6(s)	SEC reports for the most recent two years with updates
FR 7(a)	Income Statement and Balance Sheet reflecting the impact of proposed adjustments

Q. Do you adopt these Filing Requirements and Exhibits and do you make them part of your testimony?

A. Yes.

Q. What changes is Delta proposing to its tariffs?

A. Delta is proposing to adopt a Weather Normalization Adjustment Clause as is discussed in more detail by Mr. Brown in his testimony. Delta has also included the Experimental Alternative Regulation Plan that is before the Commission in Case No. 99-046. Other proposed tariff changes include changes to make the tariffs more correct. See Exhibit 1 attached to my testimony.

Q. Please explain FR 6(e), the effect of the proposed rates on the average bill for each customer class.

Q. Please state your name and business address.

A. John F. Hall, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

Q. What is your present employment?

A. I am employed as Vice President - Finance, Secretary and Treasurer of Delta Natural Gas Company, Inc.

Q. For what period of time have you been so employed?

A. I have been employed by Delta since April of 1979 in accounting and financial areas. I was promoted to Manager - Rates and Treasury in 1983, to Vice President - Regulatory Matters and Treasurer in 1988, and assumed my current position in 1994.

Q. Will you state your educational background?

A. I graduated from Eastern Kentucky University in 1978, receiving a B.B.A. with a major in Accounting.

Q. Generally what are your duties with Delta?

A. My duties and responsibilities include the responsibility for the administration of the rates of the Company, overseeing and directing the accounting, data processing and cash management activities, assuring the proper maintenance of stockholder and bondholder records, directing the preparation and filing of gas cost recovery adjustments, and planning and coordinating the preparation and filing of reports to the Securities and Exchange Commission and stockholders. I have previously testified before the Public Service Commission on Delta's behalf.

Q. Are you generally familiar with the business affairs of Delta?

A. Yes.

Q. What is the scope of your testimony in this proceeding?

A. Schedule 3 shows the calculation of gas cost using Delta's current GCR effective May 1, 1999. The amount of gas cost recovery included in present rates is applied to the adjusted volumes.

Q. Please explain Schedule 4.

A. Schedule 4 shows actual operation and maintenance expenses for the twelve months ended December 31, 1998 and the adjustments to reflect changes which were known and measurable with reasonable accuracy during the preparation of this filing. Therefore this filing includes only those operating expenses which the Company is actually incurring or is reasonably likely to incur. The source for the actual test year costs is the Company's books and records.

Q. Please briefly describe these adjustments.

A. The payroll adjustment normalizes for wage increases given July 1, 1998. Accounts disallowed in Case No. 97-066 are adjusted out. Canada Mountain expenses are not applicable to this filing and are adjusted out. The estimated rate case expense of $145,000 is being amortized over three years. Interest on Customer Deposits were adjusted out of the interest expense and included in the operating expenses as per the Order in Case No. 97-066. Medical expense was normalized to reflect the recovery of funds from Delta's stop-loss insurance coverage that were applicable to 1997. The proposed adjustment to expense is associated with the proposed adjustment to annualize for customer and sales growth (see the testimony of Mr. Walker on page 8).

Q. Please describe Schedule 5.

A. Schedule 5 shows depreciation and amortization expense. Actual expenses are adjusted to reflect the test year end level of plant investment.

Q. What adjustments were made to taxes other than income taxes?

A. Schedule 6 shows taxes other than income taxes. Payroll taxes were adjusted to correspond to the adjusted wage levels. Property taxes were adjusted to remove taxes applicable to Canada Mountain.

Q. Please describe Schedule 7.

A. Schedule 7 shows rate base and required return. The total rate base is the investment attributable to Delta's system only, excluding Delta's subsidiary companies and the Canada Mountain storage property. Cash requirements are included at one-eighth of operation and maintenance expenses excluding purchased gas cost.

Q. Please explain Schedule 8.

A. Schedule 8 shows income taxes. The tax expense is calculated based on the required after tax equity return and a combined tax rate of 39.445 percent. The 39.445 percent tax rate is the result of combining the 35 percent federal rate with the state income tax rate of 8.25 percent.

Q. Please describe Schedule 9.

A. Schedule 9 shows the calculation of Delta's overall cost rate for capital which is 9.31 percent.

Q. What cost rates are used for debt capital in the calculation of the overall cost of capital?

A. Delta's embedded cost of long-term debt as of the end of December, 1998, which is 7.48 percent, was used for long-term debt. The current rate of 5.41 percent as of June 21, 1999 was used for short-term debt.

Q. What is the requested cost of equity capital?

A. I used 11.9% on the adjusted capital structure as recommended by Mr. Blake in his testimony.

Q. Please explain FR6(i), the reconciliation of rate base and capital used to determine its revenue requirements.

A. Item FR6(i) contains a reconciliation of the capital account balance from FR7(a) and the total adjusted rate base from FR6(h).

Q. Does this conclude your testimony at this time?

A. Yes.

OTHER PROPOSED TARIFF CHANGES

<u>GENERAL SERVICE AND INTERRUPTIBLE RATES</u>

Last paragraph – Changed wording giving customers who enter into an Interruptible Agreement permission to transport as well as purchase gas under the Interruptible Rate Schedule.

<u>TRANSPORTATION OF GAS FOR OTHERS OFF SYSTEM UTILIZATION</u>

<u>Terms and Conditions</u>

Changed wording from "after approval of said contract has been granted by the Public Service Commission" to **"after said contract has been filed with and accepted by the Public Service Commission"**.

<u>STANDBY SERVICE RATE SCHEDULE</u>

<u>Rates</u>

Changed wording from "has been approved by the Public Service Commission" to **"has been filed with and accepted by the Public Service Commission".**

<u>RULES AND REGULATIONS</u>

<u>Applicability</u>

Added Clark County; Mt. Olivet, Robertson County; and Sardis, Mason County to the service area list.

OTHER PROPOSED TARIFF CHANGES

Company's Rules and Regulations

Deleted the word **"following"**.

Rules and Regulations May be Amended

Changed wording from "subject to the approval of the Public Service Commission of Kentucky" to **"subject to the filing with and acceptance of same by the Public Service Commission of Kentucky"**.

Customer's Liability

Word added: "said injury or damage will be shown to have been caused solely by the **gross** negligence of the Company".

Deposits

Changed wording from "This amount does not exceed 2/12ths of the average annual bill" to **"This amount shall not exceed 2/12ths of the average annual bill"**.

Monthly Bills

Word added: "such reading to be taken as near as practicable **approximately** every thirty (30) days".

Customers Equipment and Installation

Paragraph changed to agree with the wording of Delta's Standard Practice 0-9.2 – Curb Box, Service Lines, Yard Line, House Lines, Appliances, Read Out – Read In and Turn Ons, Section 6(B) – Appliance Inspection.

Notes

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN ADJUSTMENT	)	
OF RATES OF DELTA NATURAL	)	CASE NO. 99-176
GAS COMPANY, INC.	)	

DIRECT TESTIMONY OF

JOHN B. BROWN

AFFIDAVIT

The affiant, John B. Brown, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 99-176, in the Matter of: An Adjustment of Rates of Delta Natural Gas Company, Inc. and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct testimony.

Affiant further states that he will be present and available for cross-examination and for such additional direct examination as may be appropriate at the hearing in Case No. 99-176 scheduled by the Commission, at which time affiant will further reaffirm the attached prepared testimony as his direct testimony in such case.

John B Brown
JOHN B. BROWN

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me by John B. Brown, this the 30th day of June, 1999.

My Commission Expires: 3/8/2000

Emily P. Bennett
Notary Public, State at Large, Kentucky

Q. Please state your name and business address.

A. John B. Brown, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, Kentucky 40391.

Q. What is your present employment?

A. I am an accountant, presently employed by Delta as its Controller.

Q. For what period of time have you been so employed?

A. I was employed by Delta as Manager – Accounting & Finance in April of 1995. I was appointed Controller in March of 1999.

Q. Would you briefly describe your education and professional experience?

A. I attended Asbury College, Wilmore, Kentucky, from 1985 to 1989, receiving B.A. degrees in Accounting and Business Management with a minor in computer science. I am currently enrolled in the University of Kentucky's MBA program. I am a Certified Public Accountant in the state of Kentucky. I was employed by the accounting firm of Arthur Andersen LLP in its Louisville, Kentucky office from 1989 to 1995, specializing in the utility area. Since April, 1995, I have been employed by Delta.

Q. Generally what are your duties with Delta?

A. I direct the operations of the Accounting and Information Technology departments. My duties include the maintenance of proper books and accounts, property records and the like; the preparation of periodic financial statements and reports; the proper and timely billing and maintenance of customer accounts; the timely filing of tax reports including sales, property and income and the overall supervision of the company's financial records. Delta retains Arthur Andersen LLP, independent certified public accountants, with whom I work on a routine basis.

Q. Are you generally familiar with the business affairs of Delta?

A. Yes, I am.

Q. Please briefly summarize the scope of your testimony.

A. My testimony sponsors all of the rate application amounts from the books and records of the Company. In that regard I am sponsoring the following filing requirements:

FR 1(7)	pg. 36 and 37 Weather Normalization Adjustment Clause Applicable to General Service Rate Schedule
FR 6(j)	Current chart of accounts
FR 6(k)	Independent auditor's annual opinion report
FR 6(m)	Calendar year 1998 FERC Form 2
FR 6(n)	Most recent depreciation study with schedules by major plant Accounts
FR 6(o)	List of computer software, programs and models used
FR 6(r)	Monthly managerial reports providing financial results of operations for the twelve months ended December 31, 1998
FR 6(t)	Detailed description and explanation of the reasonableness of monies paid by the utility to the affiliates
FR 7(d)	The operating budget for each month of the period encompassing the pro forma adjustments

Q. Do you adopt the Filing Requirements you just identified, and do you make them part of your testimony?

A. Yes.

Q. Are Delta's annual reports on file with the Kentucky Public Service Commission?

A. Yes. The annual report filed under the FERC Form 2 format for the calendar year 1998 is the most recent report filed with the Kentucky Public Service Commission.

Q. Please explain FR 6(k).

A. Filing Exhibit FR 6(k) is the Company's Annual Report to Shareholders for the year ended June 30, 1998 which includes the independent auditor's annual opinion report. The Company's independent accounting firm is Arthur Andersen LLP. There have been no written or other communications regarding the fiscal year 1998 financial statements from the auditors to the Company indicating the existence of any material weakness in the Company's internal controls.

Q. Has Delta received an audit and an audit report from the FERC? (Filing Requirement FR 6(1)).

A. No. Delta is not audited by the FERC.

Q. Please explain FR 6(n).

A. FR 6(n) is the most recent depreciation study, including schedules by major plant accounts. This study was conducted by the independent firm of Stone & Webster and was previously filed with the Commission in Delta's previous rate cases, No. 90-342 and 97-066.

Q. Did Delta have any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the test period or during the previous three (3) calendar years?

A. Yes. FR 6(t) details gas purchases by Delta from affiliates.

Q. Does this conclude your testimony at this time?

A. Yes.

Notes

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN ADJUSTMENT OF RATES OF DELTA NATURAL GAS COMPANY, INC.	)))	CASE NO. 99-176

DIRECT TESTIMONY OF

ROBERT C. HAZELRIGG

AFFIDAVIT

The affiant, Robert C. Hazelrigg, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 99-176, in the Matter of: An Adjustment of Rates of Delta Natural Gas Company, Inc. and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct testimony.

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Robert C Hazelrigg

ROBERT C. HAZELRIGG

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me by Robert C. Hazelrigg, this the 30th day of June, 1999.

My Commission Expires: 3/8/2000

Emily P. Bennett

Notary Public, State at Large, Kentucky

Q. Please state your name and business address.

A. Robert C. Hazelrigg, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester, KY 40391.

Q. What is your present employment?

A. I am presently employed as Vice President for Public and Consumer Affairs.

Q. For what period of time have you been so employed?

A. I have been employed by Delta since June, 1981 in the marketing and public relations areas. I was promoted to Vice President for Marketing and Public Relations in November, 1988 and became Vice President for Public and Consumer Affairs in May, 1993.

Q. Will you state your educational background?

A. I graduated from the University of Mississippi in 1969, receiving a B.A. degree in liberal arts.

Q. Generally, what are your duties with Delta?

A. My duties and responsibilities include public, governmental and media relations, larger volume customer marketing and economic development. I have previously testified before the Public Service Commission on Delta's behalf.

Q. What is the scope of your testimony in this proceeding?

A. I will be addressing the need for competitive larger volume customer rates.

Q. Are larger volume customers a significant part of Delta's business?

A. Yes. While Delta makes sales to some of these customers, most of Delta's larger volume customers are purchasing their own natural gas requirements and Delta is transporting these volumes. As stated in Delta's June 30, 1998 Annual Report to

Shareholders, over 38% of Delta's combined retail and on-system throughput was to such customers.

Q. Are these larger volume customers offered rate incentives by Delta?

A. Yes. Delta has a declining block rate structure which provides for lower rates as usage increases for both GS and Interruptible customers. Additionally, for the interruptible customer class, Delta's current rates provide a reduction from GS rates which range from $.60 per Mcf to $1.0212 per Mcf.

Q. Are these incentives adequate for Delta's larger volume customers?

A. No. The rates offered by Delta are not as favorable to larger volume, better load factor customers as are those offered by certain other gas distribution companies. Just as open access transportation was a logical extension of deregulation of natural gas at the wellhead, the need to determine costs for all classes of customers was a logical extension of the trend toward utilization of transportation. In accordance with Public Service Commission requirements, Delta and other gas utilities perform cost of service studies and present the results of those studies in general rate cases for the purpose of assisting in the determination of how costs should be allocated to various classes of customers. In Delta's last rate case (97-066), Delta proposed to realign rates but there was no significant realignment of rates with costs. Now we propose to align rates more fully with costs.

Q. Has Delta performed a cost study to support the rates proposed in this case?

A. Yes. Delta has employed The Prime Group, LLC to perform cost studies and to assist us in developing rates. The cost of service study is submitted in this proceeding with the direct testimony of William Steven Seelye.

Q. Do Delta's proposed rates rely solely on the cost study?

A. No. The rates which Delta proposes have been developed with the intent of establishing rates which reflect a reasonable balance between the cost study and the realities of today's market. The environment in which Delta presently operates requires greater attention to the demands and realities of the marketplace than ever before and this consideration has been factored into our rate design.

Q. To what extent do Delta's proposed rates deviate from the cost study?

A. The cost study supports a more significant revenue shift from interruptible customers to residential customers than Delta is proposing in this rate case. While Delta recognizes the ultimate need to offer more competitive cost based rates to interruptible customers, we are, in this case, proposing a lesser decrease for two primary reasons. First, because we are very sensitive to the impact on residential customers, we propose a gradual approach to properly allocated rates. Second, there is a greater present need to reduce rates to larger volume, better load factor GS customers.

Q. Why does Delta's proposed rate design offer lower rates to larger volume GS customers.?

A. Delta's current GS rates are from $.60 per Mcf to $1.0212 per Mcf higher than Interruptible rates. This difference is of such a magnitude that larger volume GS customers are considering switching to Interruptible Service primarily for economic reasons. This is harmful to the customers because economics will drive them to switch to a level of service that is not necessary or not preferable rather than the level of service decision being made by balancing the considerations of supply and deliverability. Delta is also harmed because, if the customer switches from GS to interruptible rates, Delta loses revenues which have been imputed in setting its rates and the customer then has alternate fuel options.

Q. Has Delta identified GS customers that may switch to Interruptible Service unless it becomes economically feasible to remain on GS?

A. Yes. Delta is aware of twelve (12) customers representing 668,500 annual Mcf that are considering switching to Interruptible Service unless the economics are changed. Four (4) customers representing 495,250 annual Mcf have indicated a strong inclination to switch very soon and others are at varying stages of deliberation. Further, Delta has already found it necessary to enter into a special contract with one customer to prevent it from switching to Interruptible Service.

Q. Why has Delta proposed a $.25 per Mcf difference between GS and Interruptible Service at the higher rate blocks?

A. Prior to our last rate case (No. 97-066) the difference between GS and Interruptible Service was $.25 per Mcf. At that time very few of Delta's larger volume, better load factor customers were on GS rates and a rate design which offered lower rates for Interruptible Service was a means to provide much needed, more competitive rates to most of Delta's larger volume customers. Structural changes in the natural gas industry, the availability of firm gas at competitive rates in other locations and a positive supply environment have combined to make firm (GS) service more available and preferable to customers that are large enough to utilize transportation services. The rates Delta proposes are consistent with Delta's cost of service study as well as market responsive.

Q. Has the nature of Interruptible Service changed since the advent of transportation services?

A. Dramatically so. The gas industry is structurally very different than it was at the beginning of this decade. The right to interrupt larger volume customers had a greater value to Delta when Delta purchased gas to meet those customers requirements. Delta could then interrupt service and direct that gas to higher priority customers. Therefore, the right to interrupt was of much greater value than in today's environment when those customers are purchasing gas from sources other than Delta. None of the customers previously identified as considering switching to Interruptible Service from Gas purchase their gas requirements from Delta.

Q. Could you further describe Delta's competitive environment as it relates to larger volume customers:

A. Yes. Delta faces intense competition in all aspects of its business. In the larger volume markets natural gas faces competition from other energy sources, specifically coal, oil and propane as well as the possibility of bypass by larger customers to interstate in intrastate pipelines. Additionally, Delta and the communities served by Delta compete with communities served by others for new investment. Rates must be competitive to assist those communities and Delta in attracting that new investment. Further, rates need to be fair and competitive to create the necessary environment to permit existing businesses within Delta's service area to retain market share and expand. Also, some businesses within Delta's service areas have multiple plant locations and are, therefore, directly affected by Delta's rates since they compete with other plant locations for business.

Q. Why is it necessary to continue to provide a declining block rate scale as Delta proposes?

A. This is predominantly a response to market demands and Delta's intent to make gradual shifts to cost based rates. As a general rule, customers with larger energy requirements are very sensitive to pricing. Delta is interested in encouraging larger volume natural gas customers with high load factors to locate in its service area. Delta must offer competitive pricing to obtain these customers and to provide fair and competitive rates to existing customers within its service area.

Q. Why is it important to Delta to service customers with larger natural gas requirements and high load factors?

A. These customers are important because their revenue contributions help provide pricing stability to smaller volume customers over the long term and because high load factors create more stable revenues throughout the year.

Q. Does this conclude your testimony at this time?

A. Yes.

Notes

5

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF ADJUSTMENT OF GAS SERVICE RATES OF DELTA NATURAL GAS COMPANY, INC.	)))	CASE NO. 99-176

DIRECT TESTIMONY OF

WILLIAM STEVEN SEELYE

AFFIDAVIT

The affiant, William Steven Seelye, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 99-176, in the Matter of: Adjustment of Gas Service Rates of Delta Natural Gas Company, Inc. and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct testimony.

Affiant further states that he will be present and available for cross-examination and for such additional direct examination as may be appropriate at any hearing in Case No. 99-176 scheduled by the Commission, at which time affiant will further reaffirm the attached testimony as his direct testimony in such case.

W. S. Seelye

William Steven Seelye

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me by William Steven Seelye, this the 29th day of, June 1999.

My Commission Expires: 3/8/2000

Emily P. Bennett

Notary Public, State at Large, Kentucky

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Steven Seelye and my business address is The Prime Group, LLC, 6711 Fallen Leaf, Louisville, Kentucky, 40241.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am a senior consultant and principal for The Prime Group, LLC, a firm located in Louisville, Kentucky, providing consulting and educational services in the areas of utility marketing, regulatory analysis, cost of service, rate design and fuel and power procurement.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PRIOR WORK EXPERIENCE.

A. I received a Bachelor of Science degree in Mathematics from the University of Louisville in 1979. I have also completed 54 hours of graduate level course work in Industrial Engineering and Physics. From May 1979 until July 1996, I was employed by Louisville Gas and Electric Company ("LG&E"). From May 1979 until December, 1990, I held various positions within the Rate Department of LG&E. In December 1990, I became Manager of Rates and Regulatory Analysis. In May 1994, I was given additional responsibilities in the marketing area and was promoted to Manager of Market Management and Rates. I left LG&E in July 1996 to form The Prime Group, LLC, with two other former employees of LG&E.

Since leaving LG&E, I have provided consulting services to numerous investor-owned utilities, rural electric cooperatives, and municipal utilities regarding utility rate and regulatory filings, cost of service and wholesale and retail rate designs. Specifically, I have prepared and filed Order No. 888 and Order No. 889 compliance filings at the Federal Energy Regulatory Commission ("FERC") for a number of electric utilities as well as Order No. 888 and Order No. 889 waiver requests for other utilities. I have prepared market power analyses in support of market-based rate filings at FERC for utilities and their marketing affiliates, as well as assisting other utilities with their market-based rate filings. I have assisted utilities with developing strategic marketing plans and implementing these plans. I have provided utility clients with assistance regarding regulatory policy and strategy; state and federal regulatory filing development; cost of service development and support; the development of innovative rates to achieve strategic objectives; the unbundling of rates and the development of menus of rate alternatives for use with customers; performance-based rate development; and energy marketing and brokering capability development. I have provided training to account executives in sales and customer negotiation, as well as providing training in ratemaking and utility finance regarding basic utility marketing. I have provided marketing, market research and marketing support services for utility clients and have assisted them in assessing their marketing capabilities and processes.

Q. HAVE YOU EVER TESTIFIED BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION ("Commission")?

A. Yes, on a number of occasions. I testified in Administrative Case No. 244 regarding rates for cogenerators and small power producers, Case No. 8924 regarding marginal cost of service, and in several 6-month and 2-year fuel adjustment clause proceedings. Most recently, I testified in Case No. 96-161 and Case No. 96-362 regarding complaints filed with the Commission regarding Prestonsburg City's Utilities Commission ("Prestonsburg") rates. I have also submitted pre-filed direct testimony in Case No. 99-046 on behalf of Delta Natural Gas Company ("Delta") concerning its alternative regulation plan.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to sponsor a fully allocated class cost of service study based on Delta's embedded costs for the 12 months ended December 31, 1998. The cost of service study is based on Delta's accounting costs per books, adjusted for known and measurable changes to test year operating results. The cost of service study therefore corresponds to the pro-forma financial exhibits included in the testimony of Mr. John Hall. Our objective in performing the cost of service study is to determine the rate of return on ratebase that Delta is earning from each customer class, which provides an indication as to whether Delta's gas service rates reflect the cost of providing service to each customer class. The cost of service study can also be used to determine unit costs which can guide us in developing a rate design that is appropriate for each customer class.

Q. HAVE YOU EVER PREPARED AN EMBEDDED COST OF SERVICE STUDY?

A. Yes, on many occasions. While employed at LG&E, I prepared numerous gas and electric cost of service studies, many of which were filed in rate cases before the

Commission. Since leaving LG&E, I have prepared cost of service studies for several electric and water utilities.

Q. WHAT PROCEDURE WAS USED IN PERFORMING THE COST OF SERVICE STUDY?

A. The cost of service study was prepared using the following basic procedure: (1) costs were assigned (*functionalized*) to the major functional groups, (2) costs were then *classified* as commodity-related, demand-related, or customer-related; and then (3) costs were allocated to Delta's rate classes. These steps are depicted in the following diagram (Figure 1). This is a standard approach utilized in the preparation of embedded cost of service studies.

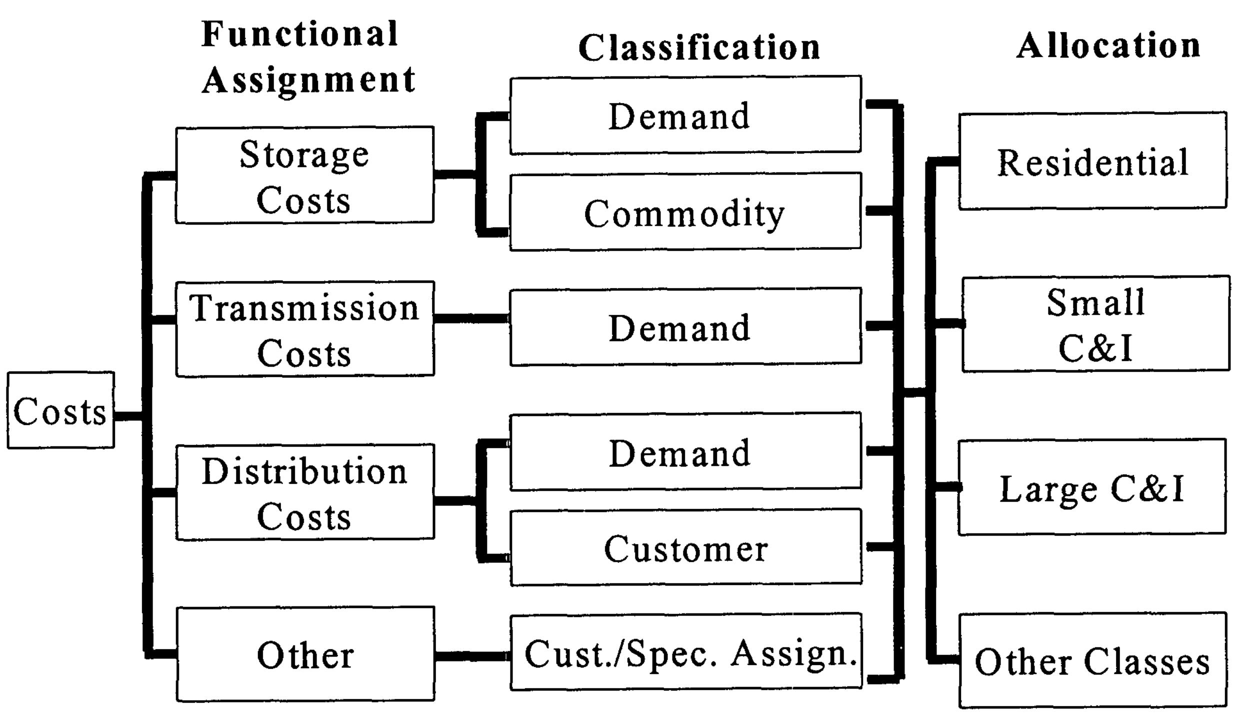

Figure 1

Q. WHAT IS THE PURPOSE OF FUNCTIONALLY ASSIGNING COSTS?

A. Functional assignment serves the following purposes: (1) it groups associated costs together to facilitate allocation on the basis of cost responsibility; (2) it provides a rational mechanism for grouping costs that do no appear to be related to major service functions; (3) it provides a device for separating assignable costs from joint costs, which must be allocated.

Q. WHAT FUNCTIONAL GROUPS WERE USED IN THE COST OF SERVICE STUDY?

A. The following functional groups were identified in the cost of service study: (1) Gas Supply, (2) Storage, (3) Transmission, (4) Distribution Structures and Equipment, (5) Distribution Mains, (6) Services, (7) Meters, and (8) Customer Accounts. The Gas Supply functional group was not utilized in this study because all of Delta's gas supply costs have been removed from test-year operating results for purposes of this proceeding.

Q. HOW WERE COSTS CLASSIFIED AS COMMODITY RELATED, DEMAND RELATED OR CUSTOMER RELATED?

A. Classification provides a method of arranging costs so that the service characteristics that give rise to the costs can serve as a basis for allocation. Costs classified as *commodity related* tend to vary with the quantity of gas purchased such as gas supply and the operation of compressors. Since gas supply costs were removed from the cost of service study, it was not necessary to classify gas supply costs. Costs classified as *demand related* are costs related to facilities installed to meet peak usage requirements. Costs classified as *customer related* include costs incurred to serve customers regardless of the quantity of gas purchased or the peak requirements of the customers. All transmission plant costs were classified as demand related. Distribution Structures and Equipment costs were classified as demand-related. As will be discussed later in my testimony, costs related to Distribution Mains were classified as demand-related and customer-related using the zero intercept methodology. Services, Meters, and Customer Accounts were classified as customer-related.

Q. HAVE YOU PREPARED AN EXHIBIT SHOWING THE RESULTS OF THE FUNCTIONAL ASSIGNMENT AND CLASSIFICATION STEPS OF THE COST OF SERVICE STUDY?

A. Yes. Seelye Exhibit 1 shows the results of the first two steps of the cost of service study, functional assignment and classification.

Q. IN YOUR COST OF SERVICE MODEL, ONCE COSTS ARE FUNCTIONALLY ASSIGNED AND CLASSIFIED, THEN HOW ARE THESE COSTS ALLOCATED TO THE CUSTOMER CLASSES?

A. In the cost of service model used in this study, Delta's accounting costs are functionally assigned and classified using what are referred to in the model as "functional vectors." These vectors are multiplied (using *scalar multiplication*) by the various accounts in order to simultaneously assign costs to the functional groups and classify costs. Therefore, in the portion of the model included in Seelye Exhibit 1, Delta's accounting costs are functionally assigned and classified using the explicitly determined functional vectors shown on pages 49 through 52 of the analysis and using internally generated functional vectors. Internally generated functional vectors are utilized throughout the study to functionally assign costs on the basis of similar costs or on the basis of internal cost drivers. An example of this process is the use of total operation and maintenance expenses (OMT) to allocate cash working capital included in ratebase. Because cash working capital is determined on the basis of 12.5% of operation and maintenance expenses, it is appropriate to functionally assign and classify these costs on the same basis. (See Seelye Exhibit 1, page 17.) The functional vector used to allocate a specific cost is identified by the column in the model labeled "Vector," and refers to a vector identified elsewhere in the analysis by the column labeled "Name."

Once costs for all of the major accounts are functionally assigned and classified, the resultant cost matrix for the major cost groupings (e.g., Plant in Service, Rate Base, Operation and Maintenance Expenses) is then transposed (i.e., "turned sideways") and allocated to the customer classes using "allocation vectors" or "allocation factors."

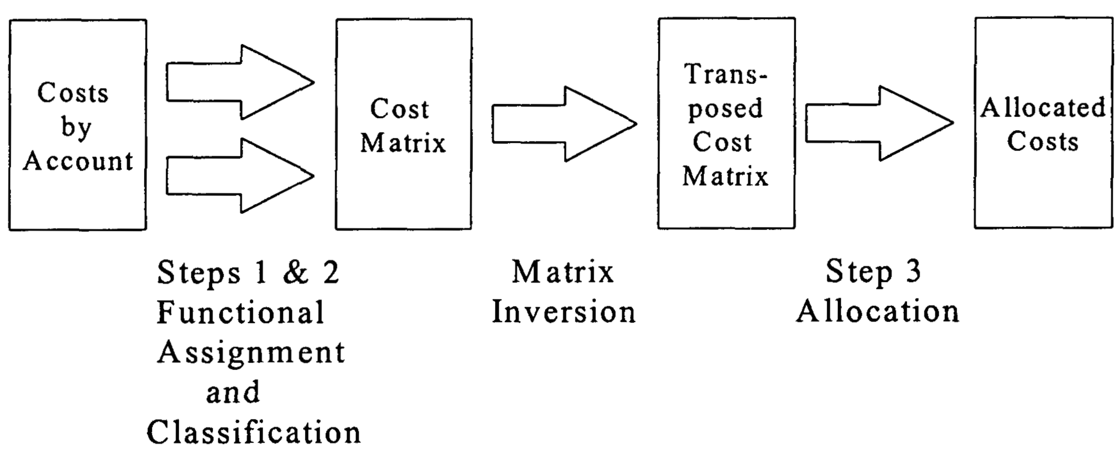

Figure 2

The results of the class allocation step of the cost of service study are included in Seelye Exhibit 2. The costs shown in the column labeled "Total System"in Seelye Exhibit 2 were carried forward *from* the functionally assigned and classified costs shown in Seelye Exhibit 1. The column labeled "Ref" provides a reference to the results included in Seelye Exhibit 1.

Q. PLEASE DESCRIBE THE ALLOCATION FACTORS USED IN THE STUDY.

A. The following allocation factors were used in the study:

DEM01 is used to allocate gas supply demand-related costs; however, since gas suply costs were removed from the study, this allocation factor is not relevant to the study.

DEM02 is used to allocate Storage demand-related costs and represents actual customer class deliveries during the winter withdrawal season (defined as the months of November through March)

DEM03 is used to allocate Transmission demand-related costs and represents maximum class demands determined at Delta's zero degree design day temperature. These demands, shown in Seelye Exhibit 3, were calculated using base loads and temperature-sensitive loads developed by Mr. Walker for the temperature normalization adjustment. (See Walker Exhibit 4.)

DEM04 is used to allocate Distribution Structures and Equipment demand-related costs and Distribution Mains demand-related costs and is the same as DEM03 for customers served from the distribution.

COM01 is used to allocate gas supply commodity-related costs; however, since gas supply costs were removed from the study, this allocation factor is not relevant to the study.

COM02 is used to allocate Storage commodity-related costs and represents actual customer class deliveries during the winter withdrawal season (defined as the months of November through March.) This allocation factor is the same as DEM02.

CUST01 is used to allocate Mains customer-related costs and represents the year-end number of customers served from the distribution system.

CUST02 is used to allocate Services and is based on the total estimated cost of installing a service line per customer in each customer class weighted by the year-end number of customers in each class.

CUST03 is used to allocate Meters and is based on the total cost of meters and meter installation costs per customer in each customer class weighted by the year-end number of customers in each class.

CUST04 is used to allocate Customer Accounts and is based on the total estimated cost of meter reading and billing for each class. The cost weighting factor of 1.0 was utilized for residential and small commercial customers, a cost weighting factor of 4.0 was utilized for Large Commercial & Industrial, Interruptible, and Special Contracts, and a cost weighting factor of 10.0 was utilized for Off-System Transportation. In other words, the allocation factor reflects an estimated cost ratio of 4:1 for providing customer accounts services for Large Commercial & Industrial, Interruptible, and Special Contracts, and an estimated cost ratio of 10:1 for providing customer accounts services for Off-System Transportation Service.

Q. PLEASE DESCRIBE THE ZERO INTERCEPT METHODOLOGY THAT WAS USED TO CLASSIFY MAINS.

A. Two commonly used methodologies for determining demand/customer splits of distribution plant are the "minimum system" methodology and the "zero intercept" methodology. In the minimum system approach, a "minimum" standard pipe size is selected and the minimum system is obtained by pricing all of the distribution mains at the unit cost of this minimum size pipe. The minimum system determined in this manner is then classified as customer-related and allocated on the basis of the number of customers in each rate class. All costs in excess of the minimum system are classified as demand-related. The theory supporting this approach maintains that in order for a utility to serve even the smallest customer, it would have to install a minimum size system. Therefore, the costs associated with the minimum system are related to the number of customers that are served, instead of the demand imposed by the customers on the system.

In preparing this study, we used the "zero intercept" methodology to determine the customer component of mains. Because the zero intercept methodology is less subjective than the minimum system approach, we prefer the zero intercept methodology over the minimum system methodology when the necessary data is available. With the zero intercept methodology, we do not have to choose a minimum size main to determine the customer component. In the zero intercept methodology, a zero-diameter pipe is the absolute minimum system.

Q. WHAT IS THE THEORY BEHIND THE ZERO INTERCEPT METHODOLOGY?

A. The theory behind the zero intercept methodology is that there is a linear relationship between the unit cost ($/ft) of mains and the gas flow capability of the pipe, which is proportionate to its diameter. After establishing a linear relation, which is given by the equation:

$$y = a + bx,$$

where:

y is the unit cost of the pipe,

x is the size of the pipe, and

a, **b** are the coefficients representing the intercept and slope, respectively

it can be determined that, theoretically, the unit cost of a pipe with zero diameter (or pipe with zero load carrying capability) is **a**, the zero intercept. The zero intercept is essentially the cost component of mains that is invariant to the size (and load carrying capability) of the pipe.

Like most systems, the number of feet of mains on Delta's system is not uniformly distributed over all sizes of pipe. For example, Delta has over 3.6 million feet of 2 inch mains, but only a little over 56,000 feet of 3 inch mains. For this reason, it was necessary to use a weighted regression analysis, instead of a standard least-squares analysis, in the determination of the zero intercept. Using a weighted regression analysis, the cost and diameter of each size pipe is, in effect, weighted by the number of feet of installed pipe. In a weighted regression analysis, the weighted sum of squared differences

$$\sum_i w_i(y_i - \hat{y}_i)$$

is minimized, where **w** is the weighting factor (in this case the feet of pipe) for each size of pipe, and **y** is the observed value and ŷ is the predicted value of the dependent variable (in this case the unit cost of the pipe).

Attached as Seelye Exhibit 4 is the zero-intercept analysis used in this study. The zero intercept unit cost of $3.14 per foot pipe is applied to the total feet of mains in the analysis to determine the customer cost component. The listing on page 3 of the analysis indicates that the correlation coefficient r-squared for mains is 0.8286. The correlation coefficient is a relative measure of the goodness of fit, where a coefficient of 0.0 indicates no correlation between the independent variable and dependent variable and a coefficient of 1.0 indicates perfect correlation.

Q. PLEASE SUMMARIZE THE RESULTS OF THE COST OF SERVICE STUDY.

A. The following table (Table 1) summarizes the rates of return for each customer class before and after reflecting the rate adjustments proposed by Delta.

Delta Natural Gas Company, Inc. Class Rates of Return 12 Months Ended December 31, 1998		
Customer Class	**Actual Adjusted Rate of Return**	**Proposed Rate of Return**
Residential (GS)	3.97%	6.48%
Small Commercial (GS)	10.11%	13.01%
Large C&I (GS)	11.43%	12.52%
Interruptible (IS)	27.37%	25.52%
Special Contracts	9.44%	9.44%
Off-System Transportation	10.70%	10.70%
Total Company	**7.31%**	**9.31%**

Table 1

Q. IS THE CURRENT RATE OF RETURN FOR THE RESIDENTIAL CLASS ADEQUATE?

A. No. As shown in Table 1, the rate of return for the residential class is significantly below the rates of return for the other customer classes. Delta's overall adjusted rate of return is 7.31%, while the rate of return for the residential class is only 3.97%. In my opinion, Delta should be allowed to charge rates that bring the rate of return more in line with the overall rate of return.

Q. WOULD DELTA'S PROPOSED RATES ACCOMPLISH THIS OBJECTIVE?

A. Yes they would. As can be seen in Table 1, the residential rates proposed by Delta result in a pro-forma rate of return of 6.48%, which brings the residential class much closer to the proposed overall rate of return of 9.31%.

Q. HAVE YOU ANALYZED THE UNIT COST OF SERVICE?

A. Yes. Seelye Exhibit 5 shows the unit costs for Delta's standard end-user rate schedules based on the results of the cost of service study. In developing unit costs, all demand- and commodity-related costs were unitized on the basis of annual Mcf, and all customer-related costs were unitized on the basis of annual customer-months. This exhibit is useful for analyzing rate design changes necessary to move in the direction of cost of service.

Q. HOW WERE THE UNIT COSTS DERIVED?

A. The unit costs were derived by calculating the net cost of service (or "net revenue requirements") for customer- and demand/commodity-related costs and dividing these amounts by the appropriate billing units. Delta's cost of service includes (1) return on investment, (2) income taxes, (3) operation and maintenance expenses, (4) depreciation expenses, and (5) other taxes. The total cost of service was determined by identifying each of these cost elements from the cost of service study, including the expense adjustments proposed by Mr. Hall. The total cost of service was reduced by miscellaneous revenues in order to calculate the net cost of service for each rate class. Delta's proposed overall rate of return on net cost rate base of 9.31% was utilized to calculate the unit cost.

Q. WHY DID YOU SEPARATE CUSTOMER-RELATED COSTS BETWEEN MAINS AND DIRECT COSTS?

A. Direct costs include costs associated with the service line, meters, and customer accounts (which includes meter reading, billing, and so forth). Because these costs are incurred directly to serve individual customers, there is little doubt that they should be recovered through the customer charge. This is especially true when there are multiple customer classes served under a single rate schedule, as is the case with Delta's General Service Rate. The cost of mains, on the other hand, represents costs that are jointly utilized to serve multiple customers. We feel strongly that the cost of mains (or a portion thereof) varies with the number of customers. This is especially true for rural customers. However, we have separated the customer costs between mains costs and direct costs in order to provide a minimalist view of the customer costs. For example, the residential unit charge necessary to recover only direct customer costs is $9.12 per customer per month, whereas the residential unit charge necessary to recover all customer-related costs would be $21.48 per customer per month.

Q. ARE YOU RECOMMENDING THAT THE COMMISSION ADOPT THE UNIT COSTS SHOWN IN SEELYE EXHIBIT 5 AS DELTA'S RATES?

A. No. This exhibit is intended merely to be a guide for developing gas service rates. Mr. Walker will address rate design issues.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Seelye Exhibit 1

Cost of Service Study

Functional Assignment
and
Classification
of Costs

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
<u>Plant in Service</u>							
Storage Plant							
350-357	Storage Plant	PT350	F003	$ 10,563,026	-	-	10,563,026
Total Storage Plant		PTST		$ 10,563,026	$ -	$ -	$ 10,563,026
Transmission and Gathering Plant							
325-371	Transmission	PT365	F005	$ 27,532,254	-	-	-
Distribution Plant							
374.00	Land and Land Rights	PT374	F008	$ 248,478	-	-	-
375.00	Structures & Improvements	PT375	F008	103,373	-	-	-
376.00	Mains	PT376	F009	46,498,998	-	-	-
378.00	Meas. & Reg. Sta. Equip. - General	PT378	F008	965,592	-	-	-
379.00	Meas. & Reg. Sta. Equip. - City Gate	PT379	F008	390,893	-	-	-
380.00	Services	PT380	F010	7,634,653	-	-	-
381.00	Meters	PT381	F011	5,454,418	-	-	-
382.00	Meter Installations	PT382	F011	2,365,154	-	-	-
383.00	House Regulators	PT383	F011	2,190,578	-	-	-
384.00	House Regulator Installations	PT384	F011	-	-	-	-
385.00	Industrial Meas. & Reg. Equip.	PT385	F011	1,202,371	-	-	-
Sub-Total Distribution Plant		PTDSUB		67,054,508	-	-	-

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
Plant in Service								
Storage Plant								
350-357	Storage Plant	PT350	F003	-	-	-	-	-
Total Storage Plant		PTST		$ -	$ -	$ -	$ -	$ -
Transmission and Gathering Plant								
325-371	Transmission	PT365	F005	-	27,532,254	-	-	-
Distribution Plant								
374.00	Land and Land Rights	PT374	F008	-	-	-	-	248,478
375.00	Structures & Improvements	PT375	F008	-	-	-	-	103,373
376.00	Mains	PT376	F009	-	-	-	-	-
378.00	Meas. & Reg. Sta. Equip. - General	PT378	F008	-	-	-	-	965,592
379.00	Meas. & Reg. Sta. Equip. - City Gate	PT379	F008	-	-	-	-	390,893
380.00	Services	PT380	F010	-	-	-	-	-
381.00	Meters	PT381	F011	-	-	-	-	-
382.00	Meter Installations	PT382	F011	-	-	-	-	-
383.00	House Regulators	PT383	F011	-	-	-	-	-
384.00	House Regulator Installations	PT384	F011	-	-	-	-	-
385.00	Industrial Meas. & Reg. Equip.	PT385	F011	-	-	-	-	-
Sub-Total Distribution Plant		PTDSUB		-	-	-	-	1,708,336

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Plant in Service							
Storage Plant							
350-357	Storage Plant	PT350	F003	-	-	-	-
Total Storage Plant		PTST		$ -	$ -	$ -	$ -
Transmission and Gathering Plant							
325-371	Transmission	PT365	F005	-	-	-	-
Distribution Plant							
374.00	Land and Land Rights	PT374	F008	-	-	-	-
375.00	Structures & Improvements	PT375	F008	-	-	-	-
376.00	Mains	PT376	F009	19,613,277	26,885,721	-	-
378.00	Meas. & Reg. Sta. Equip. - General	PT378	F008	-	-	-	-
379.00	Meas. & Reg. Sta. Equip. - City Gate	PT379	F008	-	-	-	-
380.00	Services	PT380	F010	-	-	7,634,653	-
381.00	Meters	PT381	F011	-	-	-	5,454,418
382.00	Meter Installations	PT382	F011	-	-	-	2,365,154
383.00	House Regulators	PT383	F011	-	-	-	2,190,578
384.00	House Regulator Installations	PT384	F011	-	-	-	-
385.00	Industrial Meas. & Reg. Equip.	PT385	F011	-	-	-	1,202,371
Sub-Total Distribution Plant		PTDSUB		19,613,277	26,885,721	7,634,653	11,212,521

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Plant in Service							
Storage Plant							
350-357	Storage Plant	PT350	F003	-	-	10,563,026	ok
Total Storage Plant		PTST	$	-	$ -	10,563,026	ok
Transmission and Gathering Plant							
325-371	Transmission	PT365	F005	-	-	27,532,254	ok
Distribution Plant							
374.00	Land and Land Rights	PT374	F008	-	-	248,478	ok
375.00	Structures & Improvements	PT375	F008	-	-	103,373	ok
376.00	Mains	PT376	F009	-	-	46,498,998	ok
378.00	Meas. & Reg. Sta. Equip. - General	PT378	F008	-	-	965,592	ok
379.00	Meas. & Reg. Sta. Equip. - City Gate	PT379	F008	-	-	390,893	ok
380.00	Services	PT380	F010	-	-	7,634,653	ok
381.00	Meters	PT381	F011	-	-	5,454,418	ok
382.00	Meter Installations	PT382	F011	-	-	2,365,154	ok
383.00	House Regulators	PT383	F011	-	-	2,190,578	ok
384.00	House Regulator Installations	PT384	F011	-	-	-	ok
385.00	Industrial Meas. & Reg. Equip.	PT385	F011	-	-	1,202,371	ok
Sub-Total Distribution Plant		PTDSUB		-	-	67,054,508	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
Plant in Service (Continued)						
Distribution Plant (Continued)						
387.00 Other Equipment	PT387	PTDSUB	-	-	-	-
Total Distribution Plant	PTD		$ 67,054,508	$ -	$ -	$ -
Transmission-Distribution Subtotal	PTTD		$ 94,586,762	$ -	$ -	$ -
Storage-Transmission-Distribution Subtotal	PTSUB		$ 105,149,788	$ -	$ -	$ 10,563,026
Other Plant in Service						
301-303 Intangible Plant	PT301	PTSUB	54,937	-	-	5,519
389-399 General Plant	PT389	PTSUB	14,553,800	-	-	1,462,030
Total Other Plant in Service	PTOPIS		14,608,737	-	-	1,467,549
Adjustments						
Tranex Plant 367-371		F005	$ 4,605,527	$ -	$ -	$ -
Tranex Acquisition Adjustment		F005	(970,198)	-	-	-
Circle R		PTSUB	408,962	-	-	41,083
Total Adjustments			$ 4,044,291	$ -	$ -	$ 41,083
Total Plant in Service	PTIS		$ 123,802,816	$ -	$ -	$ 12,071,658

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
Plant in Service (Continued)							
Distribution Plant (Continued)							
387.00 Other Equipment	PT387	PTDSUB	-	-	-	-	-
Total Distribution Plant	PTD		$ -	$ -	$ -	$ -	$ 1,708,336
Transmission-Distribution Subtotal	PTTD		$ -	$ 27,532,254	$ -	$ -	$ 1,708,336
Storage-Transmission-Distribution Subtotal	PTSUB		$ -	$ 27,532,254	$ -	$ -	$ 1,708,336
Other Plant in Service							
301-303 Intangible Plant	PT301	PTSUB	-	14,385	-	-	893
389-399 General Plant	PT389	PTSUB	-	3,810,744	-	-	236,451
Total Other Plant in Service	PTOPIS		-	3,825,129	-	-	237,344
Adjustments							
Tranex Plant 367-371		F005	$ -	$ 4,605,527	$ -	$ -	$ -
Tranex Acquisition Adjustment		F005	-	(970,198)	-	-	-
Circle R		PTSUB	-	107,082	-	-	6,644
Total Adjustments			$ -	$ 3,742,411	$ -	$ -	$ 6,644
Total Plant in Service	PTIS		$ -	$ 35,099,794	$ -	$ -	$ 1,952,324

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Plant in Service (Continued)						
Distribution Plant (Continued)						
387.00 Other Equipment	PT387	PTDSUB	-	-	-	-
Total Distribution Plant	PTD		$ 19,613,277	$ 26,885,721	$ 7,634,653	$ 11,212,521
Transmission-Distribution Subtotal	PTTD		$ 19,613,277	$ 26,885,721	$ 7,634,653	$ 11,212,521
Storage-Transmission-Distribution Subtotal	PTSUB		$ 19,613,277	$ 26,885,721	$ 7,634,653	$ 11,212,521
Other Plant in Service						
301-303 Intangible Plant	PT301	PTSUB	10,247	14,047	3,989	5,858
389-399 General Plant	PT389	PTSUB	2,714,677	3,721,257	1,056,714	1,551,927
Total Other Plant in Service	PTOPIS		2,724,924	3,735,304	1,060,702	1,557,785
Adjustments						
Tranex Plant 367-371		F005	$ -	$ -	$ -	$ -
Tranex Acquisition Adjustment		F005	-	-	-	-
Circle R		PTSUB	76,282	104,567	29,694	43,609
Total Adjustments			$ 76,282	$ 104,567	$ 29,694	$ 43,609
Total Plant in Service	PTIS		$ 22,414,484	$ 30,725,592	$ 8,725,049	$ 12,813,915

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Plant in Service (Continued)						
Distribution Plant (Continued)						
387.00 Other Equipment	PT387	PTDSUB	-	-	-	ok
Total Distribution Plant	PTD		$ -	$ -	67,054,508	ok
Transmission-Distribution Subtotal	PTTD		$ -	$ -	94,586,762	ok
Storage-Transmission-Distribution Subtotal	PTSUB		$ -	$ -	105,149,788	ok
Other Plant in Service						
301-303 Intangible Plant	PT301	PTSUB	-	-	54,937	ok
389-399 General Plant	PT389	PTSUB	-	-	14,553,800	ok
Total Other Plant in Service	PTOPIS		-	-	14,608,737	ok
Adjustments						
Tranex Plant 367-371		F005	$ -	$ -	$ 4,605,527	ok
Tranex Acquisition Adjustment		F005	-	-	(970,198)	ok
Circle R		PTSUB	-	-	408,962	ok
Total Adjustments			$ -	$ -	4,044,291	ok
Total Plant in Service	PTIS		$ -	$ -	123,802,816	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
<u>Net Plant in Service</u>						
Total Gas Utility Plant in Service			$ 123,802,816	$ -	$ -	$ 12,071,658
Less:						
Reserve for Depreciation						
Storage	DEPRUS	PTST	$ 911,302	-	-	911,302
Tranex		PT365	2,488,848	-	-	-
Tranex		PT389	6,000	-	-	603
Canada Mountain	DEPCM	PTST	(742,254)	-	-	(742,254)
Non-Utility Property		PT389	18,592	-	-	1,868
Transmission	DEPRTR	PT365	8,788,496	-	-	-
Distribution	DEPRDI	PTD	16,184,415	-	-	-
General	DEPRGE	PT389	7,575,547	-	-	761,016
Total Depreciation Reserve	DEPR		$ 35,230,946	$ -	$ -	$ 932,535
Net Plant in Service	NPTIS		$ 88,571,870	$ -	$ -	$ 11,139,123

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
<u>Net Plant in Service</u>							
Total Gas Utility Plant in Service			$ -	$ 35,099,794	$ -	$ -	$ 1,952,324
Less:							
Reserve for Depreciation							
Storage	DEPRUS	PTST	-	-	-	-	-
Tranex		PT365	-	2,488,848	-	-	-
Tranex		PT389	-	1,571	-	-	97
Canada Mountain	DEPCM	PTST	-	-	-	-	-
Non-Utility Property		PT389	-	4,868	-	-	302
Transmission	DEPRTR	PT365	-	8,788,496	-	-	-
Distribution	DEPRDI	PTD	-	-	-	-	412,328
General	DEPRGE	PT389	-	1,983,569	-	-	123,078
Total Depreciation Reserve	DEPR		$ -	$ 13,267,352	$ -	$ -	$ 535,805
Net Plant in Service	NPTIS		$ -	$ 21,832,441	$ -	$ -	$ 1,416,519

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Net Plant in Service						
Total Gas Utility Plant in Service			$ 22,414,484	$ 30,725,592	$ 8,725,049	$ 12,813,915
Less:						
Reserve for Depreciation						
Storage	DEPRUS	PTST	-	-	-	-
Tranex		PT365	-	-	-	-
Tranex		PT389	1,119	1,534	436	640
Canada Mountain	DEPCM	PTST	-	-	-	-
Non-Utility Property		PT389	3,468	4,754	1,350	1,983
Transmission	DEPRTR	PT365	-	-	-	-
Distribution	DEPRDI	PTD	4,733,901	6,489,193	1,842,716	2,706,277
General	DEPRGE	PT389	1,413,044	1,936,990	550,041	807,809
Total Depreciation Reserve	DEPR		$ 6,151,533	$ 8,432,471	$ 2,394,542	$ 3,516,709
Net Plant in Service	NPTIS		$ 16,262,952	$ 22,293,121	$ 6,330,507	$ 9,297,206

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Net Plant in Service						
Total Gas Utility Plant in Service			$ -	$ -	123,802,816	ok
Less:						
Reserve for Depreciation						
Storage	DEPRUS	PTST	-	-	911,302	ok
Tranex		PT365	-	-	2,488,848	ok
Tranex		PT389	-	-	6,000	ok
Canada Mountain	DEPCM	PTST	-	-	(742,254)	ok
Non-Utility Property		PT389	-	-	18,592	ok
Transmission	DEPRTR	PT365	-	-	8,788,496	ok
Distribution	DEPRDI	PTD	-	-	16,184,415	ok
General	DEPRGE	PT389	-	-	7,575,547	ok
Total Depreciation Reserve	DEPR		$ -	$ -	35,230,946	ok
Net Plant in Service	NPTIS		$ -	$ -	88,571,870	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
<u>Net Utility Plant</u>						
Net Plant in Service			$ 88,571,870	$ -	$ -	$ 11,139,123
Construction Work In Progress						
Storage	CWIPUS	PTST	$ 213,713	-	-	213,713
Tranex	CWIPCM	PTST	38,502	-	-	38,502
Transmission	CWIPTR	PT365	391,747	-	-	-
Distribution	CWIPMA	PTD	1,042,470	-	-	-
General	CWIPCO	PT389	316,310	-	-	31,776
Sub-Total CWIP	CWIPST		2,002,743	-	-	283,991
Administrative & Engineering Overhead	CWIPOH	CWIPST	(581,482)	-	-	(82,455)
Total Constr. Work In Progress	CWIP		$ 1,421,261	$ -	$ -	$ 201,536
Gas Stored Underground Non-Current	CWIP117	PTST	328,092	-	-	328,092
Adjustments						
Remove Canada Mountain		PTST	$ (10,605,135)	-	-	(10,605,135)
Non-Utility		PT389	18,592	-	-	1,868
Total Adjustments			$ (10,586,543)	$ -	$ -	$ (10,603,267)
Total Net Utility Plant	TNP		$ 79,734,680	$ -	$ -	$ 1,065,484

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
<u>Net Utility Plant</u>							
Net Plant in Service			$ -	$ 21,832,441	$ -	$ -	$ 1,416,519
Construction Work In Progress							
Storage	CWIPUS	PTST	-	-	-	-	-
Tranex	CWIPCM	PTST	-	-	-	-	-
Transmission	CWIPTR	PT365	-	391,747	-	-	-
Distribution	CWIPMA	PTD	-	-	-	-	26,559
General	CWIPCO	PT389	-	82,822	-	-	5,139
Sub-Total CWIP	CWIPST		-	474,570	-	-	31,698
Administrative & Engineering Overhead	CWIPOH	CWIPST	-	(137,788)	-	-	(9,203)
Total Constr. Work In Progress	CWIP		$ -	$ 336,782	$ -	$ -	$ 22,495
Gas Stored Underground Non-Current	CWIP117	PTST	-	-	-	-	-
Adjustments							
Remove Canada Mountain		PTST	-	-	-	-	-
Non-Utility		PT389	-	4,868	-	-	302
Total Adjustments			$ -	$ 4,868	$ -	$ -	$ 302
Total Net Utility Plant	TNP		$ -	$ 22,174,091	$ -	$ -	$ 1,439,316

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Net Utility Plant						
Net Plant in Service			$ 16,262,952	$ 22,293,121	$ 6,330,507	$ 9,297,206
Construction Work In Progress						
Storage	CWIPUS	PTST	-	-	-	-
Tranex	CWIPCM	PTST	-	-	-	-
Transmission	CWIPTR	PT365	-	-	-	-
Distribution	CWIPMA	PTD	304,920	417,982	118,693	174,317
General	CWIPCO	PT389	59,000	80,877	22,966	33,729
Sub-Total CWIP	CWIPST		363,920	498,859	141,659	208,046
Administrative & Engineering Overhead	CWIPOH	CWIPST	(105,662)	(144,840)	(41,130)	(60,405)
Total Constr. Work In Progress	CWIP		$ 258,259	$ 354,019	$ 100,530	$ 147,641
Gas Stored Underground Non-Current	CWIP117	PTST	-	-	-	-
Adjustments						
Remove Canada Mountain		PTST	-	-	-	-
Non-Utility		PT389	3,468	4,754	1,350	1,983
Total Adjustments			$ 3,468	$ 4,754	$ 1,350	$ 1,983
Total Net Utility Plant	TNP		$ 16,524,678	$ 22,651,894	$ 6,432,387	$ 9,446,830

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Net Utility Plant						
Net Plant in Service			$ -	$ -	88,571,870	ok
Construction Work In Progress						
Storage	CWIPUS	PTST	-	-	213,713	ok
Tranex	CWIPCM	PTST	-	-	38,502	ok
Transmission	CWIPTR	PT365	-	-	391,747	ok
Distribution	CWIPMA	PTD	-	-	1,042,470	ok
General	CWIPCO	PT389	-	-	316,310	ok
Sub-Total CWIP	CWIPST		-	-	2,002,743	ok
Administrative & Engineering Overhead	CWIPOH	CWIPST	-	-	(581,482)	ok
Total Constr. Work In Progress	CWIP		$ -	$ -	2,002,743	ok
Gas Stored Underground Non-Current	CWIP117	PTST	-	-	328,092	ok
Adjustments						
Remove Canada Mountain		PTST	-	-	(10,605,135)	ok
Non-Utility		PT389	-	-	18,592	ok
Total Adjustments			$ -	$ -	(10,586,543)	ok
Total Net Utility Plant	TNP		$ -	$ -	79,734,680	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
<u>**Net Cost Rate Base**</u>						
Total Net Utility Plant			$ 79,734,680	$ -	$ -	$ 1,065,484
Less:						
Accum. Deferred Income Taxes	DIT	NPTIS	$ 8,436,725	-	-	1,061,033
Investment Tax Credit	ITC	NPTIS	-	-	-	-
Plus:						
Materials and Supplies	MSP	NPTIS	$ 451,812	-	-	56,822
Prepayments	PPY	NPTIS	106,884	-	-	13,442
Gas Stored Underground	GSU	F003	265,579	-	-	265,579
Cash Working Capital	CWC	OMT	1,097,255	-	-	63,116
Adjustments:						
Unamortized Debt		NPTIS	$ 3,108,925	-	-	390,990
Regulatory		NPTIS		-	-	-
Advances for Construction		PT376	(220,060)	-	-	-
Depreciation Adjustment		DEPR	(20,212)	-	-	(535)
Net Cost Rate Base	NCRB		$ 76,088,138	$ -	$ -	$ 793,865

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
Net Cost Rate Base							
Total Net Utility Plant			$ -	$ 22,174,091	$ -	$ -	$ 1,439,316
Less:							
Accum. Deferred Income Taxes	DIT	NPTIS	-	2,079,603	-	-	134,928
Investment Tax Credit	ITC	NPTIS	-	-	-	-	-
Plus:							
Materials and Supplies	MSP	NPTIS	-	111,369	-	-	7,226
Prepayments	PPY	NPTIS	-	26,346	-	-	1,709
Gas Stored Underground	GSU	F003	-	-	-	-	-
Cash Working Capital	CWC	OMT	12,778	302,621	-	-	14,497
Adjustments:							
Unamortized Debt		NPTIS	-	766,332	-	-	49,721
Regulatory		NPTIS	-	-	-	-	-
Advances for Construction		PT376	-	-	-	-	-
Depreciation Adjustment		DEPR	-	(7,611)	-	-	(307)
Net Cost Rate Base	NCRB		$ 12,778	$ 21,293,544	$ -	$ -	$ 1,377,234

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
<u>Net Cost Rate Base</u>						
Total Net Utility Plant			$ 16,524,678	$ 22,651,894	$ 6,432,387	$ 9,446,830
Less:						
Accum. Deferred Income Taxes	DIT	NPTIS	1,549,093	2,123,484	602,999	885,586
Investment Tax Credit	ITC	NPTIS	-	-	-	-
Plus:						
Materials and Supplies	MSP	NPTIS	82,959	113,719	32,292	47,426
Prepayments	PPY	NPTIS	19,625	26,902	7,639	11,219
Gas Stored Underground	GSU	F003	-	-	-	-
Cash Working Capital	CWC	OMT	159,584	218,756	61,234	101,897
Adjustments:						
Unamortized Debt		NPTIS	570,839	782,502	222,205	326,337
Regulatory		NPTIS	-	-	-	-
Advances for Construction		PT376	(92,821)	(127,239)	-	-
Depreciation Adjustment		DEPR	(3,529)	(4,838)	(1,374)	(2,018)
Net Cost Rate Base	NCRB		$ 15,712,242	$ 21,538,213	$ 6,151,385	$ 9,046,107

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Net Cost Rate Base						
Total Net Utility Plant			$ -	$ -	79,734,680	ok
Less:						
Accum. Deferred Income Taxes	DIT	NPTIS	-	-	8,436,725	ok
Investment Tax Credit	ITC	NPTIS	-	-	-	ok
Plus:						
Materials and Supplies	MSP	NPTIS	-	-	451,812	ok
Prepayments	PPY	NPTIS	-	-	106,884	ok
Gas Stored Underground	GSU	F003	-	-	265,579	ok
Cash Working Capital	CWC	OMT	162,771	-	1,097,255	ok
Adjustments:						
Unamortized Debt		NPTIS	-	-	3,108,925	ok
Regulatory		NPTIS	-	-	-	ok
Advances for Construction		PT376	-	-	(220,060)	ok
Depreciation Adjustment		DEPR	-	-	(20,212)	ok
Net Cost Rate Base	NCRB		$ 162,771	$ -	-	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
<u>Operation and Maintenance Expenses</u>							
Operation Expenses							
Operation Expenses -- Labor							
1.753.0100	Wells & Gathering Payroll	OM753.01	F005	$ 13,903	-	-	-
1.754.0100	Compressor Station Payroll	OM754.01	F004	41,071	-	-	-
1.816.0100	CM Wells Expenses - Payroll	OM816.01	F003	22,516	-	-	22,516
1.818.0100	CM Compressor Station Exp - Payroll	OM818.01	F003	17,191	-	-	17,191
1.821.0000	CM Purification of Natural Gas	OM821.00	F003	1,761	-	-	1,761
1.900.0100	Trans & Dist. Payroll	OM900.01	PTTD	2,210,003	-	-	-
1.903.0100	Cashering Payroll	OM903.01	F012	495,671	-	-	-
1.920.0100	Administrative Payroll	OM920.01	NPTIS	2,006,502	-	-	252,345
1.926.0100	Time Off Payroll	OM926.01	NPTIS	454,147	-	-	57,115
Total Labor		OMLBOE		$ 5,262,766	$ -	$ -	$ 350,929

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
Operation and Maintenance Expenses							
Operation Expenses							
Operation Expenses -- Labor							
1.753.0100 Wells & Gathering Payroll	OM753.01	F005	-	13,903	-	-	-
1.754.0100 Compressor Station Payroll	OM754.01	F004	41,071	-	-	-	-
1.816.0100 CM Wells Expenses - Payroll	OM816.01	F003	-	-	-	-	-
1.818.0100 CM Compressor Station Exp - Payroll	OM818.01	F003	-	-	-	-	-
1.821.0000 CM Purification of Natural Gas	OM821.00	F003	-	-	-	-	-
1.900.0100 Trans & Dist. Payroll	OM900.01	PTTD	-	643,286	-	-	39,915
1.903.0100 Cashering Payroll	OM903.01	F012	-	-	-	-	-
1.920.0100 Administrative Payroll	OM920.01	NPTIS	-	494,591	-	-	32,090
1.926.0100 Time Off Payroll	OM926.01	NPTIS	-	111,945	-	-	7,263
Total Labor	OMLBOE		$ 41,071	$ 1,263,725	$ -	$ -	$ 79,268

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Operation and Maintenance Expenses							
Operation Expenses							
Operation Expenses -- Labor							
1.753.0100	Wells & Gathering Payroll	OM753.01	F005	-	-	-	-
1.754.0100	Compressor Station Payroll	OM754.01	F004	-	-	-	-
1.816.0100	CM Wells Expenses - Payroll	OM816.01	F003	-	-	-	-
1.818.0100	CM Compressor Station Exp - Payroll	OM818.01	F003	-	-	-	-
1.821.0000	CM Purification of Natural Gas	OM821.00	F003	-	-	-	-
1.900.0100	Trans & Dist. Payroll	OM900.01	PTTD	458,261	628,180	178,382	261,979
1.903.0100	Cashering Payroll	OM903.01	F012	-	-	-	-
1.920.0100	Administrative Payroll	OM920.01	NPTIS	368,420	505,027	143,411	210,618
1.926.0100	Time Off Payroll	OM926.01	NPTIS	83,387	114,307	32,459	47,671
Total Labor		OMLBOE		$ 910,068	$ 1,247,514	$ 354,253	$ 520,268

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Operation and Maintenance Expenses						
Operation Expenses						
Operation Expenses -- Labor						
1.753.0100 Wells & Gathering Payroll	OM753.01	F005	-	-	13,903	ok
1.754.0100 Compressor Station Payroll	OM754.01	F004	-	-	41,071	ok
1.816.0100 CM Wells Expenses - Payroll	OM816.01	F003	-	-	22,516	ok
1.818.0100 CM Compressor Station Exp - Payroll	OM818.01	F003	-	-	17,191	ok
1.821.0000 CM Purification of Natural Gas	OM821.00	F003	-	-	1,761	ok
1.900.0100 Trans & Dist. Payroll	OM900.01	PTTD	-	-	2,210,003	ok
1.903.0100 Cashering Payroll	OM903.01	F012	495,671	-	495,671	ok
1.920.0100 Administrative Payroll	OM920.01	NPTIS	-	-	2,006,502	ok
1.926.0100 Time Off Payroll	OM926.01	NPTIS	-	-	454,147	ok
Total Labor	OMLBOE		$ 495,671	$ -	5,262,766	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
Operation and Maintenance Expenses (Continued)							
Operation Expense -- Transmission and Distribution							
1.900.0200	Operation Transportation Exp	OM900.02	F005	$ 538,911	-	-	-
1.920.0200	Adm Transportation Exp	OM920.02	F005	90,000	-	-	-
1.880.0100	Operations Office Telephone Expenses	OM880.01	LBTOT	78,673	-	-	5,222
1.880.0200	Operations Office Utility	OM880.02	LBTOT	44,599	-	-	2,960
1.880.0300	Operation Office Misc	OM880.03	LBTOT	99,132	-	-	6,580
1.880.0400	Fees Training School	OM880.04	LBTOT	14,173	-	-	941
1.880.0500	Uniforms	OM880.05	OM900.01	49,153	-	-	-
1.880.0600	Welding Supplies	OM880.06	PTTD	7,770	-	-	-
1.881.0100	Rent Operating Offices	OM881.01	PTSUB	3,654	-	-	367
1.881.0200	Rent Land & Land Rights	OM881.02	PTSUB	14,520	-	-	1,459
1.871.0000	Telemetry Costs	OM871.00	PTSUB	35,141	-	-	3,530
1.753.0200	Wells & Gathering Misc	OM753.02	F005	(1,399)	-	-	-
1.754.0200	Compressor Station Misc	OM754.02	F004	21,773	-	-	-
1.816.0200	CM Wells Expenses - Misc	OM816.02	F003	2,374	-	-	2,374
1.818.0200	CM Compressor Station - Misc	OM818.02	F003	9,485	-	-	9,485
1.824.0200	CM Other Undergroung Storage - Misc	OM824.02	F003	5,484	-	-	5,484
1.825.0000	CM Storage Well Royalties	OM825.00	F003	54,064	-	-	54,064
1.856.0000	Right of Way Clearing	OM856.00	PTTD	54,869	-	-	-
1.900.0300	Small Tools & Work Equipment	OM900.03	PTSUB	53,056	-	-	5,330
Total Transmission and Distribution Oper Exp				$ 1,175,431	$ -	$ -	$ 97,796

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
Operation and Maintenance Expenses (Continued)								
Operation Expense -- Transmission and Distribution								
1.900.0200	Operation Transportation Exp	OM900.02	F005	-	538,911	-	-	-
1.920.0200	Adm Transportation Exp	OM920.02	F005	-	90,000	-	-	-
1.880.0100	Operations Office Telephone Expenses	OM880.01	LBTOT	637	18,872	-	-	1,182
1.880.0200	Operations Office Utility	OM880.02	LBTOT	361	10,698	-	-	670
1.880.0300	Operation Office Misc	OM880.03	LBTOT	803	23,780	-	-	1,489
1.880.0400	Fees Training School	OM880.04	LBTOT	115	3,400	-	-	213
1.880.0500	Uniforms	OM880.05	OM900.01	-	14,307	-	-	888
1.880.0600	Welding Supplies	OM880.06	PTTD	-	2,262	-	-	140
1.881.0100	Rent Operating Offices	OM881.01	PTSUB	-	957	-	-	59
1.881.0200	Rent Land & Land Rights	OM881.02	PTSUB	-	3,802	-	-	236
1.871.0000	Telemetry Costs	OM871.00	PTSUB	-	9,201	-	-	571
1.753.0200	Wells & Gathering Misc	OM753.02	F005	-	(1,399)	-	-	-
1.754.0200	Compressor Station Misc	OM754.02	F004	21,773	-	-	-	-
1.816.0200	CM Wells Expenses - Misc	OM816.02	F003	-	-	-	-	-
1.818.0200	CM Compressor Station - Misc	OM818.02	F003	-	-	-	-	-
1.824.0200	CM Other Undergroung Storage - Misc	OM824.02	F003	-	-	-	-	-
1.825.0000	CM Storage Well Royalties	OM825.00	F003	-	-	-	-	-
1.856.0000	Right of Way Clearing	OM856.00	PTTD	-	15,971	-	-	991
1.900.0300	Small Tools & Work Equipment	OM900.03	PTSUB	-	13,892	-	-	862
Total Transmission and Distribution Oper Exp				$ 23,690	$ 744,654	$ -	$ -	$ 7,301

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Operation and Maintenance Expenses (Continued)							
Operation Expense -- Transmission and Distribution							
1.900.0200	Operation Transportation Exp	OM900.02	F005	-	-	-	-
1.920.0200	Adm Transportation Exp	OM920.02	F005	- -	-	-	-
1.880.0100	Operations Office Telephone Expenses	OM880.01	LBTOT	13,568	18,599	5,281	8,065
1.880.0200	Operations Office Utility	OM880.02	LBTOT	7,691	10,543	2,994	4,572
1.880.0300	Operation Office Misc	OM880.03	LBTOT	17,096	23,435	6,655	10,163
1.880.0400	Fees Training School	OM880.04	LBTOT	2,444	3,351	951	1,453
1.880.0500	Uniforms	OM880.05	OM900.01	10,192	13,971	3,967	5,827
1.880.0600	Welding Supplies	OM880.06	PTTD	1,611	2,209	627	921
1.881.0100	Rent Operating Offices	OM881.01	PTSUB	682	934	265	390
1.881.0200	Rent Land & Land Rights	OM881.02	PTSUB	2,708	3,712	1,054	1,548
1.871.0000	Telemetry Costs	OM871.00	PTSUB	6,555	8,985	2,551	3,747
1.753.0200	Wells & Gathering Misc	OM753.02	F005	-	-	-	-
1.754.0200	Compressor Station Misc	OM754.02	F004	-	-	-	-
1.816.0200	CM Wells Expenses - Misc	OM816.02	F003	-	-	-	-
1.818.0200	CM Compressor Station - Misc	OM818.02	F003	-	-	-	-
1.824.0200	CM Other Undergroung Storage - Misc	OM824.02	F003	-	-	-	-
1.825.0000	CM Storage Well Royalties	OM825.00	F003	-	-	-	-
1.856.0000	Right of Way Clearing	OM856.00	PTTD	11,378	15,596	4,429	6,504
1.900.0300	Small Tools & Work Equipment	OM900.03	PTSUB	9,896	13,566	3,852	5,658
Total Transmission and Distribution Oper Exp				$ 83,822	$ 114,902	$ 32,628	$ 48,848

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Operation and Maintenance Expenses (Continued)							
Operation Expense -- Transmission and Distribution							
1.900.0200	Operation Transportation Exp	OM900.02	F005	-	-	538,911	ok
1.920.0200	Adm Transportation Exp	OM920.02	F005	-	-	90,000	ok
1.880.0100	Operations Office Telephone Expenses	OM880.01	LBTOT	7,246	-	78,673	ok
1.880.0200	Operations Office Utility	OM880.02	LBTOT	4,108	-	44,599	ok
1.880.0300	Operation Office Misc	OM880.03	LBTOT	9,131	-	99,132	ok
1.880.0400	Fees Training School	OM880.04	LBTOT	1,305	-	14,173	ok
1.880.0500	Uniforms	OM880.05	OM900.01	-	-	49,153	ok
1.880.0600	Welding Supplies	OM880.06	PTTD	-	-	7,770	ok
1.881.0100	Rent Operating Offices	OM881.01	PTSUB	-	-	3,654	ok
1.881.0200	Rent Land & Land Rights	OM881.02	PTSUB	-	-	14,520	ok
1.871.0000	Telemetry Costs	OM871.00	PTSUB	-	-	35,141	ok
1.753.0200	Wells & Gathering Misc	OM753.02	F005	-	-	(1,399)	ok
1.754.0200	Compressor Station Misc	OM754.02	F004	-	-	21,773	ok
1.816.0200	CM Wells Expenses - Misc	OM816.02	F003	-	-	2,374	ok
1.818.0200	CM Compressor Station - Misc	OM818.02	F003	-	-	9,485	ok
1.824.0200	CM Other Undergroung Storage - Misc	OM824.02	F003	-	-	5,484	ok
1.825.0000	CM Storage Well Royalties	OM825.00	F003	-	-	54,064	ok
1.856.0000	Right of Way Clearing	OM856.00	PTTD	-	-	54,869	ok
1.900.0300	Small Tools & Work Equipment	OM900.03	PTSUB	-	-	53,056	ok
Total Transmission and Distribution Oper Exp			$	21,790	$ -	1,175,431	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
Operation and Maintenance Expenses (Continued)						
Operation Expense -- Customer Accounts						
1.903.0200 Customer Collections & Billing	OM903.02	F012	$ 214,271	-	-	-
1.904.0000 Uncollectible Accounts	OM904.00	F012	345,870	-	-	-
Total Customer Accounts			$ 560,141	$ -	$ -	$ -
Operation Expense -- Administrative & General						
1.921.0000 Office Supplies & Expenses	OM921.00	LBTOT	$ 553,713	-	-	36,755
1.923.0000 Outside Services	OM923.00	LBTOT	343,946	-	-	22,831
1.924.0000 Insurance	OM924.00	NPTIS	419,058	-	-	52,702
1.926.0200 Employee Benefits	OM926.02	LBTOT	1,361,086	-	-	90,349
1.913.0000 Advertising	OM913.00	NPTIS	10,775	-	-	1,355
1.928.0000 Regulatory Commission Expense	OM928.00	NPTIS	104,940	-	-	13,198
1.930.0000 Misc. General Expenses	OM930.00	NPTIS	440,458	-	-	55,394
1.922.0000 Expenses Transferred - CR	OM922.00	NPTIS	(2,046,578)	-	-	(257,385)
Total Administrative and General	OMTAG		$ 1,187,397	$ -	$ -	$ 15,198
Total Operation Expense	OMTEO		$ 8,185,735	$ -	$ -	$ 463,924

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
<u>Operation and Maintenance Expenses (Continued)</u>							
Operation Expense -- Customer Accounts							
1.903.0200 Customer Collections & Billing	OM903.02	F012	-	-	-	-	-
1.904.0000 Uncollectible Accounts	OM904.00	F012	-	-	-	-	-
Total Customer Accounts			$ -	$ -	$ -	$ -	$ -
Operation Expense -- Administrative & General							
1.921.0000 Office Supplies & Expenses	OM921.00	LBTOT	4,486	132,823	-	-	8,318
1.923.0000 Outside Services	OM923.00	LBTOT	2,787	82,505	-	-	5,167
1.924.0000 Insurance	OM924.00	NPTIS	-	103,295	-	-	6,702
1.926.0200 Employee Benefits	OM926.02	LBTOT	11,028	326,493	-	-	20,445
1.913.0000 Advertising	OM913.00	NPTIS	-	2,656	-	-	172
1.928.0000 Regulatory Commission Expense	OM928.00	NPTIS	-	25,867	-	-	1,678
1.930.0000 Misc. General Expenses	OM930.00	NPTIS	-	108,570	-	-	7,044
1.922.0000 Expenses Transferred - CR	OM922.00	NPTIS	-	(504,469)	-	-	(32,731)
Total Administrative and General	OMTAG		$ 18,302	$ 277,739	$ -	$ -	$ 16,796
Total Operation Expense	OMTEO		$ 83,062	$ 2,286,117	$ -	$ -	$ 103,364

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Operation and Maintenance Expenses (Continued)						
Operation Expense -- Customer Accounts						
1.903.0200 Customer Collections & Billing	OM903.02	F012	-	-	-	-
1.904.0000 Uncollectible Accounts	OM904.00	F012	-	-	-	-
Total Customer Accounts			$ -	$ -	$ -	$ -
Operation Expense -- Administrative & General						
1.921.0000 Office Supplies & Expenses	OM921.00	LBTOT	95,493	130,901	37,172	56,765
1.923.0000 Outside Services	OM923.00	LBTOT	59,317	81,311	23,090	35,260
1.924.0000 Insurance	OM924.00	NPTIS	76,944	105,475	29,951	43,988
1.926.0200 Employee Benefits	OM926.02	LBTOT	234,732	321,769	91,372	139,534
1.913.0000 Advertising	OM913.00	NPTIS	1,978	2,712	770	1,131
1.928.0000 Regulatory Commission Expense	OM928.00	NPTIS	19,268	26,413	7,500	11,015
1.930.0000 Misc. General Expenses	OM930.00	NPTIS	80,874	110,861	31,481	46,234
1.922.0000 Expenses Transferred - CR	OM922.00	NPTIS	(375,779)	(515,114)	(146,275)	(214,825)
Total Administrative and General	OMTAG		$ 192,829	$ 264,328	$ 75,060	$ 119,102
Total Operation Expense	OMTEO		$ 1,186,719	$ 1,626,744	$ 461,941	$ 688,218

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Operation and Maintenance Expenses (Continued)						
Operation Expense -- Customer Accounts						
1.903.0200 Customer Collections & Billing	OM903.02	F012	214,271	-	214,271	ok
1.904.0000 Uncollectible Accounts	OM904.00	F012	345,870	-	345,870	ok
Total Customer Accounts			$ 560,141	$ -	560,141	ok
Operation Expense -- Administrative & General						
1.921.0000 Office Supplies & Expenses	OM921.00	LBTOT	51,000	-	553,713	ok
1.923.0000 Outside Services	OM923.00	LBTOT	31,679	-	343,946	ok
1.924.0000 Insurance	OM924.00	NPTIS	-	-	419,058	ok
1.926.0200 Employee Benefits	OM926.02	LBTOT	125,363	-	1,361,086	ok
1.913.0000 Advertising	OM913.00	NPTIS	-	-	10,775	ok
1.928.0000 Regulatory Commission Expense	OM928.00	NPTIS	-	-	104,940	ok
1.930.0000 Misc. General Expenses	OM930.00	NPTIS	-	-	440,458	ok
1.922.0000 Expenses Transferred - CR	OM922.00	NPTIS	-	-	(2,046,578)	ok
Total Administrative and General	OMTAG		$ 208,042	$ -	1,187,397	ok
Total Operation Expense	OMTEO		$ 1,285,645	$ -	8,185,735	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
Operation and Maintenance Expenses (Continued)						
Maintenance Expense						
Maintenance Expense -- Labor						
1.764.0100 Maint Well & Gathering - Payroll	OM764.01	F005	$ 1,870	-	-	-
1.765.0100 Maint Compressor Station - Payroll	OM765.01	F004	2,533	-	-	-
1.887.0100 Maint Trans & Dist - Payroll	OM887.01	PTTD	74,033	-	-	-
1.835.0100 CM Maint of Meas & Regulators - Payro	OM835.01	F003	1,870	-	-	1,870
1.834.0100 CM Maint of Compressors - Payroll	OM834.01	F003	1,481	-	-	1,481
1.832.0100 CM Maint of Resevoirs	OM832.01	F003	1,501	-	-	1,501
1.893.0100 Maint of Meters & Regulators - Payroll	OM893.01	F011	21,123	-	-	-
1.894.0100 Mant of Other Equipment - Payroll	OM894.01	PTSUB	14,397	-	-	1,446
Total Maintenance Labor	OMLBME		$ 118,810	$ -	$ -	$ 6,299

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
Operation and Maintenance Expenses (Continued)								
Maintenance Expense								
Maintenance Expense -- Labor								
1.764.0100	Maint Well & Gathering - Payroll	OM764.01	F005	-	1,870	-	-	-
1.765.0100	Maint Compressor Station - Payroll	OM765.01	F004	2,533	-	-	-	-
1.887.0100	Maint Trans & Dist - Payroll	OM887.01	PTTD	-	21,550	-	-	1,337
1.835.0100	CM Maint of Meas & Regulators - Payro	OM835.01	F003	-	-	-	-	-
1.834.0100	CM Maint of Compressors - Payroll	OM834.01	F003	-	-	-	-	-
1.832.0100	CM Maint of Resevoirs	OM832.01	F003	-	-	-	-	-
1.893.0100	Maint of Meters & Regulators - Payroll	OM893.01	F011	-	-	-	-	-
1.894.0100	Mant of Other Equipment - Payroll	OM894.01	PTSUB	-	3,770	-	-	234
Total Maintenance Labor		OMLBME		$ 2,533	$ 27,189	$ -	$ -	$ 1,571

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Operation and Maintenance Expenses (Continued)							
Maintenance Expense							
Maintenance Expense -- Labor							
1.764.0100	Maint Well & Gathering - Payroll	OM764.01	F005	-	-	-	-
1.765.0100	Maint Compressor Station - Payroll	OM765.01	F004	-	-	-	-
1.887.0100	Maint Trans & Dist - Payroll	OM887.01	PTTD	15,351	21,044	5,976	8,776
1.835.0100	CM Maint of Meas & Regulators - Payro	OM835.01	F003	-	-	-	-
1.834.0100	CM Maint of Compressors - Payroll	OM834.01	F003	-	-	-	-
1.832.0100	CM Maint of Resevoirs	OM832.01	F003	-	-	-	-
1.893.0100	Maint of Meters & Regulators - Payroll	OM893.01	F011	-	-	-	21,123
1.894.0100	Mant of Other Equipment - Payroll	OM894.01	PTSUB	2,685	3,681	1,045	1,535
Total Maintenance Labor		OMLBME		$ 18,037	$ 24,725	$ 7,021	$ 31,435

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
<u>Operation and Maintenance Expenses (Continued)</u>						
Maintenance Expense						
Maintenance Expense -- Labor						
1.764.0100 Maint Well & Gathering - Payroll	OM764.01	F005	-	-	1,870	ok
1.765.0100 Maint Compressor Station - Payroll	OM765.01	F004	-	-	2,533	ok
1.887.0100 Maint Trans & Dist - Payroll	OM887.01	PTTD	-	-	74,033	ok
1.835.0100 CM Maint of Meas & Regulators - Payro	OM835.01	F003	-	-	1,870	ok
1.834.0100 CM Maint of Compressors - Payroll	OM834.01	F003	-	-	1,481	ok
1.832.0100 CM Maint of Resevoirs	OM832.01	F003	-	-	1,501	ok
1.893.0100 Maint of Meters & Regulators - Payroll	OM893.01	F011	-	-	21,123	ok
1.894.0100 Mant of Other Equipment - Payroll	OM894.01	PTSUB	-	-	14,397	ok
Total Maintenance Labor	OMLBME		$ -	$ -	118,810	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
Operation and Maintenance Expenses (Continued)							
Maintenance Expense -- Transmission and Distribution							
1.898.0100	Maint Transportion Equipment	OM898.01	PTSUB	$ 31,246	-	-	3,139
1.898.0200	Maint Power Operated Equipment	OM898.02	PTSUB	13,523	-	-	1,358
1.887.0200	Maint Trans & Distribution Mains	OM887.02	TDMSUB	68,262	-	-	-
1.893.0200	Maint of Meters & Regulators	OM893.02	F011	63,874	-	-	-
1.764.0200	Maint Wells & Gathering	OM764.02	F005	3,337	-	-	-
1.765.0200	Maint Compressor Station	OM765.02	F004	15,248	-	-	-
1.831.0200	CM Maint Structures	OM831.02	F003	609	-	-	609
1.832.0200	CM Maint Resevoirs	OM832.02	F003	47	-	-	47
1.833.0200	CM Maint of Lines	OM833.02	F003	110	-	-	110
1.834.0200	CM Maint of Compressors	OM834.02	F003	5,725	-	-	5,725
1.835.0200	CM Maint of Measuring Equipment	OM835.02	F003	1,834	-	-	1,834
1.837.0200	CM Maintenance of Other Equipment	OM837.02	F003	1,052	-	-	1,052
1.886.0000	Maint Structures - Trans & Distr	OM886.00	F008	2,103	-	-	-
1.889.0000	Maint Station Trans & Distr	OM889.00	F008	4,222	-	-	-
1.894.0200	Maint of Other Equipment	OM894.02	PTSUB	72,217	-	-	7,255
Total Transmission & Distribution Maintenance				$ 283,408	$ -	$ -	$ 21,129

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
Operation and Maintenance Expenses (Continued)								
Maintenance Expense -- Transmission and Distribution								
1.898.0100	Maint Transportion Equipment	OM898.01	PTSUB	-	8,181	-	-	508
1.898.0200	Maint Power Operated Equipment	OM898.02	PTSUB	-	3,541	-	-	220
1.887.0200	Maint Trans & Distribution Mains	OM887.02	TDMSUB	-	25,386	-	-	-
1.893.0200	Maint of Meters & Regulators	OM893.02	F011	-	-	-	-	-
1.764.0200	Maint Wells & Gathering	OM764.02	F005	-	3,337	-	-	-
1.765.0200	Maint Compressor Station	OM765.02	F004	15,248	-	-	-	-
1.831.0200	CM Maint Structures	OM831.02	F003	-	-	-	-	-
1.832.0200	CM Maint Resevoirs	OM832.02	F003	-	-	-	-	-
1.833.0200	CM Maint of Lines	OM833.02	F003	-	-	-	-	-
1.834.0200	CM Maint of Compressors	OM834.02	F003	-	-	-	-	-
1.835.0200	CM Maint of Measuring Equipment	OM835.02	F003	-	-	-	-	-
1.837.0200	CM Maintenance of Other Equipment	OM837.02	F003	-	-	-	-	-
1.886.0000	Maint Structures - Trans & Distr	OM886.00	F008	-	-	-	-	2,103
1.889.0000	Maint Station Trans & Distr	OM889.00	F008	-	-	-	-	4,222
1.894.0200	Maint of Other Equipment	OM894.02	PTSUB	-	18,909	-	-	1,173
Total Transmission & Distribution Maintenance				$ 15,248	$ 59,355	$ -	$ -	$ 8,225

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Operation and Maintenance Expenses (Continued)							
Maintenance Expense -- Transmission and Distribution							
1.898.0100	Maint Transportion Equipment	OM898.01	PTSUB	5,828	7,989	2,269	3,332
1.898.0200	Maint Power Operated Equipment	OM898.02	PTSUB	2,522	3,458	982	1,442
1.887.0200	Maint Trans & Distribution Mains	OM887.02	TDMSUB	18,085	24,790	-	-
1.893.0200	Maint of Meters & Regulators	OM893.02	F011	-	-	-	63,874
1.764.0200	Maint Wells & Gathering	OM764.02	F005	-	-	-	-
1.765.0200	Maint Compressor Station	OM765.02	F004	-	-	-	-
1.831.0200	CM Maint Structures	OM831.02	F003	-	-	-	-
1.832.0200	CM Maint Resevoirs	OM832.02	F003	-	-	-	-
1.833.0200	CM Maint of Lines	OM833.02	F003	-	-	-	-
1.834.0200	CM Maint of Compressors	OM834.02	F003	-	-	-	-
1.835.0200	CM Maint of Measuring Equipment	OM835.02	F003	-	-	-	-
1.837.0200	CM Maintenance of Other Equipment	OM837.02	F003	-	-	-	-
1.886.0000	Maint Structures - Trans & Distr	OM886.00	F008	-	-	-	-
1.889.0000	Maint Station Trans & Distr	OM889.00	F008	-	-	-	-
1.894.0200	Maint of Other Equipment	OM894.02	PTSUB	13,470	18,465	5,243	7,701
Total Transmission & Distribution Maintenance				$ 39,906	$ 54,702	$ 8,494	$ 76,349

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description		Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Operation and Maintenance Expenses (Continued)							
Maintenance Expense -- Transmission and Distribution							
1.898.0100	Maint Transportion Equipment	OM898.01	PTSUB	-	-	31,246	ok
1.898.0200	Maint Power Operated Equipment	OM898.02	PTSUB	-	-	13,523	ok
1.887.0200	Maint Trans & Distribution Mains	OM887.02	TDMSUB	-	-	68,262	ok
1.893.0200	Maint of Meters & Regulators	OM893.02	F011	-	-	63,874	ok
1.764.0200	Maint Wells & Gathering	OM764.02	F005	-	-	3,337	ok
1.765.0200	Maint Compressor Station	OM765.02	F004	-	-	15,248	ok
1.831.0200	CM Maint Structures	OM831.02	F003	-	-	609	ok
1.832.0200	CM Maint Resevoirs	OM832.02	F003	-	-	47	ok
1.833.0200	CM Maint of Lines	OM833.02	F003	-	-	110	ok
1.834.0200	CM Maint of Compressors	OM834.02	F003	-	-	5,725	ok
1.835.0200	CM Maint of Measuring Equipment	OM835.02	F003	-	-	1,834	ok
1.837.0200	CM Maintenance of Other Equipment	OM837.02	F003	-	-	1,052	ok
1.886.0000	Maint Structures - Trans & Distr	OM886.00	F008	-	-	2,103	ok
1.889.0000	Maint Station Trans & Distr	OM889.00	F008	-	-	4,222	ok
1.894.0200	Maint of Other Equipment	OM894.02	PTSUB	-	-	72,217	ok
Total Transmission & Distribution Maintenance				$ -	$ -	283,408	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
Operation and Maintenance Expenses (Continued)						
Maintenance of General Plant						
1.932.0100 Maint Communication Equip	OM932.01	PTSUB	$ 41,253	-	-	4,144
1.932.0200 Maint Office Equipment	OM932.02	LBTOT	22,273	-	-	1,478
1.932.0300 Maint General Structures	OM932.03	LBTOT	21,263	-	-	1,411
1.932.0500 Maint Computer Equipment	OM932.05	LBTOT	55,176	-	-	3,663
Total Maintenance of General Plant			$ 139,965	$ -	$ -	$ 10,697
Total Maintenance Expense	OMTME		$ 542,182	$ -	$ -	$ 38,124
Total Operation and Maintenance Expenses	OMT		$ 8,727,917	$ -	$ -	$ 502,048
Sub-Total Payroll	LBTOT		$ 5,381,576	$ -	$ -	$ 357,228

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
Operation and Maintenance Expenses (Continued)							
Maintenance of General Plant							
1.932.0100 Maint Communication Equip	OM932.01	PTSUB	-	10,802	-	-	670
1.932.0200 Maint Office Equipment	OM932.02	LBTOT	180	5,343	-	-	335
1.932.0300 Maint General Structures	OM932.03	LBTOT	172	5,101	-	-	319
1.932.0500 Maint Computer Equipment	OM932.05	LBTOT	447	13,236	-	-	829
Total Maintenance of General Plant			$ 800	$ 34,480	$ -	$ -	$ 2,153
Total Maintenance Expense	OMTME		$ 18,581	$ 121,024	$ -	$ -	$ 11,949
Total Operation and Maintenance Expenses	OMT		$ 101,644	$ 2,407,141	$ -	$ -	$ 115,314
Sub-Total Payroll	LBTOT		$ 43,604	$ 1,290,914	$ -	$ -	$ 80,839

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Operation and Maintenance Expenses (Continued)						
Maintenance of General Plant						
1.932.0100 Maint Communication Equip	OM932.01	PTSUB	7,695	10,548	2,995	4,399
1.932.0200 Maint Office Equipment	OM932.02	LBTOT	3,841	5,265	1,495	2,283
1.932.0300 Maint General Structures	OM932.03	LBTOT	3,667	5,027	1,427	2,180
1.932.0500 Maint Computer Equipment	OM932.05	LBTOT	9,516	13,044	3,704	5,657
Total Maintenance of General Plant			$ 24,719	$ 33,884	$ 9,622	$ 14,519
Total Maintenance Expense	OMTME		$ 82,661	$ 113,311	$ 25,137	$ 122,302
Total Operation and Maintenance Expenses	OMT		$ 1,269,380	$ 1,740,055	$ 487,078	$ 810,520
Sub-Total Payroll	LBTOT		$ 928,105	$ 1,272,238	$ 361,274	$ 551,703

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Operation and Maintenance Expenses (Continued)						
Maintenance of General Plant						
1.932.0100 Maint Communication Equip	OM932.01	PTSUB	-	-	41,253	ok
1.932.0200 Maint Office Equipment	OM932.02	LBTOT	2,051	-	22,273	ok
1.932.0300 Maint General Structures	OM932.03	LBTOT	1,958	-	21,263	ok
1.932.0500 Maint Computer Equipment	OM932.05	LBTOT	5,082	-	55,176	ok
Total Maintenance of General Plant			$ 9,092	$ -	139,965	ok
Total Maintenance Expense	OMTME		$ 9,092	$ -	542,182	ok
Total Operation and Maintenance Expenses	OMT		$ 1,294,736	$ -	8,727,917	ok
Sub-Total Payroll	LBTOT		$ 495,671	$ -	5,381,576	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
<u>**Other Expenses**</u>						
Depreciation Expenses						
Total Depreciation Expenses	DEPREX	DEPR	$ 3,570,354	-	-	94,504
Taxes Other Than Income Taxes						
Liscense & Privilege Fee	OTRE	PTIS	$ 423	-	-	41
Property Taxes	OTPP	PTIS	742,584	-	-	72,407
Payroll Taxes	OTUN	LBTOT	480,841	-	-	31,918
Total Taxes Other Than Income Taxes	OTT		$ 1,223,848	$ -	$ -	$ 104,367
Interest Expenses	INT	PTIS	$ 3,114,019	-	-	303,639

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
<u>Other Expenses</u>							
Depreciation Expenses							
Total Depreciation Expenses	DEPREX	DEPR	-	1,344,532	-	-	54,299
Taxes Other Than Income Taxes							
Liscense & Privilege Fee	OTRE	PTIS	-	120	-	-	7
Property Taxes	OTPP	PTIS	-	210,533	-	-	11,710
Payroll Taxes	OTUN	LBTOT	3,896	115,343	-	-	7,223
Total Taxes Other Than Income Taxes	OTT		$ 3,896	$ 325,995	$ -	$ -	$ 18,940
Interest Expenses	INT	PTIS	-	882,867	-	-	49,107

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
<u>**Other Expenses**</u>						
Depreciation Expenses						
Total Depreciation Expenses	DEPREX	DEPR	623,405	854,558	242,666	356,388
Taxes Other Than Income Taxes						
Liscense & Privilege Fee	OTRE	PTIS	77	105	30	44
Property Taxes	OTPP	PTIS	134,445	184,296	52,334	76,859
Payroll Taxes	OTUN	LBTOT	82,926	113,674	32,280	49,294
Total Taxes Other Than Income Taxes	OTT		$ 217,447	$ 298,075	$ 84,643	$ 126,198
Interest Expenses	INT	PTIS	563,793	772,842	219,462	322,309

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Other Expenses						
Depreciation Expenses						
Total Depreciation Expenses	DEPREX	DEPR	-	-	3,570,354	ok
Taxes Other Than Income Taxes						
Liscense & Privilege Fee	OTRE	PTIS	-	-	423	ok
Property Taxes	OTPP	PTIS	-	-	742,584	ok
Payroll Taxes	OTUN	LBTOT	44,288	-	480,841	ok
Total Taxes Other Than Income Taxes	OTT	$	44,288	$ -	1,223,848	ok
Interest Expenses	INT	PTIS	-	-	3,114,019	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Total Company	Gas Supply Demand	Gas Supply Commodity	Storage Demand
Functional Assignment Vectors						
Gas Supply Demand	F001		1.000000	1.000000	0.000000	0.000000
Gas Supply Commodity	F002		1.000000	0.000000	1.000000	0.000000
Storage Demand	F003		1.000000	0.000000	0.000000	1.000000
Storage Commodity	F004		1.000000	0.000000	0.000000	0.000000
Transmission Demand	F005		1.000000	0.000000	0.000000	0.000000
Transmission Commodity	F006		1.000000	0.000000	0.000000	0.000000
Distribution Expense Commodity	F007		1.000000	0.000000	0.000000	0.000000
Distribution Structures & Equipment	F008		1.000000	0.000000	0.000000	0.000000
Distribution Mains	F009		1.000000	0.000000	0.000000	0.000000
Services	F010		1.000000	0.000000	0.000000	0.000000
Meters	F011		1.000000	0.000000	0.000000	0.000000
Customer Accounts	F012		1.000000	0.000000	0.000000	0.000000
Customer Marketing	F013		1.000000	0.000000	0.000000	0.000000
Transmission & Distribution Mains	TDMSUB		$ 74,031,252	$ -	$ -	$ -

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Storage Commodity	Transmission Demand	Transmission Commodity	Distribution Other Not Used	Distribution Structures & Equipment Demand
Functional Assignment Vectors							
Gas Supply Demand	F001		0.000000	0.000000	0.000000	0.000000	0.000000
Gas Supply Commodity	F002		0.000000	0.000000	0.000000	0.000000	0.000000
Storage Demand	F003		0.000000	0.000000	0.000000	0.000000	0.000000
Storage Commodity	F004		1.000000	0.000000	0.000000	0.000000	0.000000
Transmission Demand	F005		0.000000	1.000000	0.000000	0.000000	0.000000
Transmission Commodity	F006		0.000000	0.000000	1.000000	0.000000	0.000000
Distribution Expense Commodity	F007		0.000000	0.000000	0.000000	1.000000	0.000000
Distribution Structures & Equipment	F008		0.000000	0.000000	0.000000	0.000000	1.000000
Distribution Mains	F009		0.000000	0.000000	0.000000	0.000000	0.000000
Services	F010		0.000000	0.000000	0.000000	0.000000	0.000000
Meters	F011		0.000000	0.000000	0.000000	0.000000	0.000000
Customer Accounts	F012		0.000000	0.000000	0.000000	0.000000	0.000000
Customer Marketing	F013		0.000000	0.000000	0.000000	0.000000	0.000000
Transmission & Distribution Mains	TDMSUB		$ -	$ 27,532,254	$ -	$ -	$ -

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Distribution Mains Demand	Distribution Mains Customer	Services Customer	Meters Customer
Functional Assignment Vectors						
Gas Supply Demand	F001		0.000000	0.000000	0.000000	0.000000
Gas Supply Commodity	F002		0.000000	0.000000	0.000000	0.000000
Storage Demand	F003		0.000000	0.000000	0.000000	0.000000
Storage Commodity	F004		0.000000	0.000000	0.000000	0.000000
Transmission Demand	F005		0.000000	0.000000	0.000000	0.000000
Transmission Commodity	F006		0.000000	0.000000	0.000000	0.000000
Distribution Expense Commodity	F007		0.000000	0.000000	0.000000	0.000000
Distribution Structures & Equipment	F008		0.000000	0.000000	0.000000	0.000000
Distribution Mains	F009		0.421800	0.578200	0.000000	0.000000
Services	F010		0.000000	0.000000	1.000000	0.000000
Meters	F011		0.000000	0.000000	0.000000	1.000000
Customer Accounts	F012		0.000000	0.000000	0.000000	0.000000
Customer Marketing	F013		0.000000	0.000000	0.000000	0.000000
Transmission & Distribution Mains	TDMSUB		$ 19,613,277	$ 26,885,721	$ -	$ -

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Functional Assignment and Classification

Description	Name	Vector	Customer Accounts Customer	Other Services Not Used	Total Check	Status
Functional Assignment Vectors						
Gas Supply Demand	F001		0.000000	0.000000	-	ok
Gas Supply Commodity	F002		0.000000	0.000000	1.000000	ok
Storage Demand	F003		0.000000	0.000000	1.000000	ok
Storage Commodity	F004		0.000000	0.000000	1.000000	ok
Transmission Demand	F005		0.000000	0.000000	1.000000	ok
Transmission Commodity	F006		0.000000	0.000000	1.000000	ok
Distribution Expense Commodity	F007		0.000000	0.000000	1.000000	ok
Distribution Structures & Equipment	F008		0.000000	0.000000	1.000000	ok
Distribution Mains	F009		0.000000	0.000000	1.000000	ok
Services	F010		0.000000	0.000000	1.000000	ok
Meters	F011		0.000000	0.000000	1.000000	ok
Customer Accounts	F012		1.000000	0.000000	1.000000	ok
Customer Marketing	F013		0.000000	1.000000	1.000000	ok
Transmission & Distribution Mains	TDMSUB		$ -	$ -	74,031,252	ok

Seelye Exhibit 2

Cost of Service Study

Class Allocation

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Plant in Service							
Gas Supply							
Demand	PTIS	PTISGSD	DEM01	$ -	$ -	$ -	$ -
Commodity	PTIS	PTISGSC	COM01	-	-	-	-
Total Gas Supply				$ -	$ -	$ -	$ -
Storage							
Demand	PTIS	PTISSD	DEM02	$ 12,071,658	$ 6,330,797	$ 1,621,755	$ 4,119,106
Commodity	PTIS	PTISSC	COM02	-	-	-	-
Total Storage				$ 12,071,658	$ 6,330,797	$ 1,621,755	$ 4,119,106
Transmission							
Demand	PTIS	PTISTD	DEM03	$ 35,099,794	$ 16,016,780	$ 4,022,025	$ 8,236,665
Commodity	PTIS	PTISTC	COM03	-	-	-	-
Total Transmission				$ 35,099,794	$ 16,016,780	$ 4,022,025	$ 8,236,665
Distribution Other							
Commodity	PTIS	PTISDEC	COM04	$ -	$ -	$ -	$ -
Distribution Structures & Equipment							
Demand	PTIS	PTISDSD	DEM04	$ 1,952,324	$ 1,007,770	$ 253,064	$ 518,248

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Plant in Service								
Gas Supply								
Demand	PTIS	PTISGSD	DEM01	$ -	$ -	$ -	$ -	ok
Commodity	PTIS	PTISGSC	COM01	-	-	-	-	ok
Total Gas Supply				$ -	$ -	$ -	$ -	ok
Storage								
Demand	PTIS	PTISSD	DEM02	$ -	$ -	$ -	$ 12,071,658	ok
Commodity	PTIS	PTISSC	COM02	-	-	-	-	ok
Total Storage				$ -	$ -	$ -	$ 12,071,658	ok
Transmission								
Demand	PTIS	PTISTD	DEM03	$ 2,229,657	$ 2,591,983	$ 2,002,683	$ 35,099,794	ok
Commodity	PTIS	PTISTC	COM03	-	-	-	-	ok
Total Transmission				$ 2,229,657	$ 2,591,983	$ 2,002,683	$ 35,099,794	ok
Distribution Other								
Commodity	PTIS	PTISDEC	COM04	$ -	$ -	$ -	$ -	ok
Distribution Structures & Equipment								
Demand	PTIS	PTISDSD	DEM04	$ 140,289	$ 32,951	$ -	$ 1,952,324	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Plant in Service (Continued)							
Distribution Mains							
Demand	PTIS	PTISDMD	DEM05	$ 22,414,484	$ 11,570,137	$ 2,905,414	$ 5,949,969
Customer	PTIS	PTISDMC	CUST01	30,725,592	26,479,541	3,493,627	714,642
Total Distribution Mains				53,140,076	$ 38,049,677	$ 6,399,041	$ 6,664,611
Services							
Customer	PTIS	PTISSC	CUST02	$ 8,725,049	$ 7,358,256	$ 1,100,808	$ 251,765
Meters							
Customer	PTIS	PTISMC	CUST03	$ 12,813,915	$ 6,118,911	$ 1,056,632	$ 4,130,683
Customer Accounts							
Customer	PTIS	PTISCAC	CUST04	$ -	$ -	$ -	$ -
Other Services							
Customer	PTIS	PTISCSC	CUST05	$ -	$ -	$ -	$ -
Total		PLT		$ 123,802,816	$ 74,882,191	$ 14,453,326	$ 23,921,079

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Plant in Service (Continued)								
Distribution Mains								
Demand	PTIS	PTISDMD	DEM05	$ 1,610,651	$ 378,313	$ -	$ 22,414,484	ok
Customer	PTIS	PTISDMC	CUST01	35,370	2,412	-	30,725,592	ok
Total Distribution Mains				$ 1,646,021	$ 380,725	$ -	$ 53,140,076	ok
Services								
Customer	PTIS	PTISSC	CUST02	$ 12,461	$ 1,759	$ -	$ 8,725,049	ok
Meters								
Customer	PTIS	PTISMC	CUST03	$ 1,187,183	$ 234,260	$ 86,246	$ 12,813,915	ok
Customer Accounts								
Customer	PTIS	PTISCAC	CUST04	$ -	$ -	$ -	$ -	ok
Other Services								
Customer	PTIS	PTISCSC	CUST05	$ -	$ -	$ -	$ -	ok
Total		PLT		$ 5,215,612	$ 3,241,679	$ 2,088,929	$ 123,802,816	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Rate Base							
Gas Supply							
Demand	NCRB	RBGSD	DEM01	$ -	$ -	$ -	$ -
Commodity	NCRB	RBGSC	COM01	-	-	-	-
Total Gas Supply				$ -	$ -	$ -	$ -
Storage							
Demand	NCRB	RBSD	DEM02	$ 793,865	$ 416,330	$ 106,651	$ 270,883
Commodity	NCRB	RBSC	COM02	12,778	6,701	1,717	4,360
Total Storage				$ 806,643	$ 423,032	$ 108,368	$ 275,244
Transmission							
Demand	NCRB	RBTD	DEM03	$ 21,293,544	$ 9,716,695	$ 2,439,991	$ 4,996,833
Commodity	NCRB	RBTC	COM03	-	-	-	-
Total Transmission				$ 21,293,544	$ 9,716,695	$ 2,439,991	$ 4,996,833
Distribution Other							
Commodity	NCRB	RBDEC	COM04	$ -	$ -	$ -	$ -
Distribution Structures & Equipment							
Demand	NCRB	RBDSD	DEM04	$ 1,377,234	$ 710,915	$ 178,520	$ 365,589

DELTA NATURAL GAS COMPANY, INC.

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Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Rate Base								
Gas Supply								
Demand	NCRB	RBGSD	DEM01	$ -	$ -	$ -	$ -	ok
Commodity	NCRB	RBGSC	COM01	-	-	-	-	ok
Total Gas Supply				$ -	$ -	$ -	$ -	ok
Storage								
Demand	NCRB	RBSD	DEM02	$ -	$ -	$ -	$ 793,865	ok
Commodity	NCRB	RBSC	COM02	-	-	-	12,778	ok
Total Storage				$ -	$ -	$ -	$ 806,643	ok
Transmission								
Demand	NCRB	RBTD	DEM03	$ 1,352,638	$ 1,572,445	$ 1,214,942	$ 21,293,544	ok
Commodity	NCRB	RBTC	COM03	-	-	-	-	ok
Total Transmission				$ 1,352,638	$ 1,572,445	$ 1,214,942	$ 21,293,544	ok
Distribution Other								
Commodity	NCRB	RBDEC	COM04	$ -	$ -	$ -	$ -	ok
Distribution Structures & Equipment								
Demand	NCRB	RBDSD	DEM04	$ 98,965	$ 23,245	$ -	$ 1,377,234	ok

DELTA NATURAL GAS COMPANY, INC.

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Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Rate Base (Continued)							
Distribution Mains							
Demand	NCRB	RBDMD	DEM05	$ 15,712,242	$ 8,110,505	$ 2,036,655	$ 4,170,846
Customer	NCRB	RBDMC	CUST01	21,538,213	18,561,790	2,448,984	500,954
Total Distribution Mains				37,250,454	$ 26,672,295	$ 4,485,639	$ 4,671,800
Services							
Customer	NCRB	RBSC	CUST02	$ 6,151,385	$ 5,187,760	$ 776,098	$ 177,501
Meters							
Customer	NCRB	RBMC	CUST03	$ 9,046,107	$ 4,319,704	$ 745,940	$ 2,916,096
Customer Accounts							
Customer	NCRB	RBCAC	CUST04	$ 162,771	$ 128,955	$ 17,014	$ 13,921
Other Services							
Customer	NCRB	RBCSC	CUST05	$ -	$ -	$ -	$ -
Total		RBT		$ 76,088,138	$ 47,159,356	$ 8,751,569	$ 13,416,984

DELTA NATURAL GAS COMPANY, INC.

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Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Rate Base (Continued)								
Distribution Mains								
Demand	NCRB	RBDMD	DEM05	$ 1,129,044	$ 265,192	$ -	$ 15,712,242	ok
Customer	NCRB	RBDMC	CUST01	24,794	1,691	-	21,538,213	ok
Total Distribution Mains				$ 1,153,838	$ 266,883	$ -	$ 37,250,454	ok
Services								
Customer	NCRB	RBSC	CUST02	$ 8,785	$ 1,240	$ -	$ 6,151,385	ok
Meters								
Customer	NCRB	RBMC	CUST03	$ 838,103	$ 165,378	$ 60,886	$ 9,046,107	ok
Customer Accounts								
Customer	NCRB	RBCAC	CUST04	$ 689	$ 78	$ 2,114	$ 162,771	ok
Other Services								
Customer	NCRB	RBCSC	CUST05	$ -	$ -	$ -	$ -	ok
Total		RBT		$ 3,453,018	$ 2,029,270	$ 1,277,942	$ 76,088,138	ok

DELTA NATURAL GAS COMPANY, INC.

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Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Operation and Maintenance Expenses							
Gas Supply							
Demand	OMT	OMGSD	DEM01	$ -	$ -	$ -	$ -
Commodity	OMT	OMGSC	COM01	-	-	-	-
Total Gas Supply		OMGST		$ -	$ -	$ -	$ -
Storage							
Demand	OMT	OMSD	DEM02	$ 502,048	$ 263,291	$ 67,447	$ 171,309
Commodity	OMT	OMSC	COM02	101,644	53,306	13,655	34,683
Total Storage		OMST		$ 603,692	$ 316,597	$ 81,102	$ 205,992
Transmission							
Demand	OMT	OMTD	DEM03	$ 2,407,141	$ 1,098,430	$ 275,830	$ 564,870
Commodity	OMT	OMTC	COM03	-	-	-	-
Total Transmission		OMTT		$ 2,407,141	$ 1,098,430	$ 275,830	$ 564,870
Distribution Other							
Commodity	OMT	OMDEC	COM04	$ -	$ -	$ -	$ -
Distribution Structures & Equipment							
Demand	OMT	OMDSD	DEM04	$ 115,314	$ 59,524	$ 14,947	$ 30,610

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Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
<u>Operation and Maintenance Expenses</u>								
Gas Supply								
Demand	OMT	OMGSD	DEM01	$ -	$ -	$ -	$ -	ok
Commodity	OMT	OMGSC	COM01	-	-	-	-	ok
Total Gas Supply		OMGST		$ -	$ -	$ -	$ -	ok
Storage								
Demand	OMT	OMSD	DEM02	$ -	$ -	$ -	$ 502,048	ok
Commodity	OMT	OMSC	COM02	-	-	-	101,644	ok
Total Storage		OMST		$ -	$ -	$ -	$ 603,692	ok
Transmission								
Demand	OMT	OMTD	DEM03	$ 152,910	$ 177,758	$ 137,344	$ 2,407,141	ok
Commodity	OMT	OMTC	COM03	-	-	-	-	ok
Total Transmission		OMTT		$ 152,910	$ 177,758	$ 137,344	$ 2,407,141	ok
Distribution Other								
Commodity	OMT	OMDEC	COM04	$ -	$ -	$ -	$ -	ok
Distribution Structures & Equipment								
Demand	OMT	OMDSD	DEM04	$ 8,286	$ 1,946	$ -	$ 115,314	ok

DELTA NATURAL GAS COMPANY, INC.

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12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Operation and Maintenance Expenses (Continued)							
Distribution Mains							
Demand	OMT	OMDMD	DEM05	$ 1,269,380	$ 655,241	$ 164,540	$ 336,959
Customer	OMT	OMDMC	CUST01	1,740,055	1,499,593	197,852	40,472
Total Distribution Mains				3,009,435	$ 2,154,834	$ 362,391	$ 377,431
Services							
Customer	OMT	OMSC	CUST02	$ 487,078	$ 410,777	$ 61,453	$ 14,055
Meters							
Customer	OMT	OMMC	CUST03	$ 810,520	$ 387,040	$ 66,835	$ 261,279
Customer Accounts							
Customer	OMT	OMCAC	CUST04	$ 1,294,736	$ 1,025,750	$ 135,334	$ 110,734
Other Services							
Customer	OMT	OMCSC	CUST05	$ -	$ -	$ -	$ -
Total		OMTT		$ 8,727,917	$ 5,452,951	$ 997,894	$ 1,564,971

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Operation and Maintenance Expenses (Continued)								
Distribution Mains								
Demand	OMT	OMDMD	DEM05	$ 91,215	$ 21,425	$ -	$ 1,269,380	ok
Customer	OMT	OMDMC	CUST01	2,003	137	-	1,740,055	ok
Total Distribution Mains				$ 93,218	$ 21,561	$ -	$ 3,009,435	ok
Services								
Customer	OMT	OMSC	CUST02	$ 696	$ 98	$ -	$ 487,078	ok
Meters								
Customer	OMT	OMMC	CUST03	$ 75,093	$ 14,818	$ 5,455	$ 810,520	ok
Customer Accounts								
Customer	OMT	OMCAC	CUST04	$ 5,481	$ 623	$ 16,816	$ 1,294,736	ok
Other Services								
Customer	OMT	OMCSC	CUST05	$ -	$ -	$ -	$ -	ok
Total		OMTT		$ 335,683	$ 216,804	$ 159,615	$ 8,727,917	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Payroll Expenses							
Gas Supply							
Demand	LBTOT	LBGSD	DEM01	$ -	$ -	$ -	$ -
Commodity	LBTOT	LBGSC	COM01	-	-	-	-
Total Gas Supply		LBGST		$ -	$ -	$ -	$ -
Storage							
Demand	LBTOT	LBSD	DEM02	$ 357,228	$ 187,343	$ 47,991	$ 121,894
Commodity	LBTOT	LBSC	COM02	43,604	22,868	5,858	14,879
Total Storage		LBST		$ 400,832	$ 210,210	$ 53,849	$ 136,772
Transmission							
Demand	LBTOT	LBTD	DEM03	$ 1,290,914	$ 589,071	$ 147,924	$ 302,931
Commodity	LBTOT	LBTC	COM03	-	-	-	-
Total Transmission		LBTT		$ 1,290,914	$ 589,071	$ 147,924	$ 302,931
Distribution Other							
Commodity	LBTOT	LBDEC	COM04	$ -	$ -	$ -	$ -
Distribution Structures & Equipment							
Demand	LBTOT	LBDSD	DEM04	$ 80,839	$ 41,728	$ 10,479	$ 21,459

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Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Payroll Expenses								
Gas Supply								
Demand	LBTOT	LBGSD	DEM01	$ -	$ -	$ -	$ -	ok
Commodity	LBTOT	LBGSC	COM01	-	-	-	-	ok
Total Gas Supply		LBGST		$ -	$ -	$ -	$ -	ok
Storage								
Demand	LBTOT	LBSD	DEM02	$ -	$ -	$ -	$ 357,228	ok
Commodity	LBTOT	LBSC	COM02	-	-	-	43,604	ok
Total Storage		LBST		$ -	$ -	$ -	$ 400,832	ok
Transmission								
Demand	LBTOT	LBTD	DEM03	$ 82,003	$ 95,329	$ 73,655	$ 1,290,914	ok
Commodity	LBTOT	LBTC	COM03	-	-	-	-	ok
Total Transmission		LBTT		$ 82,003	$ 95,329	$ 73,655	$ 1,290,914	ok
Distribution Other								
Commodity	LBTOT	LBDEC	COM04	$ -	$ -	$ -	$ -	ok
Distribution Structures & Equipment								
Demand	LBTOT	LBDSD	DEM04	$ 5,809	$ 1,364	$ -	$ 80,839	ok

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Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
<u>Payroll Expenses (Continued)</u>							
Distribution Mains							
Demand	LBTOT	LBDMD	DEM05	$ 928,105	$ 479,079	$ 120,303	$ 246,367
Customer	LBTOT	LBDMC	CUST01	1,272,238	1,096,424	144,659	29,591
Total Distribution Mains				2,200,343	$ 1,575,503	$ 264,962	$ 275,958
Services							
Customer	LBTOT	LBSC	CUST02	$ 361,274	$ 304,679	$ 45,581	$ 10,425
Meters							
Customer	LBTOT	LBMC	CUST03	$ 551,703	$ 263,449	$ 45,493	$ 177,846
Customer Accounts							
Customer	LBTOT	LBCAC	CUST04	$ 495,671	$ 392,694	$ 51,811	$ 42,393
Other Services							
Customer	LBTOT	LBCSC	CUST05	$ -	$ -	$ -	$ -
Total		LBTT		$ 5,381,576	$ 3,377,336	$ 620,098	$ 967,785

DELTA NATURAL GAS COMPANY, INC.

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Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Payroll Expenses (Continued)								
Distribution Mains								
Demand	LBTOT	LBDMD	DEM05	$ 66,691	$ 15,665	$ -	$ 928,105	ok
Customer	LBTOT	LBDMC	CUST01	1,465	100	-	1,272,238	ok
Total Distribution Mains				$ 68,156	$ 15,764	$ -	$ 2,200,343	ok
Services								
Customer	LBTOT	LBSC	CUST02	$ 516	$ 73	$ -	$ 361,274	ok
Meters								
Customer	LBTOT	LBMC	CUST03	$ 51,114	$ 10,086	$ 3,713	$ 551,703	ok
Customer Accounts								
Customer	LBTOT	LBCAC	CUST04	$ 2,098	$ 238	$ 6,438	$ 495,671	ok
Other Services								
Customer	LBTOT	LBCSC	CUST05	$ -	$ -	$ -	$ -	ok
Total		LBTT		$ 209,696	$ 122,855	$ 83,806	$ 5,381,576	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
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Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Depreciation Expenses							
Gas Supply							
Demand	DEPREX	DEGSD	DEM01	$ -	$ -	$ -	$ -
Commodity	DEPREX	DEGSC	COM01	-	-	-	-
Total Gas Supply		DEGST		$ -	$ -	$ -	$ -
Storage							
Demand	DEPREX	DESD	DEM02	$ 94,504	$ 49,561	$ 12,696	$ 32,247
Commodity	DEPREX	DESC	COM02	-	-	-	-
Total Storage		DEST		$ 94,504	$ 49,561	$ 12,696	$ 32,247
Transmission							
Demand	DEPREX	DETD	DEM03	$ 1,344,532	$ 613,539	$ 154,068	$ 315,514
Commodity	DEPREX	DETC	COM03	-	-	-	-
Total Transmission		DETT		$ 1,344,532	$ 613,539	$ 154,068	$ 315,514
Distribution Other							
Commodity	DEPREX	DEDEC	COM04	$ -	$ -	$ -	$ -
Distribution Structures & Equipment							
Demand	DEPREX	DEDSD	DEM04	$ 54,299	$ 28,029	$ 7,038	$ 14,414

DELTA NATURAL GAS COMPANY, INC.

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Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Depreciation Expenses								
Gas Supply								
Demand	DEPREX	DEGSD	DEM01	$ -	$ -	$ -	$ -	ok
Commodity	DEPREX	DEGSC	COM01	-	-	-	-	ok
Total Gas Supply		DEGST		$ -	$ -	$ -	$ -	ok
Storage								
Demand	DEPREX	DESD	DEM02	$ -	$ -	$ -	$ 94,504	ok
Commodity	DEPREX	DESC	COM02	-	-	-	-	ok
Total Storage		DEST		$ -	$ -	$ -	$ 94,504	ok
Transmission								
Demand	DEPREX	DETD	DEM03	$ 85,409	$ 99,288	$ 76,715	$ 1,344,532	ok
Commodity	DEPREX	DETC	COM03	-	-	-	-	ok
Total Transmission		DETT		$ 85,409	$ 99,288	$ 76,715	$ 1,344,532	ok
Distribution Other								
Commodity	DEPREX	DEDEC	COM04	$ -	$ -	$ -	$ -	ok
Distribution Structures & Equipment								
Demand	DEPREX	DEDSD	DEM04	$ 3,902	$ 916	$ -	$ 54,299	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
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Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
<u>Depreciation Expenses (Continued)</u>							
Distribution Mains							
Demand	DEPREX	DEDMD	DEM05	$ 623,405	$ 321,796	$ 80,807	$ 165,484
Customer	DEPREX	DEDMC	CUST01	854,558	736,465	97,167	19,876
Total Distribution Mains				1,477,963	$ 1,058,260	$ 177,974	$ 185,360
Services							
Customer	DEPREX	DESC	CUST02	$ 242,666	$ 204,652	$ 30,616	$ 7,002
Meters							
Customer	DEPREX	DEMC	CUST03	$ 356,388	$ 170,183	$ 29,388	$ 114,885
Customer Accounts							
Customer	DEPREX	DECAC	CUST04	$ -	$ -	$ -	$ -
Other Services							
Customer	DEPREX	DECSC	CUST05	$ -	$ -	$ -	$ -
Total		DET		$ 3,570,354	$ 2,124,224	$ 411,780	$ 669,422

DELTA NATURAL GAS COMPANY, INC.

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Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Depreciation Expenses (Continued)								
Distribution Mains								
Demand	DEPREX	DEDMD	DEM05	$ 44,796	$ 10,522	$ -	$ 623,405	ok
Customer	DEPREX	DEDMC	CUST01	984	67	-	854,558	ok
Total Distribution Mains				$ 45,780	$ 10,589	$ -	$ 1,477,963	ok
Services								
Customer	DEPREX	DESC	CUST02	$ 347	$ 49	$ -	$ 242,666	ok
Meters								
Customer	DEPREX	DEMC	CUST03	$ 33,019	$ 6,515	$ 2,399	$ 356,388	ok
Customer Accounts								
Customer	DEPREX	DECAC	CUST04	$ -	$ -	$ -	$ -	ok
Other Services								
Customer	DEPREX	DECSC	CUST05	$ -	$ -	$ -	$ -	ok
Total		DET		$ 168,456	$ 117,358	$ 79,113	$ 3,570,354	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Other Taxes							
Gas Supply							
Demand	OTT	OTTGSD	DEM01	$ -	$ -	$ -	$ -
Commodity	OTT	OTTGSC	COM01	-	-	-	-
Total Gas Supply		OTTGST		$ -	$ -	$ -	$ -
Storage							
Demand	OTT	OTTSD	DEM02	$ 104,367	$ 54,733	$ 14,021	$ 35,612
Commodity	OTT	OTTSC	COM02	3,896	2,043	523	1,329
Total Storage		OTTST		$ 108,263	$ 56,777	$ 14,544	$ 36,942
Transmission							
Demand	OTT	OTTTD	DEM03	$ 325,995	$ 148,758	$ 37,355	$ 76,499
Commodity	OTT	OTTTC	COM03	-	-	-	-
Total Transmission		OTTTT		$ 325,995	$ 148,758	$ 37,355	$ 76,499
Distribution Other							
Commodity	OTT	OTTDEC	COM04	$ -	$ -	$ -	$ -
Distribution Structures & Equipment							
Demand	OTT	OTTDSD	DEM04	$ 18,940	$ 9,777	$ 2,455	$ 5,028

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Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Other Taxes								
Gas Supply								
Demand	OTT	OTTGSD	DEM01	$ -	$ -	$ -	$ -	ok
Commodity	OTT	OTTGSC	COM01	-	-	-	-	ok
Total Gas Supply		OTTGST		$ -	$ -	$ -	$ -	ok
Storage								
Demand	OTT	OTTSD	DEM02	$ -	$ -	$ -	$ 104,367	ok
Commodity	OTT	OTTSC	COM02	-	-	-	3,896	ok
Total Storage		OTTST		$ -	$ -	$ -	$ 108,263	ok
Transmission								
Demand	OTT	OTTTD	DEM03	$ 20,708	$ 24,073	$ 18,600	$ 325,995	ok
Commodity	OTT	OTTTC	COM03	-	-	-	-	ok
Total Transmission		OTTTT		$ 20,708	$ 24,073	$ 18,600	$ 325,995	ok
Distribution Other								
Commodity	OTT	OTTDEC	COM04	$ -	$ -	$ -	$ -	ok
Distribution Structures & Equipment								
Demand	OTT	OTTDSD	DEM04	$ 1,361	$ 320	$ -	$ 18,940	ok

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Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
<u>Other Taxes (Continued)</u>							
Distribution Mains							
Demand	OTT	OTTDMD	DEM05	$ 217,447	$ 112,244	$ 28,186	$ 57,722
Customer	OTT	OTTDMC	CUST01	298,075	256,883	33,892	6,933
Total Distribution Mains				515,522	$ 369,127	$ 62,078	$ 64,655
Services							
Customer	OTT	OTTSC	CUST02	$ 84,643	$ 71,384	$ 10,679	$ 2,442
Meters							
Customer	OTT	OTTMC	CUST03	$ 126,198	$ 60,262	$ 10,406	$ 40,681
Customer Accounts							
Customer	OTT	OTTCAC	CUST04	$ 44,288	$ 35,087	$ 4,629	$ 3,788
Other Services							
Customer	OTT	OTTCSC	CUST05	$ -	$ -	$ -	$ -
Total		OTTT		$ 1,223,848	$ 751,171	$ 142,148	$ 230,034

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Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Other Taxes (Continued)								
Distribution Mains								
Demand	OTT	OTTDMD	DEM05	$ 15,625	$ 3,670	$ -	$ 217,447	ok
Customer	OTT	OTTDMC	CUST01	343	23	-	298,075	ok
Total Distribution Mains				$ 15,968	$ 3,693	$ -	$ 515,522	ok
Services								
Customer	OTT	OTTSC	CUST02	$ 121	$ 17	$ -	$ 84,643	ok
Meters								
Customer	OTT	OTTMC	CUST03	$ 11,692	$ 2,307	$ 849	$ 126,198	ok
Customer Accounts								
Customer	OTT	OTTCAC	CUST04	$ 187	$ 21	$ 575	$ 44,288	ok
Other Services								
Customer	OTT	OTTCSC	CUST05	$ -	$ -	$ -	$ -	ok
Total		OTTT		$ 50,038	$ 30,432	$ 20,025	$ 1,223,848	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Interest Expenses							
Gas Supply							
Demand	INT	INTGSD	DEM01	$ -	$ -	$ -	$ -
Commodity	INT	INTGSC	COM01	-	-	-	-
Total Gas Supply		INTGST		$ -	$ -	$ -	$ -
Storage							
Demand	INT	INTSD	DEM02	$ 303,639	$ 159,239	$ 40,792	$ 103,608
Commodity	INT	INTSC	COM02	-	-	-	-
Total Storage		INTST		$ 303,639	$ 159,239	$ 40,792	$ 103,608
Transmission							
Demand	INT	INTTD	DEM03	$ 882,867	$ 402,871	$ 101,166	$ 207,177
Commodity	INT	INTTC	COM03	-	-	-	-
Total Transmission		INTTT		$ 882,867	$ 402,871	$ 101,166	$ 207,177
Distribution Other							
Commodity	INT	INTDEC	COM04	$ -	$ -	$ -	$ -
Distribution Structures & Equipment							
Demand	INT	INTDSD	DEM04	$ 49,107	$ 25,349	$ 6,365	$ 13,036

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Interest Expenses								
Gas Supply								
Demand	INT	INTGSD	DEM01	$ -	$ -	$ -	$ -	ok
Commodity	INT	INTGSC	COM01	-	-	-	-	ok
Total Gas Supply		INTGST		$ -	$ -	$ -	$ -	ok
Storage								
Demand	INT	INTSD	DEM02	$ -	$ -	$ -	$ 303,639	ok
Commodity	INT	INTSC	COM02	-	-	-	-	ok
Total Storage		INTST		$ -	$ -	$ -	$ 303,639	ok
Transmission								
Demand	INT	INTTD	DEM03	$ 56,083	$ 65,196	$ 50,374	$ 882,867	ok
Commodity	INT	INTTC	COM03	-	-	-	-	ok
Total Transmission		INTTT		$ 56,083	$ 65,196	$ 50,374	$ 882,867	ok
Distribution Other								
Commodity	INT	INTDEC	COM04	$ -	$ -	$ -	$ -	ok
Distribution Structures & Equipment								
Demand	INT	INTDSD	DEM04	$ 3,529	$ 829	$ -	$ 49,107	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Interest Expenses (Continued)							
Distribution Mains							
Demand	INT	INTDMD	DEM05	$ 563,793	$ 291,024	$ 73,080	$ 149,660
Customer	INT	INTDMC	CUST01	772,842	666,041	87,875	17,975
Total Distribution Mains				1,336,635	$ 957,066	$ 160,955	$ 167,635
Services							
Customer	INT	INTSC	CUST02	$ 219,462	$ 185,083	$ 27,689	$ 6,333
Meters							
Customer	INT	INTMC	CUST03	$ 322,309	$ 153,909	$ 26,578	$ 103,899
Customer Accounts							
Customer	INT	INTCAC	CUST04	$ -	$ -	$ -	$ -
Other Services							
Customer	INT	INTCSC	CUST05	$ -	$ -	$ -	$ -
Total		INTT		$ 3,114,019	$ 1,883,516	$ 363,545	$ 601,688

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
<u>Interest Expenses (Continued)</u>								
Distribution Mains								
Demand	INT	INTDMD	DEM05	$ 40,513	$ 9,516	$ -	$ 563,793	ok
Customer	INT	INTDMC	CUST01	890	61	-	772,842	ok
Total Distribution Mains				$ 41,402	$ 9,576	$ -	$ 1,336,635	ok
Services								
Customer	INT	INTSC	CUST02	$ 313	$ 44	$ -	$ 219,462	ok
Meters								
Customer	INT	INTMC	CUST03	$ 29,861	$ 5,892	$ 2,169	$ 322,309	ok
Customer Accounts								
Customer	INT	INTCAC	CUST04	$ -	$ -	$ -	$ -	ok
Other Services								
Customer	INT	INTCSC	CUST05	$ -	$ -	$ -	$ -	ok
Total		INTT		$ 131,189	$ 81,538	$ 52,543	$ 3,114,019	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Net Operating Income -- Adjusted Test Period							
Operating Revenues							
Sales and Transportation		REVUC	R01	$ 20,523,105	10,109,997	2,764,469	4,542,780
Miscellaneous Service Revenue		REVMSR	REVUC	152,009	74,882	20,476	33,647
Total Operating Revenues		TOR		$ 20,675,114	$ 10,184,879	$ 2,784,945	$ 4,576,427
Expenses							
Operation and Maintenance Expenses				$ 8,727,917	$ 5,452,951	$ 997,894	$ 1,564,971
Depreciation and Amortization Expenses				3,570,354	2,124,224	411,780	669,422
Other Taxes				1,223,848	751,171	142,148	230,034
Total Operating Expenses		TOE		$ 13,522,119	$ 8,328,346	$ 1,551,821	$ 2,464,427
Expense Adjustments							
Year-End Adjustment		EXADJ1	YREND	$ 54,498	32,873	18,161	473
Eliminate Canada Mountain O&M Expenses		EXADJ2	OMST	(120,120)	(62,995)	(16,137)	(40,987)
Eliminate Canada Mountain Depr Expenses		EXADJ3	DEST	(20,212)	(10,600)	(2,715)	(6,897)
OT Expenses		EXADJ4	OTTT	(38,210)	(23,452)	(4,438)	(7,182)
Payroll Expenses		EXADJ5	LBTT	116,199	53,024	13,315	27,268
Payroll Other Taxes		EXADJ6	OTTT	-	-	-	-
Rate Case Expense		EXADJ7	TOR	29,000	14,286	3,906	6,419
Eliminate Test-Year Expenses		EXADJ8	OMTT	(142,711)	(65,122)	(16,353)	(33,489)
Customer Deposits		EXADJ9	OMTT	35,692	16,287	4,090	8,376
Medical Adjustment		EXADJ10	OMTT	77,561	35,393	8,888	18,201
Total Expense Adjustments		ADJTOT		$ (8,303)	$ (10,307)	$ 8,716	$ (27,819)

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Net Operating Income -- Adjusted Test Period								
Operating Revenues								
Sales and Transportation		REVUC	R01	2,021,345	632,524	451,990	20,523,105	ok
Miscellaneous Service Revenue		REVMSR	REVUC	14,972	4,685	3,348	152,009	ok
Total Operating Revenues		TOR		$ 2,036,317	$ 637,209	$ 455,338	$ 20,675,114	ok
Expenses								
Operation and Maintenance Expenses				$ 335,683	$ 216,804	$ 159,615	$ 8,727,917	ok
Depreciation and Amortization Expenses				168,456	117,358	79,113	3,570,354	ok
Other Taxes				50,038	30,432	20,025	1,223,848	ok
Total Operating Expenses		TOE		$ 554,177	$ 364,595	$ 258,753	$ 13,522,119	ok
Expense Adjustments								
Year-End Adjustment		EXADJ1	YREND	-	2,991	-	54,498	ok
Eliminate Canada Mountain O&M Expenses		EXADJ2	OMST	-	-	-	(120,120)	ok
Eliminate Canada Mountain Depr Expenses		EXADJ3	DEST	-	-	-	(20,212)	ok
OT Expenses		EXADJ4	OTTT	(1,562)	(950)	(625)	(38,210)	ok
Payroll Expenses		EXADJ5	LBTT	7,381	8,581	6,630	116,199	ok
Payroll Other Taxes		EXADJ6	OTTT	-	-	-	-	ok
Rate Case Expense		EXADJ7	TOR	2,856	894	639	29,000	ok
Eliminate Test-Year Expenses		EXADJ8	OMTT	(9,065)	(10,539)	(8,143)	(142,711)	ok
Customer Deposits		EXADJ9	OMTT	2,267	2,636	2,036	35,692	ok
Medical Adjustment		EXADJ10	OMTT	4,927	5,728	4,425	77,561	ok
Total Expense Adjustments		ADJTOT		$ 6,804	$ 9,340	$ 4,963	(8,303)	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Net Operating Income -- Adjusted Test Period (Continued)							
Net Income Before Income Taxes				$ 7,161,298	$ 1,866,839	$ 1,224,407	$ 2,139,819
Income Taxes			TXINC	$ 1,596,449	(6,578)	339,567	606,716
Net Operating Income		TOM		$ 5,564,849	$ 1,873,417	$ 884,840	$ 1,533,103
Net Cost Rate Base				$ 76,088,138	$ 47,159,356	$ 8,751,569	$ 13,416,984
Rate of Return -- Actual				7.31%	3.97%	10.11%	11.43%

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Net Operating Income -- Adjusted Test Period (Continued)								
Net Income Before Income Taxes				$ 1,475,335	$ 263,275	$ 191,622	$ 7,161,298	ok
Income Taxes			TXINC	530,199	71,686	54,860	1,596,449	ok
Net Operating Income		TOM		$ 945,137	$ 191,589	$ 136,762	$ 5,564,849	ok
Net Cost Rate Base				$ 3,453,018	$ 2,029,270	$ 1,277,942	$ 76,088,138	ok
Rate of Return -- Actual				27.37%	9.44%	10.70%		

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Net Operating Income -- Adjusted For Increase							
Test Year Operating Income				$ 5,564,849	$ 1,873,417	$ 884,840	$ 1,533,103
Proposed Increase				$ 2,510,901	$ 1,954,816	418,957	242,481
Income Taxes (@39.445)				990,425	771,077	165,258	95,647
Net Operating Income Adjusted for Increase				7,085,325	3,057,156	1,138,540	1,679,938
Net Cost Rate Base (Same as Actual)				$ 76,088,138	$ 47,159,356	$ 8,751,569	$ 13,416,984
Rate of Return -- Proposed				9.31%	6.48%	13.01%	12.52%

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
<u>Net Operating Income -- Adjusted For Increase</u>								
Test Year Operating Income				$ 945,137	$ 191,589	$ 136,762	$ 5,564,849	ok
Proposed Increase				(105,353)	-	-	$ 2,510,901	ok
Income Taxes (@39.445)				(41,556)	-	-	$ 990,425	ok
Net Operating Income Adjusted for Increase				881,340	191,589	136,762	7,085,325	ok
Net Cost Rate Base (Same as Actual)				$ 3,453,018	$ 2,029,270	$ 1,277,942	$ 76,088,138	ok
Rate of Return -- Proposed				25.52%	9.44%	10.70%		

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Allocation Factors							
Commodity							
Gas Supply		COM01		9,765,801	2,581,793	682,889	1,842,984
Storage		COM02		2,924,112	1,533,506	392,837	997,769
Transmission		COM03		9,765,801	2,581,793	682,889	1,842,984
Distribution		COM04		6,911,381	2,581,793	682,889	1,842,984
Demand							
Gas Supply		DEM01		67,424	30,767	7,726	15,822
Storage (November-March)		DEM02		2,924,112	1,533,506	392,837	997,769
Transmission		DEM03		67,424	30,767	7,726	15,822
Distribution Structures		DEM04		59,604	30,767	7,726	15,822
Distribution Mains		DEM05		59,604	30,767	7,726	15,822
Customer							
Distribution Mains		CUST01		38,222	32,940	4,346	889
Services		CUST02		5,322,514	4,488,734	671,522	153,584
Meters		CUST03		3,913,309	1,868,686	322,691	1,261,491
Customer Count				38,224	32,940	4,346	889
Customer Accounts		CUST04		41,578	32,940	4,346	3,556
Other Services		CUST05		38,224	32,940	4,346	889

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Allocation Factors								
Commodity								
Gas Supply		COM01		1,436,748	1,817,276	1,404,111	9,765,801	ok
Storage		COM02					2,924,112	ok
Transmission		COM03		1,436,748	1,817,276	1,404,111	9,765,801	ok
Distribution		COM04		1,436,748	366,967		6,911,381	ok
Demand								
Gas Supply		DEM01		4,283	4,979	3,847	67,424	ok
Storage (November-March)		DEM02					2,924,112	ok
Transmission		DEM03		4,283	4,979	3,847	67,424	ok
Distribution Structures		DEM04		4,283	1,006	-	59,604	ok
Distribution Mains		DEM05		4,283	1,006	-	59,604	ok
Customer								
Distribution Mains		CUST01		44	3		38,222	ok
Services		CUST02		7,601	1,073	-	5,322,514	ok
Meters		CUST03		362,560	71,542	26,339	3,913,309	ok
Customer Count				44	5		38,224	ok
Customer Accounts		CUST04		176	20	540	41,578	ok
Other Services		CUST05		44	5		38,224	ok

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Total System	Residential (GS)	Commercial Small (GS)	Large Commercial and Industrial (GS)
Allocation Factors (Continued)							
Taxable Income							
Net Income Before Income Tax		NIBIT		$ 7,161,298	$ 1,866,839	$ 1,224,407	$ 2,139,819
Less: Interest Expense				$ 3,114,019	$ 1,883,516	$ 363,545	$ 601,688
Taxable Income		TXINC		$ 4,047,279	$ (16,677)	$ 860,862	$ 1,538,131
Meters Allocation Factor							
Number of Customers				38,226	32,940	4,346	889
Average Cost Per Meter					57	74	1,419
Meter Cost				3,913,309	1,868,686	322,691	1,261,491
Services Allocation Factor							
Number of Customers				38,224	32,940	4,346	889
Average Cost Per Service					136.27	154.515	172.76
Meter Cost				5,322,514	4,488,734	671,522	153,584
Year-End Adjustment		YREND		304,119	183,444	101,346	2,640

DELTA NATURAL GAS COMPANY, INC.

Cost of Service Study
12 Months Ended December 31, 1998

Class Allocation

Description	Ref	Name	Allocation Vector	Interruptible (IS)	Special Contracts (SP1)	Off-System Transportation (OS)	Total Check	Status
Allocation Factors (Continued)								
Taxable Income								
Net Income Before Income Tax		NIBIT		$ 1,475,335	$ 263,275	$ 191,622	$ 7,161,298	ok
Less: Interest Expense				$ 131,189	$ 81,538	$ 52,543	$ 3,114,019	ok
Taxable Income		TXINC		$ 1,344,147	$ 181,736	$ 139,079	$ 4,047,279	ok
Meters Allocation Factor								
Number of Customers				44	5	2	38,226	ok
Average Cost Per Meter				8,240	14,308			
Meter Cost				362,560	71,542	26,339	3,913,309	ok
Services Allocation Factor								
Number of Customers				44	5	-	38,224	ok
Average Cost Per Service				172.76	214.63			
Meter Cost				7,601	1,073	-	5,322,514	ok
Year-End Adjustment		YREND			16,689		304,119	ok

Seelye Exhibit 3

Estimated Peak Day Requirements

Delta Natural Gas Company, Inc.
Case No. 99-176

Estimated Peak Day Requirements

	Non-Temp. Sensitive Load		Temperature Sensitive Load		Peak Day Requirements
	Annually	Mcf /Day	Annually	Mcf per Degree Day	@ Zero Degrees
Residential-Firm Sales	368,268	1,009	1,774,052	458	30,767
Small Commercial-Firm Sales	111,246	305	442,423	114	7,726
Large Commercial-Firm Sales	302,256	828	516,997	133	9,500
Industrial-Firm Sales	48,156	132	99,053	26	1,793
Com./Indust. Firm Transport.	521,856	1,430	184,740	48	4,529
Total Firm Large Com./Ind.	872,268	2,390	800,790	207	15,822
Com./Indust.-Interruptible Sales	14,070	39	25,735	7	470
Com./Indust.-Interruptible Transport.	1,391,510	3,812		-	3,812
Total Interruptible	1,405,580	3,851	25,735	7	4,283
Special Contracts	1,817,276	4,979			4,979
Off-System Transportation	1,404,111	3,847			3,847
Total Sales and Transportation	5,978,749	16,380			67,424

Exhibit 3

Seelye Exhibit 4

Classification of the Cost of Mains

Zero Intercept Analysis

Delta Natural Gas Company, Inc.

Zero Intercept Analysis
Account 376 -- Distribution Mains

December 31, 1998

Description	Pipe Size	Net Cost of Plant	Quantity (Feet)	Unit Cost ($ per Foot)
Distribution Main Pipe, Under 2" Plastic	1.500	$ 2,231,078.61	442,766	5.03896
Distribution Main Pipe, 2" Plastic	2.000	18,188,528.24	3,625,826	5.01638
Distribution Main Pipe, 3" Plastic	3.000	134,564.05	56,307	2.38983
Distribution Main Pipe, 4" Plastic	4.000	9,919,137.81	1,077,977	9.20162
Distribution Main Pipe, 6" Plastic	6.000	423,231.99	51,168	8.27142
Distribution Main Pipe, Under 2" Steel	1.500	156,310.92	108,137	1.44549
Distribution Main Pipe, 2" Steel	2.000	570,319.60	429,630	1.32747
Distribution Main Pipe, 3" Steel	3.000	94,691.61	73,925	1.28091
Distribution Main Pipe, 4" Steel	4.000	1,397,414.92	259,512	5.38478
Distribution Main Pipe, 6" Steel	6.000	1,567,509.43	273,679	5.72755
Distribution Main Pipe, 8" Steel	8.000	514,861.18	79,984	6.43705
Total		$ 35,197,648.36	6,478,911	

Delta Natural Gas Company, Inc.

Zero Intercept Analysis
Account 376 -- Distribution Mains

December 31, 1998

n	y	x	est y	y*n^.5	n^.5	xn^.5
442,766	5.03896	1.50	4.431	3352.955121	665.4066426	998.1099639
3,625,826	5.01638	2.00	4.861	9551.994842	1904.160182	3808.320365
56,307	2.38983	3.00	5.721	567.0846021	237.2909606	711.8728819
1,077,977	9.20162	4.00	6.580	9553.6467	1038.256712	4153.026848
51,168	8.27142	6.00	8.300	1871.0236	226.2034482	1357.220689
108,137	1.44549	1.50	4.431	475.3375909	328.8419073	493.262861
429,630	1.32747	2.00	4.861	870.1036638	655.4616694	1310.923339
73,925	1.28091	3.00	5.721	348.2698141	271.8915225	815.6745675
259,512	5.38478	4.00	6.580	2743.131666	509.4232032	2037.692813
273,679	5.72755	6.00	8.300	2996.328499	523.1433838	3138.860303
79,984	6.43705	8.00	10.020	1820.491217	282.8144268	2262.515414

Delta Natural Gas Company, Inc.

Zero Intercept Analysis
Account 376 -- Distribution Mains

December 31, 1998

Weighted Linear Regression Statistics

		Estimate	Standard Error
Size Coefficient ($ per Foot)		0.8598440	0.4447265
Zero Intercept ($ per Foot)		3.1410884	1.3173305
R-Square		0.8286216	

Plant Classification

Total Number of Units		6,478,911
Zero Intercept		3.1410884
Zero Intercept Cost	$	20,350,832
Total Cost of Sample	$	35,197,648
Percentage of Total		0.578187266
Percentage Classified as Customer-Related		57.82%
Percentage Classified as Demand-Related		42.18%

Exhibit 4 - 3

Delta Natural Gas Company, Inc.

Zero Intercept Analysis
Account 376 -- Distribution Mains

December 31, 1998

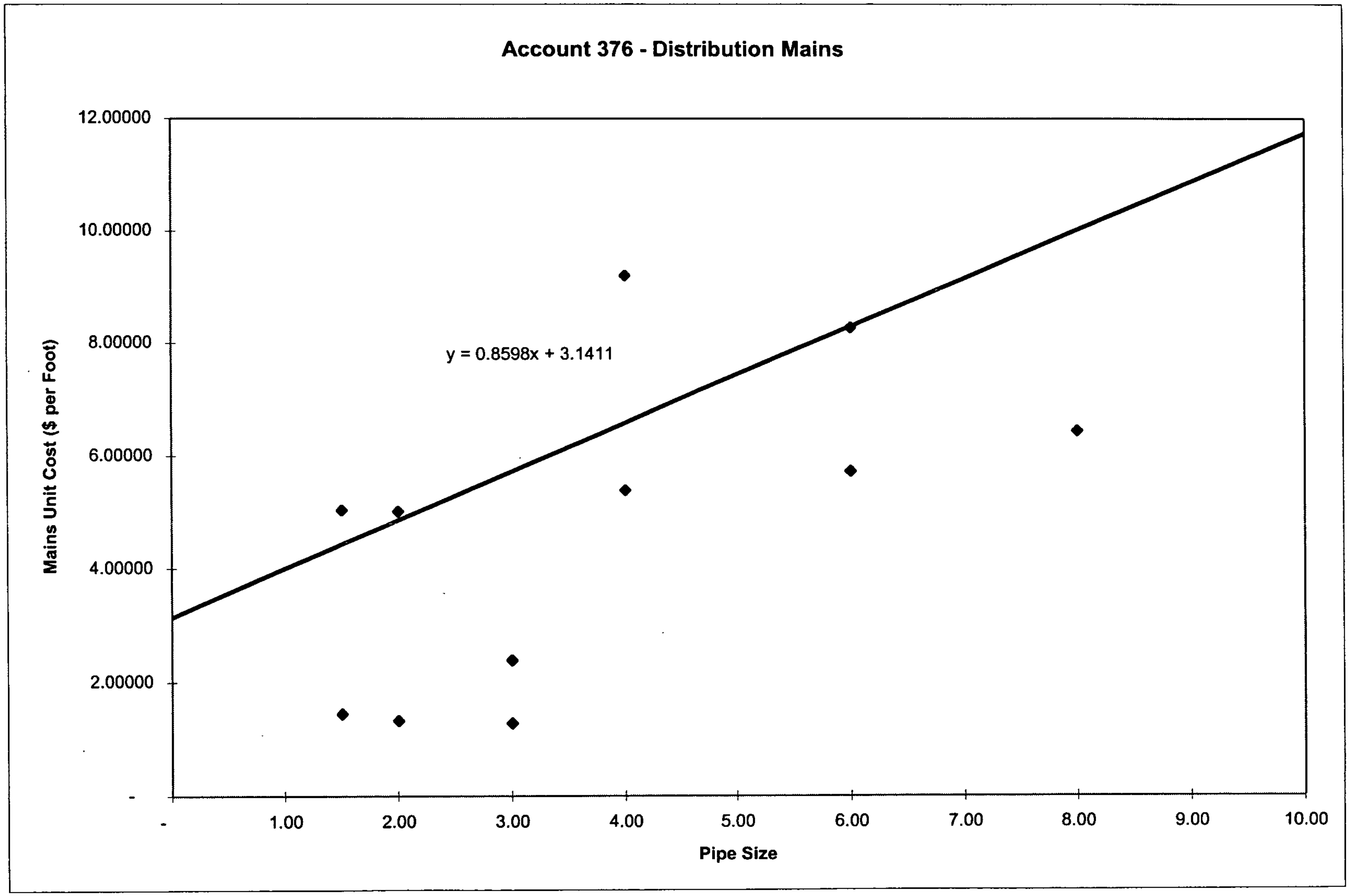


Exhibit 4 - 4

Seelye Exhibit 5

Unit Cost Analysis

Standard End-User Rates

Delta Natural Gas Company, Inc.

Unit Cost of Service Based on the Cost of Service Study
For the 12 Months Ended December 31, 1998

General Service Rate GS (Residential)

	Description	Reference	Customer Costs: Customer-Related Mains Costs	Customer Costs: Customer-Related Direct Costs	Customer Costs: Total Customer-Related Costs	Demand- and Commodity-Related Costs	Total Costs
(1)	Rate Base	Exhibit 2 Pages 5 & 7	$ 18,561,790	$ 9,636,419	$ 28,198,209	$ 18,961,147	$ 47,159,356
(2)	Rate of Return	Proposed Overall ROR	9.31%	9.31%	9.31%	9.31%	9.31%
(3)	Return	(1) x (2)	$ 1,728,473	$ 897,343	$ 2,625,816	$ 1,765,661	$ 4,391,478
(4)	Interest Expenses	Exhibit 2 Pages 25 & 27	$ 666,041	$ 338,992	$ 1,005,033	$ 878,483	$ 1,883,516
(5)	Net Income	(3) - (4)	$ 1,062,432	$ 558,351	$ 1,620,783	$ 887,179	$ 2,507,962
(6)	Income Taxes	((5)/(1-0.39445))*0.39445	$ 692,059	$ 363,705	$ 1,055,764	$ 577,900	$ 1,633,664
(7)	Operation and Maintenance Expenses	Exhibit 2 Pages 9 & 11	$ 1,499,593	$ 1,823,567	$ 3,323,159	$ 2,129,792	$ 5,452,951
(8)	Depreciation Expenses	Exhibit 2 Pages 17 & 19	736,465	374,835	1,111,300	1,012,924	2,124,224
(9)	Other Taxes	Exhibit 2 Pages 21 & 23	256,883	166,733	423,616	327,556	751,171
(10)	Expense Adjustments	Exhibit 2 Page 29	(2,834)	(3,447)	(6,281)	(4,026)	(10,307)
(11)	Total Cost of Service	(3)+(6)+(7)+(8)+(9)+(10)	$ 4,910,638	$ 3,622,736	$ 8,533,374	$ 5,809,808	$ 14,343,182
(12)	Less: Misc Revenue	Exhibit 2 Page 29	25,637	18,913	44,550	30,331	74,882
(13)	Net Cost of Service	(11) - (12)	$ 4,885,001	$ 3,603,822	$ 8,488,823	$ 5,779,477	$ 14,268,300
(14)	Billing Units	Exhibit 2 Page 35	32,940	32,940	32,940	2,581,793	
(15)	Unit Costs	(13) / (14)	$12.36/Cust/Mo	$9.12/Cust/Mo	$21.48/Cust/Mo	$2.2386/Mcf	

Delta Natural Gas Company, Inc.

Unit Cost of Service Based on the Cost of Service Study
For the 12 Months Ended December 31, 1998

General Service Rate GS (Small Commercial)

	Description	Reference	Customer Costs				
			Customer-Related Mains Costs	Customer-Related Direct Costs	Total Customer-Related Costs	Demand- and Commodity-Related Costs	Total Costs
(1)	Rate Base	Exhibit 2 Pages 5 & 7	$ 2,448,984	$ 1,539,051	$ 3,988,036	$ 4,763,533	$ 8,751,569
(2)	Rate of Return	Proposed Overall ROR	9.31%	9.31%	9.31%	9.31%	9.31%
(3)	Return	(1) x (2)	$ 228,049	$ 143,316	$ 371,366	$ 443,580	$ 814,946
(4)	Interest Expenses	Exhibit 2 Pages 25 & 27	$ 87,875	$ 54,266	$ 142,142	$ 221,404	$ 363,545
(5)	Net Income	(3) - (4)	$ 140,174	$ 89,050	$ 229,224	$ 222,176	$ 451,400
(6)	Income Taxes	((5)/(1-0.39445))*0.39445	$ 91,308	$ 58,007	$ 149,315	$ 144,724	$ 294,038
(7)	Operation and Maintenance Expenses	Exhibit 2 Pages 9 & 11	$ 197,852	$ 263,622	$ 461,474	$ 536,420	$ 997,894
(8)	Depreciation Expenses	Exhibit 2 Pages 17 & 19	97,167	60,004	157,171	254,609	411,780
(9)	Other Taxes	Exhibit 2 Pages 21 & 23	33,892	25,715	59,607	82,541	142,148
(10)	Expense Adjustments	Exhibit 2 Page 29	1,728	2,303	4,031	4,685	8,716
(11)	Total Cost of Service	(3)+(6)+(7)+(8)+(9)+(10)	$ 649,996	$ 552,967	$ 1,202,963	$ 1,466,559	$ 2,669,521
(12)	Less: Misc Revenue	Exhibit 2 Page 29	4,986	4,241	9,227	11,249	20,476
(13)	Net Cost of Service	(11) - (12)	$ 645,011	$ 548,725	$ 1,193,736	$ 1,455,310	$ 2,649,046
(14)	Billing Units	Exhibit 2 Page 35	4,346	4,346	4,346	682,889	
(15)	Unit Costs	(13) / (14)	$12.37/Cust/Mo	$10.52/Cust/Mo	$22.89/Cust/Mo	$2.1311/Mcf	

Delta Natural Gas Company, Inc.

Unit Cost of Service Based on the Cost of Service Study
For the 12 Months Ended December 31, 1998

General Service Rate GS (Large Commercial and Industrial)

	Description	Reference	Customer Costs				
			Customer-Related Mains Costs	Customer-Related Direct Costs	Total Customer-Related Costs	Demand- and Commodity-Related Costs	Total Costs
(1)	Rate Base	Exhibit 2 Pages 5 & 7	$ 500,954	$ 3,107,518	$ 3,608,472	$ 9,808,512	$ 13,416,984
(2)	Rate of Return	Proposed Overall ROR	9.31%	9.31%	9.31%	9.31%	9.31%
(3)	Return	(1) x (2)	$ 46,649	$ 289,372	$ 336,021	$ 913,368	$ 1,249,389
(4)	Interest Expenses	Exhibit 2 Pages 25 & 27	$ 17,975	$ 110,232	$ 128,207	$ 473,481	$ 601,688
(5)	Net Income	(3) - (4)	$ 28,673	$ 179,140	$ 207,813	$ 439,887	$ 647,701
(6)	Income Taxes	((5)/(1-0.39445))*0.39445	$ 18,678	$ 116,690	$ 135,368	$ 286,539	$ 421,907
(7)	Operation and Maintenance Expenses	Exhibit 2 Pages 9 & 11	$ 40,472	$ 386,067	$ 426,539	$ 1,138,432	$ 1,564,971
(8)	Depreciation Expenses	Exhibit 2 Pages 17 & 19	19,876	121,887	141,763	527,658	669,422
(9)	Other Taxes	Exhibit 2 Pages 21 & 23	6,933	46,911	53,844	176,190	230,034
(10)	Expense Adjustments	Exhibit 2 Page 29	(719)	(6,863)	(7,582)	(20,237)	(27,819)
(11)	Total Cost of Service	(3)+(6)+(7)+(8)+(9)+(10)	$ 131,888	$ 954,065	$ 1,085,953	$ 3,021,951	$ 4,107,904
(12)	Less: Misc Revenue	Exhibit 2 Page 29	1,080	7,815	8,895	24,752	33,647
(13)	Net Cost of Service	(11) - (12)	$ 130,807	$ 946,250	$ 1,077,058	$ 2,997,199	$ 4,074,257
(14)	Billing Units	Exhibit 2 Page 35	889	889	889	1,842,984	
(15)	Unit Costs	(13) / (14)	$12.26/Cust/Mo	$88.70/Cust/Mo	$100.96/Cust/Mo	$1.6263/Mcf	

Delta Natural Gas Company, Inc.

Unit Cost of Service Based on the Cost of Service Study
For the 12 Months Ended December 31, 1998

Interruptible Service Rate IS

	Description	Reference	Customer Costs			Demand- and Commodity-Related Costs	Total Costs
			Customer-Related Mains Costs	Customer-Related Direct Costs	Total Customer-Related Costs		
(1)	Rate Base	Exhibit 2 Pages 6 & 8	$ 24,794	$ 847,577	$ 872,372	$ 2,580,646	$ 3,453,018
(2)	Rate of Return	Proposed Overall ROR	9.31%	9.31%	9.31%	9.31%	9.31%
(3)	Return	(1) x (2)	$ 2,309	$ 78,926	$ 81,235	$ 240,310	$ 321,545
(4)	Interest Expenses	Exhibit 2 Pages 26 & 28	$ 890	$ 30,175	$ 31,064	$ 100,124	$ 131,189
(5)	Net Income	(3) - (4)	$ 1,419	$ 48,752	$ 50,171	$ 140,186	$ 190,356
(6)	Income Taxes	((5)/(1-0.39445))*0.39445	$ 924	$ 31,756	$ 32,681	$ 91,316	$ 123,996
(7)	Operation and Maintenance Expenses	Exhibit 2 Pages 10 & 12	$ 2,003	$ 81,269	$ 83,272	$ 252,411	$ 335,683
(8)	Depreciation Expenses	Exhibit 2 Pages 18 & 20	984	33,365	34,349	134,107	168,456
(9)	Other Taxes	Exhibit 2 Pages 22 & 24	343	12,000	12,343	37,695	50,038
(10)	Expense Adjustments	Exhibit 2 Page 30	41	1,647	1,688	5,116	6,804
(11)	Total Cost of Service	(3)+(6)+(7)+(8)+(9)+(10)	$ 6,604	$ 238,965	$ 245,569	$ 760,954	$ 1,006,523
(12)	Less: Misc Revenue	Exhibit 2 Page 30	98	3,554	3,653	11,319	14,972
(13)	Net Cost of Service	(11) - (12)	$ 6,506	$ 235,410	$ 241,916	$ 749,635	$ 991,551
(14)	Billing Units	Exhibit 2 Page 36	44	44	44	1,436,748	
(15)	Unit Costs	(13) / (14)	$12.32/Cust/Mo	$445.85/Cust/Mo	$458.17/Cust/Mo	$0.5218/Mcf	

Notes

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF

ADJUSTMENT OF GAS SERVICE	)	
RATES OF DELTA NATURAL	)	CASE NO. 99-176
GAS COMPANY, INC.	)	

DIRECT TESTIMONY OF

RANDALL J. WALKER

AFFIDAVIT

The affiant, Randall J. Walker, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in Case No. 99-176, in the Matter of: Adjustment of Gas Service Rates of Delta Natural Gas Company, Inc. and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct testimony.

Affiant further states that he will be present and available for cross-examination and for such additional direct examination as may be appropriate at any hearing in Case No. 99-176 scheduled by the Commission, at which time affiant will further reaffirm the attached testimony as his direct testimony in such case.

Randall J. Walker

Randall J. Walker

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me by Randall J. Walker this the 29th day of, June 1999.

My Commission Expires: 3/8/2000

Emily P. Bennett

Notary Public, State at Large, Kentucky

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF
ADJUSTMENT OF GAS SERVICE)
RATES OF DELTA NATURAL) CASE NO. 99-176
GAS COMPANY, INC.)

TESTIMONY OF RANDALL J. WALKER

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Randall J. Walker and my business address is The Prime Group, LLC, 6711 Fallen Leaf, Louisville, Kentucky, 40241.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am a senior consultant and associate with The Prime Group, LLC, a firm located in Louisville, Kentucky, providing consulting and educational services in the areas of utility marketing, regulatory analysis, cost of service, rate design and fuel and power procurement.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate of the University of Louisville with a Bachelor of Science Degree in Commerce and a Certificate in Physics. I was employed by Louisville Gas and Electric Company ("LG&E") beginning in July 1960 until my retirement in August 1998. From 1968 until December 1990, I held various positions within the Rate Department at LG&E, including manager. In December of 1990, I became Group Manager of Gas Product Management and, in 1993, I was also given responsibility for Electric Product Management. In July 1996, my managerial responsibilities were further broadened to include the Rate Department. Upon retirement from LG&E in August 1998, I joined The Prime Group as a senior consultant and have provided utility consulting services to various clients.

I have over 30 years experience in rate design, cost of service, development of new and revised service offerings, economic/cost analyses, preparing filings for general rate cases and other regulatory proceedings before the Kentucky Public Service Commission ("Commission"), administration of tariffs, and interpretation and the application of Commission regulations.

I was also responsible for preparing the natural gas sales, revenue and peak period demand forecasts at LG&E for thirteen years prior to 1981 and supervised its preparation through 1990. In addition, I also had managerial responsibility for the electric sales and revenue forecasts during 1989 and 1990.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION?

A. Yes, I testified before the Commission on many occasions including LG& E's last three general rate cases, the electric fuel clause proceedings, in gas supply clause hearings, and numerous other matters concerning the application of tariff provisions and service offerings. The scope of my testimony in the general rate case proceedings included (a) rate design, (b) cost of service, (c) revenue apportionment between rate classes, (d) temperature normalization adjustments, (e) year-end adjustments and (f) reconciliation of gas supply and fuel cost expenses with revenue recoveries. In addition, I have also provided testimony before the Federal Energy Regulatory Commission relating to the development of rates and services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I shall explain and support the pro-forma revenue adjustments that were made to the test period operating results. In addition, I will explain the apportionment of the proposed revenue increase among the rate classes and the resulting changes in pricing and rate design contained in this filing.

Q. WERE WALKER EXHIBITS 1 THROUGH 8 PREPARED BY YOU?

A. Yes, they were.

PRO-FORMA REVENUE ADJUSTMENTS

Q. PLEASE EXPLAIN THE PURPOSE OF THE PRO-FORMA REVENUE ADJUSTMENTS THAT YOU ARE SPONSORING IN THIS PROCEEDING.

A. It has been my experience that the Commission has, over time, established certain standards or requirements with respect to the test period revenues and expenses from which revenue requirements and changes in base rates are determined. Revenues must be adjusted, when necessary, to reflect normal temperatures, annualized to give effect to the numbers of customers served at year-end, reflect the currently effective rates for the entire test-period, and, exclude gas cost recovery for those companies with Commission approved gas cost recovery mechanisms.

Adjustments to Eliminate the GCR Revenues
<u>and to Reflect the Current Rates for Full Year</u>

Q. PLEASE EXPLAIN THE COMPUTATIONS REQUIRED TO MEASURE THE EFFECT OF THE PRICE CHANGES PROPOSED BY DELTA IN THIS PROCEEDING.

A. The first computation was to determine the Gas Cost Recovery (GCR) revenues for each rate class and to remove such revenues from the actual revenues. Inasmuch as gas supply costs are recovered through a stand-alone cost-recovery mechanism, the Commission requires such costs be removed from revenues in order to establish the revenues that are related to the delivery of gas by the distributor. This adjustment eliminates the possibility of over- or under-recoveries resulting from timing differences being included in the determination of revenue requirements and, thus, ensures that the base rates recover only the utility's distribution-related costs. Walker Exhibit 1 contains calculations showing the actual monthly Gas Cost Recovery (GCR) revenues applicable to each rate class during the test period.

The second computation (Walker Exhibit 2) shows the impact of a full year of revenue at the currently effective base rates. During the test period, two modifications were made to Delta's base rates as a result of Rehearing Orders by the Commission related to the last general rate case (Case No. 97-066). On May 1, 1998, the base rate for the initial block in the General Service Rate was increased from \$2.6909 per Mcf to \$2.7321 per Mcf. By further Order of the Commission, the \$2.7321 per Mcf charge was subsequently reduced to its current level of \$2.7212 per Mcf effective with June 1998 billings. Pages 2 and 3 of Walker Exhibit 2 shows the details of the computations restating the January through May billings to reflect the current rate level of $2.7212 per Mcf applicable to the initial block of the General Service Rate. In addition to those rate modifications, Delta had two large customers that switched from transporting their gas under the General Service Rate Schedule to transporting under Special Contract rates during the test period. Page 4 of Walker Exhibit 2 shows the detailed calculations restating the revenues for those two customers to reflect a full year at the currently effective rates. The summarized results of the calculations restating the billings at the current rates for both the Commission ordered changes to the General Service Rate and rate switching by the two special contact customers are shown on Page 1 of Walker Exhibit 2.

The currently effective rates were then applied to the test period billing determinants to determine the calculated base rate revenue for each rate class. The actual revenue minus the GCR revenue (Walker Exhibit 1) and the adjustment to reflect the current rates for a full year (Walker Exhibit 2) was then compared to the calculated base revenue for each rate class (Walker Exhibit 3) in order to verify the accuracy of the test period billing determinants.

Q. DID YOUR CALCULATIONS VERIFY THAT THE TEST PERIOD BILLING DETERMINANTS WERE INDEED ACCURATE AND RELIABLE FOR PURPOSES OF RATE MAKING?

A. Yes. As shown on Column 5, page 1 of Walker Exhibit 3, the base rate revenues that were calculated on page 2 of that same exhibit were extremely close to the adjusted actual revenues shown on Column 4 of page 1, thus, confirming the accuracy of the test period billing determinants. The calculated revenue for the residential class was within 0.055% of actual, small commercial was within 0.041%, large commercial/industrial general service was within 0.007%, and interruptible was within 0.054% of actual.

Temperature Normalization Adjustment

Q. PLEASE EXPLAIN THE CALCULATIONS AND METHODOLOGY USED TO DETERMINE THE TEMPERATURE NORMALIZATION ADJUSTMENT TO TEST PERIOD REVENUE.

A. Heating degree days related to cycle billed customer deliveries were 818 below the Weather Bureau normal of 4,693. Thus, Delta's actual revenues were understated due to the much warmer than normal temperatures experienced during the test period. The degree day data used for purposes of calculating the temperature normalization adjustment was from the Lexington, Kentucky weather station.

The first step in computing the temperature related deficiency in deliveries was to determine the annual non-temperature sensitive and temperature sensitive volumes for those customer classes whose requirements are sensitive to temperature variations. The determination of the non-temperature volumes was based on the gas deliveries that occurred in August and September since those months had the lowest volumes and also had no heating degree days. The volumes in those two months was then multiplied by six to calculate an annual non-temperature sensitive load that was deducted from total deliveries to arrive at the annual temperature sensitive volumes.

The next step was to determine the volumetric adjustment required to normalize deliveries to reflect normal temperatures. The annual temperature sensitive volumes were divided by the actual heating degree days (3,875) in the test period and the resulting Mcf per degree day was then multiplied by the degree day departure from normal (818) to arrive at the volumetric adjustment for each rate class.

In the final step, the volumetric adjustment for each rate class was apportioned to the billing blocks based on the same billing block relationships as the actual billing determinants. The Mcf volume in each block was then priced at the currently effective base rates for the respective rate schedules, resulting in an upward adjustment to gas operating revenue of $1,693,458.

The details of these calculations are shown in Walker Exhibit 4.

Adjustment to Reflect Year-End Customers

Q. PLEASE EXPLAIN THE ADJUSTMENT TO ANNUALIZE FOR YEAR-END BUSINESS.

A. The numbers of customers served at the end of the test period were greater than the average of the 12-month period. The purpose of this adjustment is to give recognition to the additional deliveries and revenue that would have been expected assuming that the year-end numbers of customers had been served for the entire test period.

The differences between the number of customers served at year end and the average number during the test period was multiplied by the average annual consumption per customer in order to determine the additional deliveries expected. The average annual consumption per customer was temperature normalized for purposes of this adjustment. The volumetric adjustment for each rate class was apportioned to the billing blocks in the same manner as in the temperature normalization adjustment. The Mcf volumes in each block were then priced at the currently effective base rates for the respective rate schedules, resulting in an upward adjustment to gas operating revenue of $304,119.

The additional operating expenses associated with serving the higher number of customers and volumes were calculated by applying an operating ratio to the revenue adjustment. The operating ratio of 17.92 percent was determined by dividing operation and maintenance expenses (exclusive of gas supply costs and wages and salaries) by base rate revenues calculated at the currently effective prices and, when applied to the revenue adjustment, resulted in an upward adjustment to expenses of $54,487.

The detailed calculations of the year end adjustments to revenues and expenses are contained in Walker Exhibit 5.

Q. AFTER GIVING RECOGNITION TO ALL OF THE REQUIRED ADJUSTMENTS, WHAT IS THE PROPOSED INCREASE IN REVENUES AND HOW DOES THE PROPOSED PRICING CHANGES APPORTION THE INCREASE AMONGST THE INDIVIDUAL CUSTOMER CLASSES?

A. In this filing, Delta is proposing to increase its annual revenues by $2,510,901. Walker Exhibit 6 shows that the proposed increase would result in an increase of 6.73 percent in total Company revenue and 6.76 percent in sales and transportation service revenue.

The proposed pricing changes apportion the revenue increase between the customer classes as follows:

General Service			
Residential	-	$ 1,954,816	9.85%
Small Commercial	-	418,957	7.85
Large Commercial & Industrial	-	242,481	2.79
Interruptible Service	-	(105,353)	(4.81)
Total Sales and Transportation	-	$ 2,510,901	6.76%

As shown on pages 1 through 4 of Walker Exhibit 7, the effect on individual class revenues was determined by applying both the current and proposed prices to the adjusted billing determinants for each customer class.

Q. PLEASE DESCRIBE THE OBJECTIVES BEHIND THE PROPOSED ALLOCATION OF THE INCREASE AMONG THE CUSTOMER CLASSES.

A. The proposed pricing adjustments are designed to achieve some movement toward a better balance between class rates of return and, at the same time, give recognition to other rate making objectives such as marketplace realities, customer acceptance and the need to maintain price stability by avoiding overly disruptive changes.

Q. WHAT WAS THE BASIC UNDERLYING INFORMATION THAT SUPPORTED THE PROPOSED ALLOCATION BETWEEN CLASSES.

A. The starting point was the cost-of-service study submitted in this proceeding by Mr. William Steven Seelye. The cost of service study provided information measuring the extent to which the revenues generated by each customer class contribute to the overall return earned by the Company. As shown on Table 1 of Mr. Seelye's testimony, the cost of service study indicated that the individual class rates of return ranged between 3.97% and 27.37% as measured against an overall adjusted actual return on rate base of 7.31% with residential being the lowest and interruptible service the highest. Another key observation was that the achieved return for residential customer class was far below overall adjusted actual return of 7.31% and the achieved returns for all the other classes were above the level of the proposed 9.31% return on rate base. This indicates a need to increase the revenues produced by sales to the residential class more than the other classes. The cost of service study also showed that the earned return for interruptible service was very high when compared to either the overall or the other classes of service. Therefore, giving recognition to this information while attempting to maintain the other aforementioned objectives, we have proposed rates that will increase revenues derived from the residential class by 9.85% and will reduce interruptible class revenues by 4.81% as compared to the overall increase in sales and transportation revenues of 6.76%.

Q. SINCE ALL RESIDENTIAL AND MOST COMMERCIAL AND INDUSTRIAL CUSTOMERS ARE SERVED UNDER THE GENERAL SERVICE RATE, WHAT CAUSES THE CLASS RATES OF RETURN TO BE SO DIFFERENT?

A. There are several reasons. The most obvious is the variation between the class load factors, especially between the residential and small commercial customer classes and the large commercial/industrial class. Load factor, in this case, is the relationship between weather-normalized average daily Mcf deliveries to the peak day requirements of the respective customer class. Customer classes that have the most consumption relative to their demands will earn the highest rates of return, everything else being equal. The residential and small commercial customer classes have temperature-normalized load factors of 23.0 and 24.2 percent, respectively, as compared to 31.9 percent for the large commercial/industrial class. However, while the customers within the residential and small commercial classes are relatively homogeneous, the large commercial/industrial class is extremely diverse with respect to customer size and load factor.

Another reason for the class rates of return within the General Service Rate to be so different is the ability, or inability, to recover customer-related costs. If the customer charge of a customer class is adequate to recover the full amount of the customer-related costs, this is not an issue. However, Seelye Exhibit 5 shows that the customer costs exceed the customer charges for each customer class although the differential is not nearly as significant for the small commercial customers as it is for the other classes. This is not uncommon. Utility rates typically have customer charges that are less than the amounts necessary to fully reflect the customer-related costs. Nevertheless, when the customer charges are less than the associated costs of providing service, such deficiencies end up being recovered through Mcf charges that are higher than they would otherwise be. The recovery of such deficiencies within a particular customer class then becomes a function of the amount of customer-related costs that end up in the Mcf charges and the available volumes to spread such costs over.

Q. WHAT ARE THE PROPOSED MODIFICATIONS TO THE INDIVIDUAL CLASS RATE DESIGN AND TO WHAT EXTENT WILL THEY HELP TO

MODERATE SOME OF THE INEQUITIES THAT SEEM TO EXIST BETWEEN THE CUSTOMER CLASSES.

A. In this filing, we are proposing rates that are designed to:

(1) Increase the revenues derived from the residential customer class by the greatest percentage while maintaining the current level of the monthly customer charge;

(2) Increase the revenues derived from the small commercial general service class by a lesser percentage than the residential class and, at the same time, lower the monthly customer charge to move it toward the residential customer charge given the similarity in costs;

(3) Increase the revenues derived from the large commercial/industrial class by a lesser percentage than either the residential or small commercial classes, increase the monthly customer charge to be more in line with customer costs and address the dissimilarity between customers within the class and the concern that the large high load factor customers may be more likely to switch to the lower interruptible rate if the rate differential is widened;

(4) Lower the overall rate level of the interruptible class while increasing the monthly customer charge to be more reflective of costs.

Residential – General Service

The cost of service study indicated that, in order for the residential class of customers to contribute the same return on rate base as the proposed overall return, the class revenues would have to be increased by an amount equal to 1.66 times the total amount of increase proposed by Delta in this filing. The decision was made to propose rates that would move in the direction of the overall return without creating any overly disruptive changes. The proposed rates limit the percentage increase to the residential class to less than 1.5 times the overall percentage increase. The Company elected not to increase the residential customer charge at this time. Therefore, the proposed revenue increase had to be derived from the Mcf charges and result from pricing changes that are applicable to the first billing block of the general service rate since all residential volumes fall within that 1st 200 Mcf block.

Small Commercial - General Service

The cost of service study demonstrated that the percentage increase to the small commercial class should be smaller than the residential increase. Seelye Exhibit 5 shows that the small commercial customer-related cost is less than 10% higher than the residential customer costs yet the present monthly customer charge is more than twice that of the residential class. Another factor that had to be taken into account was the fact that over 90% of the volumes sold to small commercial customers were billed in the first 200 Mcf block of the rate. The proposed rates will result in an increase that is smaller than that proposed for the residential class and will move the small commercial monthly customer charge toward the residential customer charge.

Large Commercial/Industrial - General Service

The cost of service study indicated that the percentage increase to the large commercial/industrial general service class should also be smaller than the residential increase. In addition, as indicated earlier, this class is extremely diverse with respect to customer size and load factor. It is composed of medium size customers whose primary end use is for space heating as well as large high-load factor customers.

In an effort to determine the extent to which the customers differ with respect to cost of service versus revenues, an analysis was prepared further disaggregating the costs assigned to this class in the cost of service study prepared by Mr. Seelye (see Walker Exhibit 8). The larger customers, those using 6,000 Mcf/year or more, were placed into one group and those using less than 6,000 into another group. Of the 887 average number of customers in the large commercial/industrial class, only 31 used 6,000 Mcf or more but represented over 54 percent of the volumes delivered to the class (Walker Exhibit 8, page 11). The unadjusted load factor of the larger customers was nearly 40 percent as compared to 22 percent for the smaller customers (Walker Exhibit 8, page 12). The most noticeable difference, however, were the rates of return. The adjusted actual return for the larger customers was 20.18 percent as compared to a return of 7.76 percent for the smaller customers (see Walker Exhibit 8, page 1).

The monthly customer charge of $25.00 for the large commercial/industrial customers is extremely out of balance with the customer-related cost of $101 (see Seelye Exhibit 5). In an effort to move the monthly customer charge toward costs, we are proposing to increase the monthly customer charge for this class from $25 per month to $50 per month.

The proposed rate design will address the cost of service differences between customers resulting from their size, their load characteristics as well as their load factors. As shown on page 1 of Walker Exhibit 8, the proposed rates produce a rate of return of 11.99 percent for the under 6,000 Mcf/year customers and a return of 13.79 percent for the 6,000 Mcf and over group. Definitely, a better balance within the class. The proposed rates will move the monthly customer charge toward cost, will achieve the desired objective of increasing the large commercial/industrial class revenues by a lesser percentage and attain a better balance between the rates of return between the larger and smaller customers. In addition, the proposed pricing structure, hopefully, will also address some of the concerns that the larger customers within this class may opt to switch to the lower interruptible rate.

<u>Interruptible Service</u>

With respect to the interruptible class, the cost of service study clearly demonstrates a need to reduce the revenues derived from this customer class. This class produces a rate of return that is more than twice the return of the next highest class. In spite of the high rate return, the cost of service study also indicated that the customer-related costs are nearly $460 per month as compared to a customer charge of $200. The rates that we are proposing will move the monthly customer charge in the direction of costs and will achieve the desired objective of modestly reducing the overall rate level.

We believe the proposed allocation of the rate increase between rate classes as well as the proposed rate design modifications are in the best interest of all consumers since they provide some movement, albeit modest, toward cost-based rates.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

Walker Exhibit 1

Gas Cost Recovery
Revenues

Delta Natural Gas Company, Inc.
Gas Cost Recovery Revenues by Rate Class
12 Months Ended December 31, 1998

Customer Class	Rate Code	Firm / Interrup	1998 Jan	1998 Feb	1998 Mar	1998 Apr	1998 May	1998 Jun	1998 Jul	1998 Aug	1998 Sep	1998 Oct	1998 Nov	1998 Dec	1998 Total
GCR Charges			4.7473	4.5753	4.7229	4.7229	3.5152	3.5152	3.5152	4.3758	4.3758	4.3758	3.7549	3.7549	
Mcf Sales															
Residential	01	Firm	461,424	387,235	322,067	289,340	121,212	43,803	42,384	30,117	31,261	50,697	144,441	218,339	2,142,320
Commercial -small	02cs	Firm	122,448	103,448	82,990	76,271	28,426	11,809	12,141	9,097	9,444	13,644	31,447	52,504	553,669
Commercial - large	02c	Firm	156,099	128,493	109,814	101,021	47,734	31,296	33,552	25,060	25,316	39,104	49,781	71,983	819,253
Industrial	02i	Firm	28,586	23,683	17,760	16,402	9,121	5,318	5,904	3,826	4,200	8,552	9,672	14,185	147,209
Commercial - large	04c	Interrup	-	-	539	565	413	65	-	-	-	-	289	471	2,342
Industrial	04i	Interrup	7,704	6,590	5,222	3,855	2,205	1,281	1,463	1,213	1,132	1,281	2,269	3,248	37,463
Total Retail Sales			776,261	649,449	538,392	487,454	209,111	93,572	95,444	69,313	71,353	113,278	237,899	360,730	3,702,256
GCR Revenues															
Residential	01	Firm	2,190,524	1,771,719	1,521,087	1,366,521	426,082	153,976	148,988	131,786	136,792	221,842	542,364	819,839	9,431,520
Commercial -small	02cs	Firm	581,299	473,306	391,953	360,220	99,923	41,511	42,678	39,807	41,325	59,704	118,081	197,147	2,446,952
Commercial - large	02c	Firm	741,051	587,895	518,640	477,111	167,794	110,012	117,942	109,658	110,778	171,113	186,924	270,288	3,569,203
Industrial	02i	Firm	135,707	108,357	83,879	77,465	32,062	18,694	20,754	16,742	18,378	37,422	36,318	53,263	639,040
Commercial - large	04c	Interrup	-	-	2,546	2,668	1,452	228	-	-	-	-	1,085	1,769	9,748
Industrial	04i	Interrup	36,573	30,151	24,663	18,207	7,751	4,503	5,143	5,308	4,953	5,605	8,520	12,196	163,573
Total GCR Revenues			3,685,153	2,971,429	2,542,767	2,302,192	735,063	328,924	335,505	303,300	312,226	495,686	893,291	1,354,501	16,260,037

Walker Exhibit 2

Adjustment to Reflect the
Current Rates for a Full Year

Delta Natural Gas Company, Inc.
Case No. 99-176
Adjustments to Reflect Current Rates for Full Year and Rate Switching by Customers

	Adjustment to Reflect Current Rates for Full Year *(see page 3)*	Adjustment to Reflect Rate Switching by Customers *(see page 4)*	Net Effect Both Adjustments
REVENUE			
General Service			
Residential	$ 42,919		42,919
Commercial - Small	11,370		11,370
Lg. Commercial & Industrial			-
Retail Sales	17,227		17,227
Transportation	9,494	$ (105,345)	(95,851)
Total Lg. Com. & Ind.	26,722	(105,345)	(78,623)
Total General Service	81,011	(105,345)	(24,334)
Interruptible Service			
Retail Sales			
Transportation			
Total Interruptible Service			
Special Contracts		104,167	104,167
Off-System Transportation			
Total Sales and Transportation	$ 81,011	$ (1,178)	$ 79,833
Miscellaneous Service Revenues			
Total Gas Operating Revenue	$ 81,011	$ (1,178)	$ 79,833
MCF			
General Service			
Residential			
Commercial - Small			
Lg. Commercial & Industrial			
Retail Sales			
Transportation		(49,423)	(49,423)
Total Lg. Com. & Ind.		(49,423)	(49,423)
Total General Service		(49,423)	(49,423)
Interruptible Service			
Retail Sales			
Transportation			
Total Interruptible Service			
Special Contracts		49,423	49,423
Off-System Transportation			
Total Sales and Transportation		-	-

Delta Natural Gas Company, Inc.
Case No. 99-176
Adjustment to Reflect Current Rates for Full Year

Customer Class	Total Customer - Months	First Block	Second Block	Third Block	Fourth Block	Fifth Block	Total
		BILLING DETERMINANTS					
Jan. - Apr.							
Billed Rate							
Current Rate							
Difference							
Residential -- Firm Sales	131,787	1,460,066					1,460,066
Commercial-small -- Firm Sales	17,447	372,756	10,417	1,984			385,157
Large Commercial/Industrial -- Firm Sales	3,393	378,244	145,896	52,153	5,565		581,858
Large Commercial/Industrial -- Firm Transport.	213	23,335	58,261	119,152	52,929	60,899	314,576
Total							
May							
Billed Rate							
Current Rate							
Difference							
Residential -- Firm Sales	32,247	121,212					121,212
Commercial-small -- Firm Sales	4,214	27,511	769	146			28,426
Large Commercial/Industrial -- Firm Sales	838	36,959.26	14,255.96	5,096.03	543.75		56,855
Large Commercial/Industrial -- Firm Transport.	51	3,434	8,574	17,535	7,789	8,962	46,294
Total							
January - May							
Residential -- Firm Sales							
Commercial-small -- Firm Sales							
Large Commercial/Industrial -- Firm Sales							
Large Commercial/Industrial -- Firm Transport.							
Total							

Delta Natural Gas Company, Inc.
Case No. 99-176
Adjustment to Reflect Current Rates for Full Year

Customer Class	Monthly Customer Charges		First 200 Mcf per Mo.	Next 800 Mcf per Mo.	Next 4000 Mcf per Mo.	Next 5000 Mcf per Mo.	Over 10000 Mcf per Mo.	Total
	DIFFERENCE BETWEEN BILLINGS @ CURRENT RATES AND BILLING @ EFFECTIVE RATES							
Jan. - Apr.								
Billed Rate	no change	$	2.6909	no change	no change	no change	no change	
Current Rate	no change		2.7212	no change	no change	no change	no change	
Difference			0.0303					
Residential -- Firm Sales	-		44,240	-	-	-	-	44,240
Commercial-small -- Firm Sales	-		11,670	-	-	-	-	11,670
Large Commercial/Industrial -- Firm Sales	-		17,630	-	-	-	-	17,630
Large Commercial/Industrial -- Firm Transport.	-		9,532	-	-	-	-	9,532
Total			83,072					83,072
May								
Billed Rate	no change	$	2.7321	no change	no change	no change	no change	
Current Rate	no change		2.7212	no change	no change	no change	no change	
Difference			(0.0109)					
Residential -- Firm Sales	-		(1,321)	-	-	-	-	(1,321)
Commercial-small -- Firm Sales	-		(300)	-	-	-	-	(300)
Large Commercial/Industrial -- Firm Sales	-		(403)	-	-	-	-	(403)
Large Commercial/Industrial -- Firm Transport.	-		(37)	-	-	-	-	(37)
Total			(2,061)					(2,061)
January - May								
Residential -- Firm Sales								42,919
Commercial-small -- Firm Sales								11,370
Large Commercial/Industrial -- Firm Sales								17,227
Large Commercial/Industrial -- Firm Transport.								9,494
Total								81,011

Delta Natural Gas Company, Inc.
Case No. 99-176
Adjustment to Reflect Rate Switching By Customers

		Total Customer - Months	MCF, Unit Charges and Revenue: First Block	Second Block	Third Block	Fourth Block	Fifth Block	Total
Special Contract Customer								
Jan. - May								
Billing Determinants		5	831	3,080	4,705	-	-	8,616
As Billed Rate	Firm Transportation	$ 25.00	$ 2.7212	$ 2.5000	$ 2.1000	$ 1.5000	$ 1.1000	
As Billed Revenue		$ 125	$ 2,261	$ 7,700	$ 9,881	$ -	$ -	$ 19,967
Jun. - Aug.								
Billing Determinants		3	45,000	45,000	141,280			231,280
As Billed Rate	Special Contract		$ 0.1050	$ 0.1050	$ 0.1050			$ 0.1050
As Billed Revenue			$ 4,725	$ 4,725	$ 14,834			$ 24,284
Sep. - Dec.								
Billing Determinants		4	60,000	60,000	214,015			334,015
As Billed Rate	Special Contract		$ 0.4800	$ 0.2400	$ 0.1600			
As Billed Revenue			$ 28,800	$ 14,400	$ 34,242			$ 77,442
Jan. - Dec. (As Billed)								
Billing Determinants		**12**						**573,911**
As BilledRevenue								**$ 121,694**
Current Rates For Full-Year								
Billing Determinants		**12**	**113,616**	**105,000**	**355,295**			**573,911**
Rate	Special Contract		**$ 0.4800**	**$ 0.2400**	**$ 0.1600**			
Pro Forma Revenue			**$ 54,536**	**$ 25,200**	**$ 56,847**			**$ 136,583**
Revenue Adjustment								**$ 14,889**
Special Contract Customer								
Jan. - May								
Billing Determinants		7	1,400	5,600	27,805	6,002	-	40,807
As Billed Rate	Firm Transportation	$ 25.00	$ 2.7212	$ 2.5000	$ 2.1000	$ 1.5000	$ 1.1000	
As Billed Revenue		$ 175	$ 3,810	$ 14,000	$ 58,391	$ 9,003	$ -	$ 85,378
Jun. - Aug.								
Billing Determinants		5	5,000	19,306	2,648			26,954
As Billed Rate	Special Contract		2.1200	1.7000	1.2000	0.8000		
As Billed Revenue			$ 10,600	$ 32,820	$ 3,178			$ 46,598
Jan. - Dec. (As Billed)								
Billing Determinants		**12**						**67,761**
As BilledRevenue								**$ 131,976**
Current Rates For Full-Year								
Billing Determinants		**12**	**12,000**	**47,111**	**8,650**			**67,761**
Rate	Special Contract		**$ 2.1200**	**$ 1.7000**	**$ 1.2000**	**$ 0.8000**		
Pro Forma Revenue			**$ 25,440**	**$ 80,089**	**$ 10,380**			**$ 115,909**
Revenue Adjustment								**$ (16,067)**

Walker Exhibit 3

Verification of Test Period
Billing Determinants

Delta Natural Gas Company, Inc.
Calculations to Verify Test Period Billing Determinants

	(1) Actual Billed Revenue	(2) Elimination of GCR Revenues	(3) Current Rates for Full Year and Rate Switching	(4) Net Revenue	(5) Calculated Net Revenue	(6) Column 5 divided by Column 4
		(Walker Ex. 1)	(Walker Ex. 2)		(see page 2	
REVENUE						
General Service						
Residential	18,296,074	(9,431,520)	42,919	8,907,472	8,912,369	1.00055
Commercial - Small	4,845,419	(2,446,952)	11,370	2,409,837	2,408,856	0.99959
Lg. Commercial & Industrial						
Retail Sales	6,944,686	(4,208,243)	17,227	2,753,670		
Transportation	1,469,977		(95,851)	1,374,126		
Total Lg. Com. & Ind.	8,414,662	(4,208,243)	(78,623)	4,127,796	4,128,092	1.00007
Total General Service	31,556,155	(16,086,716)	(24,334)	15,445,105		
Interruptible Service						
Retail Sales	254,214	(173,321)		80,893		
Transportation	1,931,707			1,931,707		
Total Interruptible Service	2,185,922	(173,321)		2,012,600	2,011,509	0.99946
Special Contracts	511,666		104,167	615,833		
Off-System Transportation	451,990			451,990		
Total Sales and Transportation	34,705,733	(16,260,037)	79,833	18,525,528		
Miscellaneous Service Revenues	152,009			152,009		
Total Gas Operating Revenue	34,857,742	(16,260,037)	79,833	18,677,537		

	(1)	(2)	(3)	(4)
MCF				
General Service				
Residential	2,142,320			2,142,320
Commercial - Small	553,669			553,669
Lg. Commercial & Industrial				
Retail Sales	966,462			966,462
Transportation	756,019		(49,423)	706,596
Total Lg. Com. & Ind.	1,722,481		(49,423)	1,673,058
Total General Service	4,418,470		(49,423)	4,369,047
Interruptible Service				
Retail Sales	39,805			39,805
Transportation	1,391,510			1,391,510
Total Interruptible Service	1,431,315			1,431,315
Special Contracts	1,755,567		49,423	1,804,990
Off-System Transportation	1,404,111			1,404,111
Total Sales and Transportation	9,009,463		-	9,009,463

Delta Natural Gas Company, Inc.
Calculations to Verify Test Period Billing Determinants

	Billing Determinants	Present Rates	Calculated Revenue @ Present Rates
Residential - GS	*Cust.*	*per Cust.*	
Customer Charges	385,336	$ 8.00	$ 3,082,688
	Cust.	*per Mcf*	
first 200 Mcf /mo.	2,142,320	$ 2.7212	5,829,681
Calculated Billings at Base Rates			$ 8,912,369
Small Commercial - GS	*Cust.*	*per Cust.*	
Customer Charges	49,417	$ 18.36	$ 907,296
	Mcf	*per Mcf*	
first 200 Mcf /mo.	535,842	$ 2.7212	1,458,133
next 800 Mcf /mo.	14,975	$ 2.5000	37,438
next 4000 Mcf /mo.	2,852	$ 2.1000	5,989
Calculated Billings at Base Rates	553,669		$ 2,408,856
Large Commercial/Industrial - GS	*Cust.*	*per Cust.*	
Customer Charges	10,644	$ 25.00	$ 266,100
	Mcf	*per Mcf*	
first 200 Mcf /mo.	682,110	$ 2.7212	1,856,158
next 800 Mcf /mo.	373,671	$ 2.5000	934,178
next 4000 Mcf /mo.	340,474	$ 2.1000	714,995
next 5000 Mcf /mo.	130,445	$ 1.5000	195,668
over 10000 Mcf /mo.	146,358	$ 1.1000	160,994
Calculated Billings at Base Rates	1,673,058		$ 4,128,092
Interruptible - IS	*Cust.*	*per Cust.*	
Customer Charges	527	$ 200.00	$ 105,400
	Mcf	*per Mcf*	
first 1000 Mcf /mo.	412,084	$ 1.7000	700,543
next 4000 Mcf /mo.	780,789	$ 1.3000	1,015,026
next 5000 Mcf /mo.	178,298	$ 0.9000	160,468
over 10000 Mcf /mo.	60,144	$ 0.5000	30,072
Calculated Billings at Base Rates	1,431,315		$ 2,011,509

Walker Exhibit 4

Temperature Normalization Adjustment

Temperature Normalization Adjustment
For The 12 Months Ended December 31, 1998

Delta Natural Gas Company, Inc.
Case No. 99-176

	Cycle Billing Basis	Calendar Basis
Normal Heating Degree Days	4,693	4,701
Actual Heating Degree Days	3,875	3,974
Normal over (under) Actual	818	727

	(1) Total Mcf Sales	(2) Non-Temp Sensitive Mcf *(Aug-Sep)*	(3) Non-Temp Sensitive Mcf *(full year)*	(4) Non-Temp Sensitive Mcf per Day	(5) Temp Sensitive Mcf	(6) Actual Degree Days	(7) Mcf per Degree Day	(8) Degree Day Deficiency from Normal	(9) Temperature Normalization Adjustment (Mcf)	(10) Net Revenue per Mcf	(11) Net Revenue Adjustment
			col (2) x 6	*col (3) / 365*	*col (1) - col (3)*		*col (5) / col (6)*		*col (7) / col (8)*		*col (9) / col (10)*
Residential-Firm Sales	2,142,320	61,378	368,268	1,009	1,774,052	3,875	458	818	374,497	$ 2.7212	1,019,080
0.1 - 200 Mcf / mo.	*2,142,320*										
Small Commercial-Firm Sales	553,669	18,541	111,246	305	442,423	3,875	114	818	93,394		253,286
0.1 - 200 Mcf / mo.	*535,842*								*90,387*	$ *2.7212*	*245,961*
200.1 - 1000 Mcf / mo.	*14,975*								*2,526*	$ *2.5000*	*6,315*
1000.1 - 5000 Mcf / mo.	*2,852*								*481*	$ *2.1000*	*1,010*
Large Commercial-Firm Sales	819,253	50,376	302,256	828	516,997	3,875	133	818	109,136		285,316
0.1 - 200 Mcf / mo.	*572,388*								*76,250*	$ *2.7212*	*207,493*
200.1 - 1000 Mcf / mo.	*178,306*								*23,753*	$ *2.5000*	*59,382*
1000.1 - 5000 Mcf / mo.	*59,316*								*7,902*	$ *2.1000*	*16,594*
5000.1 - 10000 Mcf / mo.	*9,243*								*1,231*	$ *1.5000*	*1,847*
Industrial-Firm Sales	147,209	8,026	48,156	132	99,053	3,875	26	818	20,910		52,478
0.1 - 200 Mcf / mo.	*55,872*								*7,936*	$ *2.7212*	*21,596*
200.1 - 1000 Mcf / mo.	*64,027*								*9,094*	$ *2.5000*	*22,736*
1000.1 - 5000 Mcf / mo.	*27,310*								*3,879*	$ *2.1000*	*8,146*
Com./Indust. Firm Transport.	706,596	86,976	521,856	1,430	184,740	3,875	48	818	38,998		74,550
0.1 - 200 Mcf / mo.	*53,850*								*2,972*	$ *2.7212*	*8,088*
200.1 - 1000 Mcf / mo.	*131,338*								*7,249*	$ *2.5000*	*18,122*
1000.1 - 5000 Mcf / mo.	*253,848*								*14,010*	$ *2.1000*	*29,421*
5000.1 - 10000 Mcf / mo.	*121,202*								*6,689*	$ *1.5000*	*10,034*
10000.1 and over Mcf / mo.	*146,358*								*8,078*	$ *1.1000*	*8,885*
Com./Indust.-Interruptible Sales	39,805	2,345	14,070	39	25,735	3,875	7	818	5,433		8,747
0.1 - 1000 Mcf / mo.	*30,866*								*4,213*	$ *1.7000*	*7,161*
1000.1 - 5000 Mcf / mo.	*8,939*								*1,220*	$ *1.3000*	*1,586*
Total									**642,367**		**1,693,458**

Walker Exhibit 5

Year End Adjustment

Delta Natural Gas Company, Inc.
Case No. 99-176

Adjustment to Reflect Year-End Customers over Average
For The 12 Months Ended December 31, 1998

	(1) Average Number of Customers	(2) Customers Served at Dec. 31, 1998	(3) Year-End Over (Under) Average	(4) Customer Charge	(5) Additional Revenue (cust. Chg.)	(6) Weather Normalized Mcf	(7) Average Mcf per Customer	(8) Year-End Mcf Adjustment	(9) Rate per Mcf	(10) Additional Revenue (Mcf. Chgs)	(11) Year-End Revenue Adjustment
			col (2) - col (1)		col (4) x col (3)		col (6) x col (1)	col (7) x col (3)		col (9) x col (8)	col (5) + col (10)
REVENUE ADJUSTMENT											
Residential-Firm Sales	32,111	32,940	829	$ 8.00	$ 6,632	2,516,817	78	64,976		$ 176,812	$ 183,444
0.1 - 200 Mcf / mo.						2,516,817		64,976	$ 2.7212	176,812	
Small Commercial-Firm Sales	4,118	4,346	228	$ 18.36	4,186	647,063	157	35,826		97,160	101,346
0.1 - 200 Mcf / mo.						626,229		34,672	$ 2.7212	94,350	
200.1 - 1000 Mcf / mo.						17,501		969	$ 2.5000	2,422	
1000.1 - 5000 Mcf / mo.						3,333		185	$ 2.1000	388	
Large Commercial-Firm Sales	775	778	3	$ 25.00	75	928,389	1,198	3,594		9,395	9,470
0.1 - 200 Mcf / mo.						648,638		2,511	$ 2.7212	6,832.55	
200.1 - 1000 Mcf / mo.						202,059		782	$ 2.5000	1,955	
1000.1 - 5000 Mcf / mo.						67,218		260	$ 2.1000	546	
5000.1 - 10000 Mcf / mo.						10,474		41	$ 1.5000	61	
Industrial-Firm Sales	62	61	(1)	$ 25.00	(25)	168,119	2,712	(2,712)		(6,805)	(6,830)
0.1 - 200 Mcf / mo.						63,808		(1,029)	$ 2.7212	(2,801)	
200.1 - 1000 Mcf / mo.						73,121		(1,179)	$ 2.5000	(2,948)	
1000.1 - 5000 Mcf / mo.						31,189		(503)	$ 2.1000	(1,056)	
Com./Indust. Firm Transport.	50	50	-								
Com./Indust.-Interruptible Sales	7	7	-								
Com./Indust.-Interruptible Transport.	37	37	-								
Special Contract - Transport.	7/12	1	5/12			17,201		12,286		16,689	16,689
0.1 - 1000 Mcf / mo.						4,005		2,861	$ 1.7000	4,863	
1000.1 - 5000 Mcf / mo.						11,700		8,357	$ 1.3000	10,864	
5000.1 - 10000 Mcf / mo.						1,496		1,069	$ 0.9000	962	
Adjustment to Revenue					$ 10,868			113,970		$ 293,251	$ 304,119

EXPENSE ADJUSTMENT

Total Expenses per Books	22,875,094	
Less: Gas Supply Expenses	(14,147,177)	
Less: Wages and Salaries	(5,381,576)	
Net Expenses	$ 3,346,341	
Net Revenue as adjusted for the elimination of GSC revenues and a full-year at current rates	$18,677,538	
Operating Ratio	17.92%	17.92%
Adjustment to Expenses		$ 54,487

Year End Adjustment

Walker Exhibit 6

Summary of
Proposed Increase
By Rate Classes

Delta Natural Gas Company, Inc.
Case No. 99-176
Summary of Proposed Rate Increase by Rate Class
Based on Adjusted Sales and Transportation for the 12-Months Ended December 31, 1998

	Actual Billed Revenue	Elimination of GCR Revenues	Current Rates for Full Year and Rate Switching	Net Before Temperature and Year-End Adjustments	Temperature Normalization Adjustment	Year-End Customers	Adjusted Billings @ Base Rates	GCR @ Current Charges	Adjusted Billings @ Current Rates	Proposed Increase in Revenue	Percentage Increase
REVENUE											
General Service								$ 3.7706			
Residential	18,296,074	(9,431,520)	42,919	8,907,472	1,019,080	183,444	10,109,997	9,734,907	19,844,904	1,954,816	9.85%
Commercial - Small	4,845,419	(2,446,952)	11,370	2,409,837	253,286	101,346	2,764,469	2,574,901	5,339,370	418,957	7.85%
Lg. Commercial & Industrial											
Retail Sales	6,944,686	(4,208,243)	17,227	2,753,670	337,794	2,640	3,094,104	4,137,820	7,231,924		
Transportation	1,469,977		(95,851)	1,374,126	74,550		1,448,676		1,448,676		
Total Lg. Com. & Ind.	8,414,662	(4,208,243)	(78,623)	4,127,796	412,344	2,640	4,542,780	4,137,820	8,680,600	242,481	2.79%
Total General Service	31,556,155	(16,086,716)	(24,334)	15,445,105	1,684,711	287,430	17,417,246	16,447,628	33,864,874	2,616,254	7.73%
Interruptible Service											
Retail Sales	254,214	(173,321)		80,893	8,747		89,640	170,573	260,213		
Transportation	1,931,707			1,931,707			1,931,707		1,931,707		
Total Interruptible Service	2,185,922	(173,321)		2,012,600	8,747		2,021,347	170,573	2,191,920	(105,353)	-4.81%
Special Contracts	511,666		104,167	615,833		16,689	632,522		632,522		
Off-System Transportation	451,990			451,990			451,990		451,990		
Total Sales and Transportation	34,705,733	(16,260,037)	79,833	18,525,529	1,693,458	304,119	20,523,106	16,618,200	37,141,307	2,510,901	6.76%
Miscellaneous Service Revenues	152,009			152,009			152,009		152,009		
Total Gas Operating Revenue	34,857,742	(16,260,037)	79,833	18,677,538	1,693,458	304,119	20,675,115	16,618,200	37,293,316	2,510,901	6.73%
MCF											
General Service											
Residential	2,142,320			2,142,320	374,497	64,976	2,581,793				
Commercial - Small	553,669			553,669	93,394	35,826	682,889				
Lg. Commercial & Industrial											
Retail Sales	966,462			966,462	130,046	882	1,097,390				
Transportation	756,019		(49,423)	706,596	38,998		745,594				
Total Lg. Com. & Ind.	1,722,481		(49,423)	1,673,058	169,044	882	1,842,984				
Total General Service	4,418,470		(49,423)	4,369,047	636,935	101,684	5,107,666				
Interruptible Service											
Retail Sales	39,805			39,805	5,433		45,238				
Transportation	1,391,510			1,391,510			1,391,510				
Total Interruptible Service	1,431,315			1,431,315	5,433		1,436,748				
Special Contracts	1,755,567		49,423	1,804,990		12,286	1,817,276				
Off-System Transportation	1,404,111			1,404,111			1,404,111				
Total Sales and Transportation	9,009,463		-	9,009,463	642,367	113,970	9,765,801				

Walker Exhibit 7

Calculation of
Proposed Rate Increase
By Rate Class

Application of Present and Proposed Rates
To Test Period Billing Determinants

Delta Naural Gas Company, Inc.
Case No. 99-176

Calculated Increase In Revenue
under Proposed Revision of Rates
(Based on the adjusted sales for the
12-mos. ended December 31, 1998)

GENERAL SERVICE - RESIDENTIAL

	Billing Determinants	Present Rates	Calculated Revenue @ Present Rates	Proposed Rates	Calculated Revenue @ Proposed Rates
	Cust.	*per Cust.*		*per Cust.*	
Customer Charges	385,336	$ 8.00	$ 3,082,688	$ 8.00	$ 3,082,688
	Mcf	*per Mcf*		*per Mcf*	
first 200 Mcf /mo.	2,142,320	$ 2.7212	5,829,681	$ 3.4787	7,452,489
next 800 Mcf /mo.		$ 2.5000		$ 1.8500	
next 4000 Mcf /mo.		$ 2.1000		$ 1.4500	
next 5000 Mcf /mo.		$ 1.5000		$ 1.0500	
over 10000 Mcf /mo.		$ 1.1000		$ 0.8500	
Calculated Billings at Base Rates	2,142,320		$ 8,912,369		$ 10,535,177
Correction Factor - (Calculated /Actual)		*1.00055*		*1.00055*	
Total After Application of Correction Factor			$ 8,907,472		$ 10,529,388
Temperature Normalization Adjustment					
first 200 Mcf /mo.	374,497	$ 2.7212	1,019,080	$ 3.4787	1,302,762
next 800 Mcf /mo.					
next 4000 Mcf /mo.					
next 5000 Mcf /mo.					
over 10000 Mcf /mo.					
Year-End Customers Adjustment					
Customer Charges	829	$ 8.00	6,632	$ 8.00	6,632
first 200 Mcf /mo.	64,976	$ 2.7212	176,812	$ 3.4787	226,032
next 800 Mcf /mo.					
next 4000 Mcf /mo.					
next 5000 Mcf /mo.					
over 10000 Mcf /mo.					
	Mcf				
Total Adjusted Billings at Base Rates	2,581,793		$ 10,109,997		$ 12,064,813
GCR at Current Rates	2,581,793	$ 3.7706	9,734,907	$ 3.7706	9,734,907
Total Adjusted Billings			$ 19,844,904		$ 21,799,720
Proposed Increase In Revenue					$ 1,954,816
					9.85%

Delta Naural Gas Company, Inc.
Case No. 99-176

Calculated Increase In Revenue under Proposed Revision of Rates
(Based on the adjusted sales for the 12-mos. ended December 31, 1998)

GENERAL SERVICE - SMALL COMMERCIAL

	Billing Determinants	Present Rates	Calculated Revenue @ Present Rates	Proposed Rates	Calculated Revenue @ Proposed Rates
	Cust.	*per Cust.*		*per Cust.*	
Customer Charges	49,417	$ 18.36	$ 907,296	$ 17.00	$ 840,089
	Mcf	*per Mcf*		*per Mcf*	
first 200 Mcf /mo.	535,842	$ 2.7212	1,458,133	$ 3.4787	1,864,034
next 800 Mcf /mo.	14,975	$ 2.5000	37,438	$ 1.8500	27,704
next 4000 Mcf /mo.	2,852	$ 2.1000	5,989	$ 1.4500	4,135
next 5000 Mcf /mo.		$ 1.5000		$ 1.0500	
over 10000 Mcf /mo.		$ 1.1000		$ 0.8500	
Calculated Billings at Base Rates	553,669		$ 2,408,856		$ 2,735,962
Correction Factor - (Calculated /Actual)		*0.99959*		*0.99959*	
Total After Application of Correction Factor			$ 2,409,837		$ 2,737,076
Temperature Normalization Adjustment					
first 200 Mcf /mo.	90,387	$ 2.7212	245,961	$ 3.4787	314,429
next 800 Mcf /mo.	2,526	$ 2.5000	6,315	$ 1.8500	4,673
next 4000 Mcf /mo.	481	$ 2.1000	1,010	$ 1.4500	698
next 5000 Mcf /mo.					
over 10000 Mcf /mo.					
Year-End Customers Adjustment					
Customer Charges	228	$ 18.36	4,186	$ 17.00	3,876
first 200 Mcf /mo.	34,672	$ 2.7212	94,350	$ 3.4787	120,614
next 800 Mcf /mo.	969	$ 2.5000	2,422	$ 1.8500	1,793
next 4000 Mcf /mo.	185	$ 2.1000	388	$ 1.4500	268
next 5000 Mcf /mo.					
over 10000 Mcf /mo.					
Total Adjusted Billings at Base Rates	682,889		$ 2,764,469		$ 3,183,426
GCR at Current Rates	682,889	$ 3.7706	2,574,901	$ 3.7706	2,574,901
Total Adjusted Billings			$ 5,339,370		$ 5,758,327
Proposed Increase In Revenue					$ 418,957
					7.85%

Delta Naural Gas Company, Inc.
Case No. 99-176

Calculated Increase In Revenue under Proposed Revision of Rates
(Based on the adjusted sales for the 12-mos. ended December 31, 1998)

	GENERAL SERVICE - LARGE COMMERCIAL & INDUSTRIAL				
	Billing Determinants	Present Rates	Calculated Revenue @ Present Rates	Proposed Rates	Calculated Revenue @ Proposed Rates
	Cust.	*per Cust.*		*per Cust.*	
Customer Charges	10,644	$ 25.00	$ 266,100	$ 50.00	$ 532,200
	Mcf	*per Mcf*		*per Mcf*	
first 200 Mcf /mo.	682,110	$ 2.7212	1,856,158	$ 3.4787	2,372,856
next 800 Mcf /mo.	373,671	$ 2.5000	934,178	$ 1.8500	691,291
next 4000 Mcf /mo.	340,474	$ 2.1000	714,995	$ 1.4500	493,687
next 5000 Mcf /mo.	130,445	$ 1.5000	195,668	$ 1.0500	136,967
over 10000 Mcf /mo.	146,358	$ 1.1000	160,994	$ 0.8500	124,404
Calculated Billings at Base Rates	1,673,058		$ 4,128,092		$ 4,351,406
Correction Factor - (Calculated /Actual)		*1.00007*		*1.00007*	
Total After Application of Correction Factor			$ 4,127,796		$ 4,351,094
Temperature Normalization Adjustment					
first 200 Mcf /mo.	87,159	$ 2.7212	237,176	$ 3.4787	303,199
next 800 Mcf /mo.	40,096	$ 2.5000	100,240	$ 1.8500	74,178
next 4000 Mcf /mo.	25,791	$ 2.1000	54,161	$ 1.4500	37,397
next 5000 Mcf /mo.	7,921	$ 1.5000	11,881	$ 1.0500	8,317
over 10000 Mcf /mo.	8,078	$ 1.1000	8,885	$ 0.8500	6,866
Year-End Customers Adjustment					
Customer Charges	2	$ 25.00	50	$ 50.00	100
first 200 Mcf /mo.	1,482	$ 2.7212	4,032	$ 3.4787	5,154
next 800 Mcf /mo.	(397)	$ 2.5000	(993)	$ 1.8500	(735)
next 4000 Mcf /mo.	(243)	$ 2.1000	(510)	$ 1.4500	(352)
next 5000 Mcf /mo.	41	$ 1.5000	61	$ 1.0500	43
over 10000 Mcf /mo.					
Total Adjusted Billings at Base Rates	1,842,984		$ 4,542,780		$ 4,785,260
GCR at Current Rates	1,097,390	$ 3.7706	4,137,819	$ 3.7706	4,137,819
Total Adjusted Billings			$ 8,680,598		$ 8,923,079
Proposed Increase In Revenue					$ 242,481
					2.79%

Delta Naural Gas Company, Inc.
Case No. 99-176

Calculated Increase In Revenue under Proposed Revision of Rates
(Based on the adjusted sales for the 12-mos. ended December 31, 1998)

INTERRUPTIBLE SERVICE - COMMERCIAL & INDUSTRIAL

	Billing Determinants	Present Rates	Calculated Revenue @ Present Rates	Proposed Rates	Calculated Revenue @ Proposed Rates
	Cust.	*per Cust.*		*per Cust.*	
Customer Charges	527	$ 200.00	$ 105,400	$ 250.00	$ 131,750
	Mcf	*per Mcf*		*per Mcf*	
first 1000 Mcf /mo.	412,084	$ 1.7000	700,543	$ 1.6000	659,334
next 4000 Mcf /mo.	780,789	$ 1.3000	1,015,026	$ 1.2000	936,947
next 5000 Mcf /mo.	178,298	$ 0.9000	160,468	$ 0.8000	142,638
over 10000 Mcf /mo.	60,144	$ 0.5000	30,072	$ 0.6000	36,086
Calculated Billings at Base Rates	1,431,315		$ 2,011,509		$ 1,906,756
Correction Factor - (Calculated /Actual)		*0.99946*		*0.99946*	
Total After Application of Correction Factor			$ 2,012,600		$ 1,907,791
Temperature Normalization Adjustment					
first 1000 Mcf /mo.	4,213	$ 1.7000	7,161	$ 1.6000	6,740
next 4000 Mcf /mo.	1,220	$ 1.3000	1,586	$ 1.2000	1,464
	Mcf				
Total Adjusted Billings at Base Rates	1,436,748		$ 2,021,347		$ 1,915,995
GCR at Current Rates	45,238	$ 3.7706	170,573	$ 3.7706	170,573
Total Adjusted Billings			2,191,920		$ 2,086,568
Proposed Increase In Revenue					$ (105,353)
					-4.81%

Walker Exhibit 8

Analysis of
Large Commercial/Industrial
General Service Class

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

Description	Large Commercial and Industrial (GS)	Large Commercial and Industrial GS (<6000 /yr)	Large Commercial and Industrial GS (>6000 /yr)
Net Operating Income -- Adjusted Test Period			
Operating Revenues		*See Page 11*	
Sales and Transportation	4,542,780	*2,616,663*	*1,926,117*
Miscellaneous Service Revenue	33,647	19,381	14,266
Total Operating Revenues	$ 4,576,427	$ 2,636,044	$ 1,940,383
Expenses			
Operation and Maintenance Expenses	$ 1,564,971	$ 1,088,868	$ 476,103
Depreciation and Amortization Expenses	669,422	456,403	213,019
Other Taxes	230,034	156,318	73,717
Total Operating Expenses	$ 2,464,427	$ 1,701,588	$ 762,838
Expense Adjustments			
Year-End Adjustment	473	473	-
Eliminate Canada Mountain O&M Expenses	(40,987)	(21,354)	(19,634)
Eliminate Canada Mountain Depr Expenses	(6,897)	(3,593)	(3,304)
OT Expenses	(7,182)	(4,880)	(2,302)
Payroll Expenses	27,268	16,665	10,602
Payroll Other Taxes	-	-	-
Rate Case Expense	6,419	3,697	2,722
Eliminate Test-Year Expenses	(33,489)	(20,468)	(13,021)
Customer Deposits	8,376	5,119	3,257
Medical Adjustment	18,201	11,124	7,077
Total Expense Adjustments	$ (27,819)	$ (13,217)	$ (14,602)
Net Income Before Income Taxes	$ 2,139,819	$ 947,672	$ 1,192,147
Income Taxes	606,716	214,541	392,174
Net Operating Income	$ 1,533,103	$ 733,131	$ 799,973
Net Cost Rate Base	$ 13,416,984	$ 9,452,529	$ 3,964,454
Rate of Return -- Actual	11.43%	7.76%	20.18%
Net Operating Income -- Adjusted For Increase			
Test Year Operating Income	$ 1,533,103	$ 733,131	$ 799,973
		See Page 11	
Proposed Increase	$ 242,481	*660,668*	*(418,188)*
Income Taxes (@39.445)	95,647	260,600	(164,954)
Net Operating Income Adjusted for Increase	1,679,938	1,133,198	546,739
Net Cost Rate Base (Same as Actual)	$ 13,416,984	$ 9,452,529	$ 3,964,454
Rate of Return -- Proposed	12.52%	11.99%	13.79%

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

Description		Large Commercial and Industrial (GS)		Large Commercial and Industrial GS (<6000 /yr)		Large Commercial and Industrial GS (>6000 /yr)
Plant in Service						
Gas Supply						
Demand	$	-	$	-	$	-
Commodity		-		-		-
Total Gas Supply	$	-	$	-	$	-
Storage						
Demand	$	4,119,106	$	2,146,002	$	1,973,104
Commodity		-		-		-
Total Storage	$	4,119,106	$	2,146,002	$	1,973,104
Transmission						
Demand	$	8,236,665	$	5,034,038	$	3,202,627
Commodity		-		-		-
Total Transmission	$	8,236,665	$	5,034,038	$	3,202,627
Distribution Other						
Commodity	$	-	$	-	$	-
Distribution Structures & Equipment						
Demand	$	518,248	$	316,740	$	201,508
Distribution Mains						
Demand	$	5,949,969	$	3,636,468	$	2,313,501
Customer		714,642		689,722		24,920
Total Distribution Mains	$	6,664,611	$	4,326,190	$	2,338,421
Services						
Customer	$	251,765	$	242,986	$	8,779
Meters						
Customer	$	4,130,683	$	3,986,644	$	144,040
Customer Accounts						
Customer	$	-	$	-	$	-
Other Services						
Customer	$	-	$	-	$	-
Total	$	23,921,079	$	16,052,601	$	7,868,479

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

Description		Large Commercial and Industrial (GS)		Large Commercial and Industrial GS (<6000 /yr)		Large Commercial and Industrial GS (>6000 /yr)
Rate Base						
Gas Supply						
Demand	$	-	$	-	$	-
Commodity		-		-		-
Total Gas Supply	$	-	$	-	$	-
Storage						
Demand	$	270,883	$	141,127	$	129,757
Commodity		4,360		2,272		2,089
Total Storage	$	275,244	$	143,398	$	131,845
Transmission						
Demand	$	4,996,833	$	3,053,936	$	1,942,897
Commodity		-		-		-
Total Transmission	$	4,996,833	$	3,053,936	$	1,942,897
Distribution Other						
Commodity	$	-	$	-	$	-
Distribution Structures & Equipment						
Demand	$	365,589	$	223,439	$	142,151
Distribution Mains						
Demand	$	4,170,846	$	2,549,114	$	1,621,732
Customer		500,954		483,486		17,469
Total Distribution Mains	$	4,671,800	$	3,032,599	$	1,639,201
Services						
Customer	$	177,501	$	171,312	$	6,190
Meters						
Customer	$	2,916,096	$	2,814,409	$	101,686
Customer Accounts						
Customer	$	13,921	$	13,436	$	485
Other Services						
Customer	$	-	$	-	$	-
Total	$	13,416,984	$	9,452,529	$	3,964,454

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

Description	Large Commercial and Industrial (GS)	Large Commercial and Industrial GS (<6000 /yr)	Large Commercial and Industrial GS (>6000 /yr)
Operation and Maintenance Expenses			
Gas Supply			
Demand	$ -	$ -	$ -
Commodity	-	-	-
Total Gas Supply	$ -	$ -	$ -
Storage			
Demand	$ 171,309	$ 89,250	$ 82,059
Commodity	34,683	18,069	16,614
Total Storage	$ 205,992	$ 107,319	$ 98,673
Transmission			
Demand	$ 564,870	$ 345,234	$ 219,636
Commodity	-	-	-
Total Transmission	$ 564,870	$ 345,234	$ 219,636
Distribution Other			
Commodity	$ -	$ -	$ -
Distribution Structures & Equipment			
Demand	$ 30,610	$ 18,708	$ 11,902
Distribution Mains			
Demand	$ 336,959	$ 205,941	$ 131,018
Customer	40,472	39,060	1,411
Total Distribution Mains	$ 377,431	$ 245,001	$ 132,430
Services			
Customer	$ 14,055	$ 13,565	$ 490
Meters			
Customer	$ 261,279	$ 252,168	$ 9,111
Customer Accounts			
Customer	$ 110,734	$ 106,872	$ 3,861
Other Services			
Customer	$ -	$ -	$ -
Total	$ 1,564,971	$ 1,088,868	$ 476,103

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

Description		Large Commercial and Industrial (GS)		Large Commercial and Industrial GS (<6000 /yr)		Large Commercial and Industrial GS (>6000 /yr)
Payroll Expenses						
Gas Supply						
Demand	$	-	$	-	$	-
Commodity		-		-		-
Total Gas Supply	$	-	$	-	$	-
Storage						
Demand	$	121,894	$	63,505	$	58,389
Commodity		14,879		7,752		7,127
Total Storage	$	136,772	$	71,257	$	65,516
Transmission						
Demand	$	302,931	$	185,144	$	117,787
Commodity		-		-		-
Total Transmission	$	302,931	$	185,144	$	117,787
Distribution Other						
Commodity	$	-	$	-	$	-
Distribution Structures & Equipment						
Demand	$	21,459	$	13,115	$	8,344
Distribution Mains						
Demand	$	246,367	$	150,573	$	95,794
Customer		29,591		28,559		1,032
Total Distribution Mains	$	275,958	$	179,132	$	96,826
Services						
Customer	$	10,425	$	10,061	$	364
Meters						
Customer	$	177,846	$	171,645	$	6,202
Customer Accounts						
Customer	$	42,393	$	40,915	$	1,478
Other Services						
Customer	$	-	$	-	$	-
Total	$	967,785	$	671,268	$	296,516

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

Description		Large Commercial and Industrial (GS)		Large Commercial and Industrial GS (<6000 /yr)		Large Commercial and Industrial GS (>6000 /yr)
Depreciation Expenses						
Gas Supply						
Demand	$	-	$	-	$	-
Commodity		-		-		-
Total Gas Supply	$	-	$	-	$	-
Storage						
Demand	$	32,247	$	16,800	$	15,447
Commodity		-		-		-
Total Storage	$	32,247	$	16,800	$	15,447
Transmission						
Demand	$	315,514	$	192,834	$	122,680
Commodity		-		-		-
Total Transmission	$	315,514	$	192,834	$	122,680
Distribution Other						
Commodity	$	-	$	-	$	-
Distribution Structures & Equipment						
Demand	$	14,414	$	8,809	$	5,604
Distribution Mains						
Demand	$	165,484	$	101,140	$	64,344
Customer		19,876		19,183		693
Total Distribution Mains	$	185,360	$	120,323	$	65,038
Services						
Customer	$	7,002	$	6,758	$	244
Meters						
Customer	$	114,885	$	110,879	$	4,006
Customer Accounts						
Customer	$	-	$	-	$	-
Other Services						
Customer	$	-	$	-	$	-
Total	$	669,422	$	456,403	$	213,019

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

Description	Large Commercial and Industrial (GS)	Large Commercial and Industrial GS (<6000 /yr)	Large Commercial and Industrial GS (>6000 /yr)
Other Taxes			
Gas Supply			
Demand	$ -	$ -	$ -
Commodity	-	-	-
Total Gas Supply	$ -	$ -	$ -
Storage			
Demand	$ 35,612	$ 18,553	$ 17,059
Commodity	1,329	693	637
Total Storage	$ 36,942	$ 19,246	$ 17,695
Transmission			
Demand	$ 76,499	$ 46,754	$ 29,745
Commodity	-	-	-
Total Transmission	$ 76,499	$ 46,754	$ 29,745
Distribution Other			
Commodity	$ -	$ -	$ -
Distribution Structures & Equipment			
Demand	$ 5,028	$ 3,073	$ 1,955
Distribution Mains			
Demand	$ 57,722	$ 35,278	$ 22,444
Customer	6,933	6,691	242
Total Distribution Mains	$ 64,655	$ 41,969	$ 22,685
Services			
Customer	$ 2,442	$ 2,357	$ 85
Meters			
Customer	$ 40,681	$ 39,262	$ 1,419
Customer Accounts			
Customer	$ 3,788	$ 3,656	$ 132
Other Services			
Customer	$ -	$ -	$ -
Total	$ 230,034	$ 156,318	$ 73,717

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

Description	Large Commercial and Industrial (GS)	Large Commercial and Industrial GS (<6000 /yr)	Large Commercial and Industrial GS (>6000 /yr)
Interest Expenses			
Gas Supply			
Demand	$ -	$ -	$ -
Commodity	-	-	-
Total Gas Supply	$ -	$ -	$ -
Storage			
Demand	$ 103,608	$ 53,979	$ 49,630
Commodity	-	-	-
Total Storage	$ 103,608	$ 53,979	$ 49,630
Transmission			
Demand	$ 207,177	$ 126,621	$ 80,556
Commodity	-	-	-
Total Transmission	$ 207,177	$ 126,621	$ 80,556
Distribution Other			
Commodity	$ -	$ -	$ -
Distribution Structures & Equipment			
Demand	$ 13,036	$ 7,967	$ 5,069
Distribution Mains			
Demand	$ 149,660	$ 91,468	$ 58,192
Customer	17,975	17,349	627
Total Distribution Mains	$ 167,635	$ 108,817	$ 58,818
Services			
Customer	$ 6,333	$ 6,112	$ 221
Meters			
Customer	$ 103,899	$ 100,276	$ 3,623
Customer Accounts			
Customer	$ -	$ -	$ -
Other Services			
Customer	$ -	$ -	$ -
Total	$ 601,688	$ 403,772	$ 197,916

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

Description	Large Commercial and Industrial (GS)	Large Commercial and Industrial GS (<6000 /yr)	Large Commercial and Industrial GS (>6000 /yr)
Allocation Factors			
		See Pages 10 through 12	
Commodity			
Gas Supply	1,842,984	883,010	959,974
Storage	997,769	519,825	477,944
Transmission	1,842,984	883,010	959,974
Distribution	1,842,984	883,010	959,974
Demand			
Gas Supply	15,822	9,670	6,152
Storage (November-March)	997,769	519,825	477,944
Transmission	15,822	9,670	6,152
Distribution Structures	15,822	9,670	6,152
Distribution Mains	15,822	9,670	6,152
Customer			
Distribution Mains	889	858	31
Services	153,584	148,228	5,356
Meters	1,261,491	1,217,502	43,989
Customer Count	889	858	31
Customer Accounts	3,556	3,432	124
Other Services	889	858	31
Taxable Income			
Net Income Before Income Tax	$ 2,139,819	$ 947,672	$ 1,192,147
Less: Interest Expense	$ 601,688	$ 403,772	$ 197,916
Taxable Income	$ 1,538,131	$ 543,900	$ 994,231
Meters Allocation Factor			
Number of Customers	889	858	31
Average Cost Per Meter	1,419	1,419	1,419
Meter Cost	1,261,491	1,217,502	43,989
Services Allocation Factor			
Number of Customers	889	858	31
Average Cost Per Service	172.76	172.76	172.76
Services Cost	153,584	148,228	5,356
Year-End Adjustment	2,640	2,640	

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

for the Calendar Year 1998

Rate	Account	199801	199802	199803	199804	199805	199806	199807	199808	199809	199810	199811	199812	Total
02C	20820	1,493	1,249	933	785	261	33	39	28	58	125	400	944	6,348
02C	7500	1,237	1,123	833	560	301	374	357	340	241	402	350	495	6,612
02C	7401	1,481	1,285	1,161	681	285	15	18	14	12	24	681	986	6,642
02C	18803	980	985	758	692	465	323	530	346	278	473	387	642	6,859
02C	19733	1,369	1,097	1,193	1,041	611	286	330	365	354	658	539	737	8,580
02C	42912	1,715	1,124	1,037	1,097	801	395	675	293	88	281	508	629	8,642
02C	14269	1,445	1,240	1,185	1,395	866	758	1,022	706	600	808	759	337	11,121
02C	74765	-	1,475	2,240	2,426	1,023	512	2,178	1,641	1,106	246	-	-	12,846
02C	12568	5,139	2,402	1,775	1,557	1,668	1,633	1,415	918	1,234	1,353	-	-	19,096
02C	42742	8,579	6,989	5,605	7,932	4,719	4,528	4,024	3,581	2,780	8,363	-	-	57,099
02I	32651	334	375	337	653	760	667	915	591	594	862	597	572	7,257
02I	18	1,526	1,501	1,705	1,481	837	436	152	131	136	162	562	1,052	9,682
02I	40634	1,657	1,500	1,092	1,354	619	281	569	252	350	448	764	851	9,736
02I	9566	2,676	2,696	1,748	1,754	555	132	66	66	64	195	429	1,564	11,943
02I	2678	933	1,032	1,229	1,358	1,355	1,056	1,246	260	173	2,014	1,678	1,390	13,725
02I	65230	2,766	2,572	1,092	1,010	619	170	267	437	986	2,189	1,374	2,478	15,960
02I	25414	2,911	2,372	2,101	1,818	1,159	1,128	1,394	1,317	1,046	1,350	1,325	1,464	19,382
80	23	2,533	1,545	1,309	64	-	-	-	-	-	10	309	878	6,648
94	953	514	754	821	834	442	617	592	548	714	943	880	1,115	8,774
93	952	1,072	711	883	772	727	666	695	726	689	720	844	928	9,432
68	42954	962	942	1,226	960	763	790	444	754	662	809	951	959	10,221
83	20750	1,329	1,092	1,187	996	889	156	304	821	551	738	1,022	1,159	10,244
10	42742	-	-	-	-	-	-	-	-	-	-	6,011	6,151	12,162
84	19	2,108	2,348	1,814	927	413	305	245	247	306	956	1,315	1,875	12,859
46	27755	2,821	3,736	3,241	1,356	16	-	0	-	16	1,008	2,651	3,522	18,366
53	19271	1,766	1,802	2,120	1,995	1,717	1,844	1,924	1,822	2,036	2,411	2,100	2,325	23,862
54	34322	3,963	2,949	2,891	1,708	1,181	1,242	1,271	1,478	1,900	2,226	2,562	3,197	26,567
81	6582	5,028	4,887	4,169	2,906	1,830	1,545	1,065	1,021	1,091	1,961	3,289	4,396	33,186
10	7080	4,249	3,716	3,936	2,531	2,298	2,177	1,745	2,156	2,247	2,406	3,118	2,874	33,453
61	32221	1,093	4,814	3,101	2,651	1,847	2,085	2,304	2,645	2,568	3,669	4,206	3,795	34,777
86	6588	8,640	9,178	8,237	5,990	3,160	2,839	1,056	3,288	2,493	4,432	6,933	8,625	64,870
76	21	8,943	8,772	7,781	8,050	7,098	7,274	6,507	8,079	8,907	11,102	10,653	12,692	105,858
50	38175	26,246	22,917	26,334	22,668	18,336	19,417	18,579	18,337	19,674	21,044	23,692	24,668	261,911
	Total >6000	107,505	101,177	95,076	82,000	57,618	53,684	51,927	53,206	53,954	74,385	80,886	93,300	904,717
	Total <6000	153,397	125,772	105,584	91,583	40,695	24,401	24,826	18,138	20,081	28,792	54,156	80,916	768,341
	Total	260,902	226,949	200,660	173,583	98,313	78,085	76,753	71,344	74,034	103,177	135,042	174,216	1,673,058

Delta Natural Gas Company, Inc.

Case No. 99-176

Analysis of Large Commercial/Industrial General Service

for the Calendar Yea

Rate	Account	Customers	First 200 Block	Next 800 Block	Next 4000 Block	Next 5000 Block	Over 10000 Block	Total Mcf		Annual Revenue Current Rates	Annual Revenue Proposed Rates
02C	20820	12	1683.5	3922.9	741.6	0.0	0.0	6348.0	ok		
02C	7500	12	2400.0	3851.7	359.9	0.0	0.0	6611.6	ok		
02C	7401	12	1482.9	4232.5	926.7	0.0	0.0	6642.1	ok		
02C	18803	12	2400.0	4458.9	0.0	0.0	0.0	6858.9	ok		
02C	19733	12	2400.0	5480.7	699.4	0.0	0.0	8580.1	ok		
02C	42912	12	2288.0	5381.4	972.7	0.0	0.0	8642.1	ok		
02C	14269	12	2400.0	7433.6	1287.6	0.0	0.0	11121.2	ok		
02C	74765	9	1800.0	5957.5	5088.0	0.0	0.0	12845.5	ok		
02C	12568	10	2000.0	7918.4	9037.8	139.3	0.0	19095.5	ok		
02C	42742	10	2000.0	8000.0	34632.0	12467.3	0.0	57099.3	ok		
02I	32651	12	2400.0	4856.7	0.0	0.0	0.0	7256.7	ok		
02I	18	12	2180.7	5236.1	2265.1	0.0	0.0	9681.9	ok		
02I	40634	12	2400.0	5732.8	1602.8	0.0	0.0	9735.6	ok		
02I	9566	12	1922.4	4583.0	5437.4	0.0	0.0	11942.8	ok		
02I	2678	12	2373.4	7992.5	3359.5	0.0	0.0	13725.4	ok		
02I	65230	12	2369.9	7109.2	6480.9	0.0	0.0	15960.0	ok		
02I	25414	12	2400.0	9600.0	7382.3	0.0	0.0	19382.3	ok		
80	23	7	1073.5	3186.8	2387.5	0.0	0.0	6647.8	ok		
94	953	12	2400.0	6258.8	115.1	0.0	0.0	8773.9	ok		
93	952	12	2400.0	6960.5	71.7	0.0	0.0	9432.2	ok		
68	42954	12	2400.0	7595.3	225.7	0.0	0.0	10221.0	ok		
83	20750	12	2356.0	7099.6	788.0	0.0	0.0	10243.6	ok		
10	42742	2	400.0	1600.0	8000.0	2162.0	0.0	12162.0	ok		
84	19	12	2400.0	5999.0	4460.2	0.0	0.0	12859.2	ok		
46	27755	10	1431.9	5600.0	11334.2	0.0	0.0	18366.1	ok		
53	19271	12	2400.0	9600.0	11861.5	0.0	0.0	23861.5	ok		
54	34322	12	2400.0	9600.0	14566.7	0.0	0.0	26566.7	ok		
81	6582	12	2400.0	9600.0	21158.0	27.6	0.0	33185.6	ok		
10	7080	12	2400.0	9600.0	21452.9	0.0	0.0	33452.9	ok		
61	32221	12	2400.0	9600.0	22776.6	0.0	0.0	34776.6	ok		
86	6588	12	2400.0	9600.0	35268.1	17601.8	0.0	64869.9	ok		
76	21	12	2400.0	9600.0	48000.0	41410.9	4446.9	105857.8	ok		
50	38175	12	2400.0	9600.0	48000.0	60000.0	141911.1	261911.1	ok		
Total >6000		372	70,962	222,848	330,740	133,809	146,358	904,717	ok	1,815,783	1,422,201
				As Adjusted for Temp. & Year-End Cust. -				959,974		1,926,117	1,507,929
Total <6000		10,272						768,341	ok	2,312,013	2,928,893
				As Adjusted for Temp. & Year-End Cust. -				883,010		2,616,663	3,277,331
Total		10,644						1,673,058	ok	4,127,796	4,351,094
				As Adjusted for Temp. & Year-End Cust. -				1,842,984		4,542,780	4,785,260

Delta Natural Gas Company, Inc.
Case No. 99-176
Analysis of Large Commercial/Industrial General Service

for the Calendar Yea

Rate	Account
02C	20820
02C	7500
02C	7401
02C	18803
02C	19733
02C	42912
02C	14269
02C	74765
02C	12568
02C	42742
02I	32651
02I	18
02I	40634
02I	9566
02I	2678
02I	65230
02I	25414
80	23
94	953
93	952
68	42954
83	20750
10	42742
84	19
46	27755
53	19271
54	34322
81	6582
10	7080
61	32221
86	6588
76	21
50	38175

	Customers	Mcf	Revenue	Load Factor	Non-Temp Sensitive Annual	Non-Temp Sensitive per Day	Temp. Sensitive: Sensitive Load	Temp. Sensitive: Degree Days	Temp. Sensitive: per Deg Day	Temp. Sensitive: Temp Adjmt	Year End	Peak Day Load
Total >6000	372	904,717	1,815,783	0.40	642955	1762	261,762	3875	68	55257		6152
Total <6000	10,272	768,341	2,312,013	0.22	229313	628	539,028	3875	139	113787	882	9670
Total	10,644	1,673,058	4,127,796	0.29	872268	2390	800,790	3875	207	169044	882	15822

Notes

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN ADJUSTMENT	)	
OF RATES OF DELTA NATURAL	)	CASE NO. 99-176
GAS COMPANY, INC.	)	

DIRECT TESTIMONY OF

MARTIN J. BLAKE

AFFIDAVIT

The affiant, Martin J. Blake, being duly sworn, deposes and states that the prepared testimony attached hereto and made a part hereof, constitutes the prepared Direct Testimony of this affiant in Case No. 99-176, in the matter of: Adjustment of Gas Service Rates of Delta Natural Gas Company, Inc. and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared Direct Testimony.

Affiant further states that he will be present and available for cross-examination and for such additional direct examination as may be appropriate at any hearing in Case No. 99-176 scheduled by the Commission, at which time affiant will further reaffirm the attached testimony as his Direct Testimony in such case.

Martin J. Blake

Martin J. Blake

STATE OF KENTUCKY)
)
COUNTY OF JEFFERSON)

Subscribed and sworn to before me by Martin J. Blake, this the 25th day of June, 1999.

My Commission Expires: Elizabeth Andriot
Notary Public, State at Large, KY
My Commission Expires July 14, 2002

Elizabeth Andriot

Notary Public, State at Large, Kentucky

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF

GENERAL ADJUSTMENT OF GAS	)	
SERVICE RATES OF DELTA	)	**CASE NO. 99-176**
NATURAL GAS COMPANY, INC.	)	

DIRECT TESTIMONY OF DR. MARTIN J. BLAKE

Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A: My name is Martin J. Blake. My business address is 6711 Fallen Leaf, Louisville, Kentucky 40241.

Q: BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A: I am a Member and Principal of The Prime Group, LLC. The Prime Group provides consulting services in the areas of marketing, market research, rate and regulatory support, training, and strategic planning for energy industry clients. The Prime Group is focused on helping clients to prepare for the transition to a more competitive utility industry environment.

Professional Qualifications & Experience

Q: PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A: I received my Ph.D. in Agricultural Economics in 1976 from the University of Missouri, Columbia. My doctoral work centered on the areas of marketing and econometrics. I also hold a Master of Arts in Economics from the University of Missouri, Columbia, which I received in 1972. In addition, I received a Bachelor of Arts degree in Economics from Illinois Benedictine College in 1970.

Q: IN WHAT AREAS DOES YOUR PRACTICE CONCENTRATE?

A: As a member of The Prime Group, I have prepared and filed Order No. 888 and Order No. 889 compliance filings at the Federal Energy Regulatory Commission ("FERC") for a number of electric utilities as well as Order No. 888 and Order No. 889 waiver requests for other utilities. I have prepared market power analyses in support of market-based rate filings at FERC for utilities and their marketing affiliates, as well as assisting other utilities with their market-based rate filings. I have also assisted several utilities in addressing both FERC and state affiliate transactions concerns and have provided training regarding standards of conduct. I have assisted utilities with developing strategic marketing plans and implementing these plans. I have provided utility clients with assistance regarding regulatory policy, strategy and liaison; state and federal regulatory filing development, testimony and support; cost of service development and support; the development of innovative rates to achieve strategic objectives; the unbundling of rates and the development of menus of rate alternatives for use with customers; performance-based rate and incentive rate development; and energy marketing and brokering capability development. I have made presentations to train account executives in sales and customer negotiation, as well as presentations in ratemaking and utility finance seminars and workshops regarding basic utility marketing. I have provided marketing, market research and marketing support services for utility clients and have assisted them in assessing their marketing capabilities and processes.

Q: PLEASE BRIEFLY SUMMARIZE YOUR AREAS OF PROFESSIONAL EXPERIENCE PRIOR TO JOINING THE PRIME GROUP.

A: I have professional experience as an economist and professor of economics, as a utility regulator, and as a utility manager and executive.

Q: PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AS AN ECONOMIST.

A: From January 1977 to December 1986, I was employed first as an Assistant Professor, then as an Associate Professor, and finally as a Professor of Agricultural Economics at New Mexico State University in Las Cruces, New Mexico ("NMSU"). I was the head of the undergraduate program and taught economics, agricultural economics and econometrics. While at NMSU, I also worked as a consultant for various clients, providing price forecasting, load forecasting, and marketing services. Since 1992, I have taught mathematical economics and econometrics as an Adjunct Professor in the Economics Department at the University of Louisville. Prior to my joining the faculty at NMSU, I served in the U. S. Army as an instructor of economics, statistics, and accounting at the U. S. Army Institute of Administration at Fort Benjamin Harrison, Indianapolis, Indiana.

I also have a variety of experience with the application of economics to utility public policy issues. In addition to my experience as a utility regulator and executive, which I describe below, I have taught ratemaking for utilities at the NARUC Annual Regulatory Studies Program at Michigan State University since 1993. From May 1983 to August 1983, while on a sabbatical leave from NMSU, I served as a Policy Analyst for the Assistant Secretary for Land and Water at the U. S. Department of Interior.

Q: PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AS A UTILITY REGULATOR.

A: From January 1987 to November 1990, I served as a Commissioner and as the Chairman of the New Mexico Public Service Commission. As a Commissioner, my duties included making policy and adjudicatory decisions regarding rates, terms of service, financing, certificates of public convenience and necessity, and complaints for electric, gas, water, and sewer utilities. As Chairman, I supervised a staff of thirty-two professionals and sixteen support staff. During my tenure on the New Mexico Commission, I also served as Chairman of the Western Conference of Public Service Commissioners Electric Committee and as Chairman of the Committee on Regional Electric Power Cooperation, a group composed of state public service commissioners and representatives from the state energy offices of the thirteen western states.

As a Commissioner, I interpreted legislation, reviewed prior Commission cases to determine the precedents that they provided, drafted rules and regulations, wrote Orders, conducted hearings, ruled on motions, and served as an arbitrator in alternative dispute resolution proceedings. Although I do not have a law degree, I performed adjudicatory and regulatory functions for the four years that I served on the Commission.

Q: PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AS A UTILITY MANAGER.

A: From December, 1990 to June 1996, I was employed by Louisville Gas and Electric Company ("LG&E"). Initially, I served as LG&E's Director of Regulatory Planning. In this position, I was responsible for coordinating all of LG&E's state and federal regulatory efforts, and prepared and presented testimony to regulators. In performing my duties in the federal regulatory area, I performed the market power analysis in LG&E's original market-based rate filing at the FERC, which was one of the first applications of the "hub and spoke" methodology that the FERC now uses in assessing generation market dominance in market-based rate filings; supervised the preparation of the market-based rate filings; and served as LG&E's principal witness in this case. I also helped develop the electronic bulletin board that the FERC required as a condition for approving the market-based tariff. Additionally, I helped to develop LG&E's comparable transmission tariff filing, which provided third parties with access to LG&E's transmission system at the same price, terms and conditions as LG&E. This was the first tariff providing comparable transmission service that was filed and approved by the FERC and was filed before Order No. 888 was issued by FERC. In this comparable transmission tariff filing, I served as LG&E's principal witness and negotiated the settlement in this case with FERC staff. When LG&E Power Marketing filed for the ability to charge market-based rates, I helped to develop the codes of conduct that were submitted to the FERC as a part of the filing. My areas of responsibility were expanded in April 1994 to include marketing and strategic planning. As the Director, Marketing, Planning and Regulatory Affairs, I was responsible for coordinating LG&E's retail gas and electric marketing, strategic planning, and state and federal regulatory efforts. I continued to be employed in that capacity at LG&E until June 1996, when I joined the Prime Group as one of its Principals.

Q: PLEASE DESCRIBE THE INDUSTRY GROUPS IN WHICH YOU HAVE PARTICIPATED.

A: I have served on several regional transmission coordination groups such as the Interregional Transmission Coordination Forum, and the General Agreement on Parallel Paths, as well as the following committees of the Edison Electric Institute ("EEI") -- Economics and Public Policy Executive Advisory Committee, Strategic Planning Executive Advisory Committee, Transmission Task Force, and Power Supply Policy Technical Task Force. Recently, I have worked with a group of utilities developing the Midwest ISO.

Q: HAVE YOU TAUGHT ANY COURSES OR SEMINARS IN THE AREA OF UTILITY RESTRUCTURING?

A: Yes. In addition to teaching ratemaking for electric utilities at the NARUC Annual Regulatory Studies Program since 1993, I have also taught a course regarding the institutions and organizations of the new electric utility industry. Each year, I also teach and conduct numerous workshops and programs, and deliver invited presentations to utility managers and regulators on a variety of subjects including industry restructuring.

Q. IN WHICH CASES HAVE YOU PREVIOUSLY TESTIFIED?

A. I testified before the Kentucky Public Service Commission in the rehearing in Case No. 90-158, an LG&E rate case; in Case No. 92-494, a biennial fuel adjustment clause review; in Case No. 93-150, an application for approval of a DSM cost recovery mechanism and a set of initial programs; in Case No. 94-332, an application for an environmental cost recovery mechanism; in case No. 92-494-B, regarding the confidentiality of coal bid data; and in case No. 95-455, a biannual review of the environmental cost recovery mechanism. I participated in the conference to review LG&E's first integrated resource plan in Case No.

91-423 and testified in a number of fuel adjustment clause proceedings. I also testified on behalf of Blazer Energy Corp. in Case No. 98-489 which was an application for an adjustment in rates.

I prepared and filed testimony before the FERC in cases ER92-533, in which LG&E provided open transmission access and also received authority to charge market-based rates for its generation, and ER 94-1380, the first comparability tariff which was approved by the FERC. I prepared and filed rebuttal testimony in Cause No. PUD 960000116, Oklahoma Gas and Electric Company's last rate case before the Oklahoma Corporation Commission. In that case, I rebutted intervenor and staff proposals to disallow certain marketing, advertising, economic development and research and development expenses. I have prepared and filed direct and rebuttal testimony for Southern California Edison Company in Case Number 90-12-018 (phase 5). In this testimony, I reviewed the reasonableness of contracting by Southern California Edison with Integrated Energy Group (IEG) to provide marketing services to Southern California Edison and the reasonableness of the resulting marketing services performed by IEG. I prepared and filed direct and rebuttal testimony for Oklahoma Gas and Electric in Arkansas Public Service Commission Docket No. 96-360-U regarding recovery of stranded cost by Entergy Arkansas, Inc. In this testimony, I recommended recovery of 100% of stranded costs at such time as costs are actually stranded. I also testified before the New Mexico Public Utility Commission in Docket No. 2797, a general rate case for Plains Electric Generation and Transmission Cooperative, Inc.

I testified in Illinois Commerce Commission ("ICC") Dockets 98-0013 and 98-0035, which were concerned with ensuring non-discrimination with regard to affiliate transactions for electric utilities. In this case, I sponsored ComEd's proposed affiliate transactions rules and suggested some basic principles that the Illinois Commerce Commission should follow in developing rules and regulations for ensuring non-discrimination and non-cross subsidization in transactions with affiliated and unaffiliated alternative retail electric suppliers (ARES). I testified in ICC Docket 98-0036, which was a rulemaking to develop rules and regulations for assessing and assuring the reliability of the transmission and distribution systems as a part of electric utility restructuring in Illinois. I also testified in Dockets 98-0147 and 98-0148 which were concerned with developing standards of conduct and rules for functional separation. In this case, I sponsored ComEd's proposed standards of conduct and functional separation rules.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. Delta Natural Gas Company, Inc. ("Delta") engaged The Prime Group to conduct an analysis of and to provide a recommendation regarding the appropriate cost of common equity for application to Delta's original cost rate base. My testimony contains the results of this analysis and identifies the fair rate of return on equity that Delta should be given the opportunity to earn during the period when the new rates will be in effect. My analysis utilizes commonly accepted financial valuation techniques and incorporates the factors that affect Delta's overall investment risk.

Q. IS THERE A PUBLIC BENEFIT TO PROVIDING NATURAL GAS SERVICE TO RURAL AREAS?

A. Yes. If natural gas service is available in an area, customers have a choice whether to use natural gas or electricity for particular applications. Customers' ability to switch between natural gas and electricity helps to keep downward pressure on the prices of both products. Furthermore, the availability of natural gas service can help in attracting industrial loads to an area and thus assist in economic development efforts. However, if natural gas service is to be provided to rural areas, the companies providing such service must have the opportunity to earn adequate returns or they will no longer be able and willing to provide such service.

Q. HOW SHOULD THE RATE OF RETURN BE DETERMINED UNDER PUBLIC UTILITY REGULATION?

A. The purpose of public utility regulation with respect to rate of return is to permit a utility to earn its cost of capital while avoiding monopoly profits. Long-run earnings above the cost of capital would imply monopoly profits, while long-run earnings below the cost of capital would impair a utility's ability to attract capital on reasonable terms. A rate of return based on a utility's cost of capital is consistent with the guidelines established by the U.S. Supreme Court in *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) and *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944). These cases require that a utility be allowed to earn a rate of return that: 1) is comparable to alternative investment opportunities of corresponding risk, 2) will permit capital attraction on reasonable terms, and 3) will maintain a utility's financial integrity.

Q. IS AN OPPORTUNITY TO EARN A FAIR RATE OF RETURN THE SAME AS A GUARANTEE TO EARN A FAIR RATE OF RETURN?

A. No. Having an opportunity to earn a fair rate of return allows for more uncertainty than does having a guarantee to earn a fair rate of return. A guarantee of earning a fair return would imply no variability in the rate of return, with the utility earning the specified rate of return every year. An opportunity to earn a fair rate of return implies that a utility has a reasonable assurance that it will be allowed to earn a rate of return that is sufficient to attract capital, that will maintain its financial integrity and that is comparable to the return earned by alternative investments of comparable risk. While factors such as temperature variability and changes in the number of customers may result in an actual rate of return that is higher or lower than the allowed rate of return in any given year, a utility that consistently earns less than the allowed rate of return or which has averaged significantly less than the allowed rate of return for a long period of time cannot be said to have a reasonable assurance of earning the allowed rate of return. Thus, an assurance of earning a fair and reasonable rate of return could be viewed statistically as the arithmetic average of a series of returns over a period of time equaling the allowed rate of return. The problem with this approach is that, if there is significant variability in the returns, several years of earning below the allowed rate of return could cause severe financial harm to a utility while waiting for the years of above average returns to materialize. Thus, it may make sense for regulators to not only deal with the mean value of the distribution of returns, as they do when they set the allowed rate of return in a rate case, but to also deal with the variability of the returns through some alternative regulatory mechanism.

Q. WOULD YOU REGARD DELTA'S CURRENT RATES AS PROVIDING AN OPPORTUNITY TO EARN AN ADEQUATE RETURN FOR PROVIDING NATURAL

GAS SERVICE TO RURAL AREAS?

A. No, I do not. In December, 1997 the Commission issued an Order in Case No. 97-066 which set new rates for Delta which became effective in January, 1998. In this case, the Commission allowed a return on common equity of 11.6%. However, Exhibit MJB-2 shows that Delta actually earned a return of 8.22% during the first year that these new rates were in effect. Additionally, Delta had a payout ratio of nearly 110% during 1998. In fact, Delta has had a payout ratio of greater than 100% in 6 of the last 10 years with an average payout of 105%. Such a payout ratio cannot be maintained in the long run. Admittedly, in the current regulatory framework, when the Commission sets rates, it provides a company with the opportunity to earn a rate of return, it does not guarantee that a given rate of return will be earned. However, Delta's return on equity has averaged 10.1% over the last 10 years, and this, combined with the payout history and the return on equity that Delta earned in 1998 during the first year that the new rates were in effect, does not indicate to me that Delta has a sufficient opportunity to earn the allowed rate of return.

Q. WHAT FACTORS DO YOU BELIEVE HAVE CAUSED DELTA TO UNDER EARN COMPARED TO ITS ALLOWED RATE OF RETURN ON EQUITY?

A. I believe that there are three factors: 1) Delta's equity is low as a percentage of total capitalization, 2) Delta's predominantly rural service territory, and 3) weather variability.

Q. PLEASE DESCRIBE DELTA'S EQUITY AS A PERCENTAGE OF TOTAL CAPITALIZATION COMPARED TO OTHER NATURAL GAS DISTRIBUTION COMPANIES.

A. Exhibit MJB-1 shows the common equity ratios for a panel of 29 natural gas distribution utilities. The data was taken from a report titled Natural Gas Industry Summary Monthly Financial & Common Stock Information published by Edward Jones. The first column of data contains the reported capitalization of the company which consists of long term debt and common equity. The short term debt reported in the second column is not included in the capitalization reported in the first column. The third column shows common equity as a percentage of long term debt and equity. The mean percentage of equity calculated on this basis is 51% with a median of 50%. The capitalization for Delta that is utilized in this proceeding includes short term capital as well as long term capital and common equity. To provide the percentage of equity for the panel based on a capitalization including short term debt, the short term debt in column two was added to the capitalization reported in column one to get total capitalization. Equity as a percentage of total capitalization was calculated by dividing the company's common equity by the capitalization which included short term debt. This calculation resulted in the data reported as the new equity percentage in the last column of Schedule 1. The ratio of common equity to total capitalization of 30.6% for Delta is consistent with the original capital structure from the test year that is utilized in this proceeding. The mean percentage of common equity relative to total capitalization of the panel is 43.2% with a median of 43.9%. It should be noted that Delta's percentage of common equity relative to total capitalization is the second lowest in the panel which makes Delta more heavily leveraged than other natural gas distribution utilities.

Q. DOES A LOW PERCENTAGE OF EQUITY RELATIVE TO TOTAL

CAPITALIZATION MAKE DELTA A RISKIER INVESTMENT?

A. Yes. The more debt that a firm has as a part of its total capitalization, the greater are the fixed interest payments that the firm will have to make to bond holders out of any given revenue stream that it generates. A company is required to make payments to the bond holders in specified amounts at specified times, while it is under no such obligation to its common equity holders. Thus, the more equity the firm has, the greater is its ability to weather revenue fluctuations. However, this flexibility comes at a cost, as equity is more expensive than debt because of the greater risk that shareholders bear. As a company's business environment becomes riskier and its business risk becomes greater, the company should increase its equity and lower its debt ratio. By reducing its debt ratio, its fixed obligations to bond holders would be reduced and the company would be better able to manage the financial fluctuations that result from a riskier business environment. Furthermore, a utility's equity ratio must be high enough to allow additional debt capital to be issued without an adverse effect on its credit rating. This would be consistent with the criteria established in the Bluefield and Hope cases that the rate of return be sufficient to permit capital attraction on reasonable terms. If the capital structure does not permit some margin for additional debt financing at all times, a utility is subject to the potential adverse impact of unanticipated tight credit conditions, thus making it a riskier investment. Because I believe that Delta's existing capital structure would make it difficult to secure additional debt financing on reasonable terms, it is my opinion that the Commission needs to allow a higher rate of return that will permit Delta to improve its equity ratio.

Q. HOW WOULD DELTA'S LOW EQUITY RATIO AFFECT THE RETURN ON EQUITY THAT IT EARNS?

A. Because Delta is about 70% debt financed, its fixed obligations to bondholders are high, thus exacerbating the impact on the return on equity resulting from any revenue reductions that Delta might experience.

Q. HOW WOULD DELTA'S PREDOMINANTLY RURAL SERVICE TERRITORY AFFECT THE RETURN ON EQUITY THAT IT EARNS?

A. Delta serves an area that is predominantly rural with low population density. This low population density results in higher fixed cost per customer for serving rural areas compared to the fixed cost per customer incurred in an urban area. This higher fixed cost per customer results from both a higher cost of installing the pipe needed to serve a customer and the higher cost of maintaining the lines. Additionally, Delta has been adding customers at a rapid rate, as demonstrated in Exhibit-MJB3. These customer additions result in significant additional fixed cost being added before any additional revenue is generated. Thus, the high fixed cost per customer combined with customer growth is putting financial pressure on Delta through these fixed cost additions. Furthermore, these rural customers tend to have a lower annual usage and a larger proportion of temperature sensitive load than urban customers. This relatively high fixed cost to serve small highly temperature sensitive loads translates to a higher fixed cost burden for Delta and a more variable revenue stream. The higher fixed costs resulting from operations compounds the problem of high fixed obligations to bond holders resulting from a low equity ratio, and exacerbates the impact on the return on equity resulting from any revenue reductions that

Delta might experience. Thus, the low population density in rural areas that results in a higher fixed cost burden for Delta with more variability in the return stream due to the large amount of temperature sensitive load for these rural customers makes Delta a riskier investment. This added risk would justify a higher rate of return to compensate for the additional risk. Because I have not quantified the separate impact on rate of return resulting from the rural character of Delta's service territory, I would suggest accounting for the impacts of this risk factor by using an allowed rate of return in the high end of the reasonable range of returns based on my analysis.

Q. HOW WOULD WEATHER VARIABILITY AFFECT THE RETURN ON EQUITY THAT DELTA EARNS?

A. Because a large portion of Delta's load is space conditioning and is very temperature sensitive, a warmer than normal heating season results in significantly reduced revenue and earnings while a cooler than normal heating season results in increased revenue and earnings. This impact can be seen on page 1 of Exhibit MJB-2. The earnings available for common equity fluctuate widely from a 111% increase in 1992 to a 35% decrease in 1997. It should be noted that the earnings available for common equity in 1998 of $2,451,272 is still below the 1996 level of earnings available for common equity even though it represents a 42% increase over 1997. The 1998 level is also below the earnings available for common equity in 1993 and 1994. Thus, temperature variability has a major effect on the return on equity that Delta actually earns.

Q. ARE THERE ANY REMEDIES THAT CAN BE APPLIED TO CORRECT FOR THE THREE FACTORS AFFECTING DELTA'S EARNINGS THAT YOU HAVE

DESCRIBED ABOVE?

A. Yes. There are potential remedies for two of the three factors that I have described above. With regard to Delta's low percentage of equity, there are two potential remedies. The first is to use an imputed capital structure and the second is to incorporate a leverage premium into the rate of return if an imputed capital structure is not used. With regard to the impact of weather variability on earnings and on return on equity, a temperature normalization adjustment can be utilized. However, a temperature normalization adjustment will not correct for the rural nature of Delta's service territory and the higher fixed costs that result. These characteristics of Delta's operation, which increase its risk, should be reflected by a rate of return in the high end of the acceptable range in calculating Delta's cost of equity.

Q. PLEASE EXPLAIN HOW AN IMPUTED CAPITAL STRUCTURE COULD BE UTILIZED TO ADJUST FOR THE EFFECT OF DELTA'S LOW EQUITY RATIO.

A. Currently, Delta has a capital structure consisting of 30% common equity. As discussed above, this is significantly lower than the industry average. If an imputed capital structure is utilized in determining Delta's revenue requirement, I would recommend an imputed capital structure consisting of 43.5% common equity and 56.5% debt. I arrived at my recommendation of utilizing 43.5% common equity by taking the midpoint between the mean of 43.2% and the median of 43.9% in Exhibit MJB-1. Based on my experience, an equity ratio of 43.5% would be reasonable, but would lie in the low end of the reasonable range. As additional verification of the reasonableness of this imputed capital structure, in their article evaluating utility capital structures, Brigham, Gapenski, and Aberwald noted that:

> The data did not permit analysis outside the 42.5 to 54 percent debt ratio range, so we cannot state exactly what would happen to interest rates if debt were below 42.5 or above 54 percent. (Eugene F. Brigham, Louis C. Gapenski and Dana A. Aberwald, "Capital Structure, Cost of Capital, and Revenue Requirements", Public Utilities Fortnightly, January 8, 1987, p. 18)

The 56.5% debt that I am recommending as a part of the imputed capital structure would lie above the top end of the range in which adequate data was available for the statistical work described in the Brigham, Gapenski and Aberwald article.

Q. PLEASE EXPLAIN HOW A LEVERAGE PREMIUM COULD BE UTILIZED TO ADJUST FOR THE EFFECT OF DELTA'S LOW EQUITY RATIO.

A. If an imputed capital structure is not utilized, a premium could be added to the return on equity to adjust for Delta's high level of debt. The magnitude of such an adjustment can be derived from the Brigham, Gapenski and Aberwald article which states that:

> The basis change is smaller toward the high end of the equity ratio range, so an increase in equity from 49 to 50 per cent would only lower the cost of equity by about seven basis points, but an increase in the ratio from 40 to 41 per cent would lower the cost of equity by about 15 basis points. (Brigham, Gapenski and Aberwald, p. 23)

The imputed capital structure that I recommend would increase the percentage of equity from 30% to 43.5% which would make the 15 basis point per one percent change in equity a reasonable, and possibly a conservative, estimate of the leverage premium that should be used. The leverage premium that would provide the same result as a 13.5% increase in the imputed capital structure would be 202.5 basis points. Thus, if an imputed capital structure is not used, a leverage premium of about 2% should be added to the allowed rate of return to adjust for Delta's low percentage of equity.

Q. PLEASE EXPLAIN HOW A TEMPERATURE NORMALIZATION ADJUSTMENT COULD BE UTILIZED TO ADJUST FOR THE EFFECT OF TEMPERATURE VARIABILITY.

A. Although a temperature normalization has been employed historically in determining the revenue requirement and in calculating rates, a temperature normalization has not been applied to the rates prospectively to adjust for the vagaries of weather. Without a temperature normalization incorporated into the rates as they are applied prospectively, Delta is subject to the earnings and return on equity variations shown in Exhibit MJB-2. Temperature normalizing to calculate the rates but not to apply them in essence amounts to a bet that normal temperature will occur with Delta experiencing significant financial distress if warmer than normal weather occurs. Delta's low equity ratio and high fixed operating costs have the effect of magnifying the impact of this temperature variability. I recommend the use of a temperature normalization adjustment in Delta's rates to adjust for the significant impact that weather has on its earnings and return on equity.

Q. HOW WOULD YOU ASSESS THE BUSINESS ENVIRONMENT WITHIN WHICH DELTA OPERATES?

A. Beginning with Order No. 436 and continuing through Order Nos. 500 and 636, the Federal Energy Regulatory Commission (FERC) established competition in the transportation of natural gas and allowed large customers and local distribution companies to purchase natural gas directly from producers. Currently, some state regulatory commissions are unbundling natural gas service at the retail level and are beginning to allow retail competition in natural gas. Competition at the retail level increases the business risk for natural gas distribution companies. Additionally, Delta provides natural gas service in a service territory that substantially overlaps the electric service territory of Kentucky Utilities Company, which has some of the lowest electric rates in the nation. This direct competition with a low cost electric utility also increases Delta's business risk. Finally, Delta is a small company with a capitalization that would fall in the micro-cap stock range as defined in the Stocks, Bonds, Bills and Inflation 1999 Yearbook published by Ibbotson Associates. A micro-cap stock includes companies with market capitalizations at or below $252,109,000 (Ibbotson, p. 137).

Q. IS A HIGHER RISK PREMIUM AND THUS A HIGHER ALLOWED RATE OF RETURN APPROPRIATE FOR SMALL COMPANIES?

A. Yes. There are several sources that indicate that a size premium is appropriate for smaller companies. Fama and French reported that:

> If assets are priced rationally, our results suggest that stock risks are multidimensional. One dimension of risk is proxied by size, ME. Another dimension of risk is proxied by BE/ME, the ratio of the book value of common equity to its market value. (Eugene F. Fama and Kenneth R. French, "The Cross-Section of Expected Stock Returns", The Journal of Finance, Vol. 47, June, 1992, p. 428.)

Fama and French went on to report that:

> The size effect (smaller stocks have higher average returns) is thus robust in the 1963-1990 returns on NYSE, AMEX, and NASDAQ stocks. In contrast to the consistent explanatory power of size, the FM [Fama-MacBeth] regressions show that market β does not help explain average stock returns for 1963-1990. (Fama and French, p. 438)

Regarding this size effect, Ibbotson stated that:

> The betas for small companies tend to be larger than those for larger companies; however, they do not account for all of the risks faced by investors in small companies. This premium can be added directly to the results obtained using the CAPM... . (Stocks, Bonds, Bills and Inflation 1999 Yearbook, Ibbotson Associates, p. 161

Ibbotson goes on to quantify the expected micro-capitalization equity size premium as 2.6% as shown in Exhibit MJB-6. Not only does Delta fall within the micro-capitalization group as defined by Ibbotson, but as can be seen from Exhibit MJB-1, Delta has one of the smallest total capitalizations of the investor owned natural gas distribution companies in the panel. Thus, small companies such as Delta are riskier than companies with larger capitalizations and a higher rate of return on equity would be appropriate for such companies.

Q. PLEASE DESCRIBE THE DISCOUNTED CASH FLOW (DCF) METHOD FOR ESTIMATING THE APPROPRIATE RETURN ON EQUITY.

A. The DCF method for estimating an appropriate return on equity is based on the following equation, which defines the long run expected return (the appropriate return on equity) as the discount rate that equates the stock price with the stream of expected future dividends:

Equation 1: $$P = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + \frac{D_3}{(1+k)^3} + \ldots$$

where,

P = the price of the stock,

D_i = the dividend in year i, and

k = the discount rate or expected long run return.

If dividends grow at a constant rate, g, the dividend in each period can be expressed as a function of the dividend in the immediately preceding period multiplied by the growth rate, so that:

$$\begin{aligned} D_2 &= D_1 g, \\ D_3 &= D_1 g^2, \\ &\ldots \\ D_n &= D_1 g^{n-1} \end{aligned}$$

By substituting and solving as the sum of an infinite geometric series, the constant growth form of the DCF equation can be expressed as:

Equation 2: $$k = \frac{D_1}{P} + g$$

Although the assumption of constant growth may be reasonable for utilities that come close to approximating the assumption of constant growth, it is not appropriate for a utility that is experiencing changes in the rate of growth. When there are changes in the growth rate, a multistage form of the DCF model is more appropriate. The two-stage DCF model allows dividends to grow at the growth rate currently reported by analysts in the first stage and to grow dividends at the same nominal rate as the industry or the national economy as a whole in the second stage. This assumes that over time the rate of growth for a company will tend toward the growth rate for the industry as a whole. Currently, Delta is tracked by only two analysts, one from Hilliard Lyons and one from Edward Jones. The two-stage DCF model utilizes the analysts growth rates as well as a composite growth rate for the natural gas distribution industry obtained from Ibbotson's Cost of Capital Quarterly, which is calculated using estimates from analysts from over 200 firms. Thus, the two-stage DCF model applies a broader base of information to the task of calculating Delta's cost of capital. The two-stage DCF model assumes that dividends grow at the analyst's projected growth rate during the first stage and grow at the expected growth rate for the industry as a whole in the second stage. After the estimated dividend stream for a sufficiently long period is generated using the growth rates employed in the two-stage DCF model, the dividend estimates and the current stock price are substituted into equation 1 above which is solved iteratively for k, the estimated return on equity.

Q. DO YOU BELIEVE THAT THE CONSTANT GROWTH FORM OF THE DCF MODEL SHOULD BE USED IN DETERMINING DELTA'S ALLOWED RETURN ON EQUITY?

A. No. Looking at Exhibit MJB-2, the percentage change in dividends per share has been variable and has not been growing at a constant rate. Furthermore, the underlying financial variables exhibit tremendous variability. The percentage change in the earnings available for common stock range from a high of 111% to a low of -35%. The percentage change in the earnings per share range from a high of 108% to a low of -47%. Such variation in dividends per share and in the underlying financial data are not consistent with an assumption of constant growth that is the key assumption in the constant growth form of the DCF model.

Q. WHAT WOULD THE CONSTANT GROWTH FORM OF THE DCF MODEL YIELD AS AN EXPECTED RETURN ON EQUITY FOR DELTA?

A. The results of the constant growth DCF model are shown on page 1 of Exhibit MJB-4. The expected growth rate of 3% for Delta was obtained from a Hilliard Lyons Analyst report dated March 11, 1998 and the expected growth rate of 2% for Delta was obtained from an Edward Jones Analyst report dated March 3, 1999. Delta's stock price quote for May 28, 1999, annual dividend, 52 week high and 52 week low were obtained from the NASDAQ/AMEX web site. The expected natural gas distribution industry growth rate was obtained from Cost of Capital Quarterly, Ibbotson Associates, March, 1999. The analysts' forecasts upon which the calculated natural gas distribution industry composite growth rate is based are obtained from Standard and Poor's Analyst's Consensus Estimate (ACE) database. The ACE database contains growth estimates and recommendations from over 200 contributing firms. The industry composite growth rate is a weighted average of the ACE growth rates using the latest equity market capitalization as the weighting factors. The estimate for Delta's return on equity using the analysts' expected growth rates in the constant growth DCF model ranges from 8.0% to 9.9% as shown on pages 1 and 2 of Exhibit MJB-4. The constant growth DCF model yields an estimated return on equity of 9.71% for the current stock price of $17.00 using the Hilliard Lyons expected growth rate, and an estimated return on equity of 8.71% for the current stock price of $17.00 using the Edward Jones expected growth rate. The estimate for Delta's return on equity using Ibbotson's composite natural gas distribution industry expected growth rate in the constant growth DCF model ranges from 11.7% to 12.63% as shown on page 1 of Exhibit MJB-4. The constant growth DCF model yields an estimated return on equity of 12.41% for the current stock price of $17.00 using Ibbotson's composite natural gas distribution industry expected growth rate.

Q. WHAT WOULD THE TWO-STAGE FORM OF THE DCF MODEL YIELD AS AN EXPECTED RETURN ON EQUITY FOR DELTA?

A. The results of the two-stage form of the DCF model are shown on page 3 of Exhibit MJB-4. The two-stage DCF model utilized in this analysis assumes that dividends grow for the first five years at the expected rate projected by the analysts who track Delta and grow at the expected growth rate for the industry as a whole after five years. This in effect blends the information provided by the two sources and produces a lower estimate of the rate of return than using the composite natural gas distribution industry growth rate alone. The estimate for Delta's return on equity using the two-stage form of the DCF model ranges from 10.2% to 12.05% as shown on page 3 of Exhibit MJB-4. The two-stage form of the DCF model yields an estimated return on equity ranging from 10.75% to 11.85% for the current stock price of $17.00.

Because of the rural nature of Delta's service territory and the additional risk that this generates, as described above, I believe that a return on equity near the top end of the 10.2% to 12.05% range resulting from the multistage DCF should be used in calculating Delta's revenue requirement. I suggest utilizing a 11.9% return on equity with an added 2% leverage adjustment which results in a 13.9% return on equity for calculating Delta's revenue requirement.

Q. WHAT RATE OF RETURN ON EQUITY WOULD THE RISK PREMIUM INDICATE WAS APPROPRIATE?

A. Stocks, Bonds, Bills and Inflation 1999 Yearbook reports that the long-horizon expected equity risk premium for large company stock total returns minus long-term government bond income returns is 8.0% for the period 1926 to 1998 (see Exhibit MJB-6). This estimate of the risk premium from Ibbotson is calculated using a past average of ex-post risk premiums over a sufficiently long period of time to include several ups and downs in dividend yields and provides a good estimate of the future risk premium. This long-horizon expected equity risk premium was calculated using stock market data for the companies in the Standard and Poor's 500 Index and for U. S. Treasury Bonds having a 20-year maturity. The 20-year U.S. Treasury bond yield for May, 1999 as reported by FRED® [Federal Reserve Economic Data] available on the Federal Reserve Bank of St. Louis web site is 6.08% (Exhibit MJB-7). Adding the long-horizon risk premium of 8% to the 20-year U.S. Treasury bond yield of 6.08% produces a return on equity of 14.08%. Ibbotson also reports a short horizon expected equity risk premium calculated using large company stock total returns and subtracting U.S. Treasury bill total returns. This short horizon expected equity risk premium is 9.4% for the period 1926 to 1998 (see exhibit MJB-6). This can be added to the May, 1999 U.S. Treasury bill rate of 4.51% (see Exhibit MJB-8) to obtain an estimated return on equity of 13.91%. This is consistent with the long horizon estimate for return on equity of 14.08% derived above. These estimated returns on equity for the market as a whole demonstrate that the estimated returns on equity for Delta using the composite industry growth rate and the two-stage DCF model are well within the reasonable range.

Q. HOW WOULD YOU ADJUST THE ESTIMATED RETURNS ON EQUITY FOR THE MARKET AS A WHOLE TO APPLY TO A GAS DISTRIBUTION UTILITY SUCH AS DELTA?

A. The CAPM approach could be utilized to adjust the risk premia for the market as a whole to produce an estimate of the return on equity for a natural gas distribution utility. The basic CAPM formula is:

$$K = R_f + \mathrm{B}(R_m - R_f)$$

where:

K = the prospective market cost of equity for a specific investment,

R_f = the risk free rate of return (usually U.S. Treasury bonds for estimating ROE),

β = the company specific beta coefficient, and

R_m = the overall stock market return (usually the S&P 500 Index for estimating ROE).

The Value Line Investment Survey and the Extended Value Line Investment Survey ("Value Line") provide β estimates for a panel of gas distribution utilities. The March 26, 1999 Value Line reported estimated β's for the panel of natural gas distribution companies ranging from 0.4 to 0.8 with the following distribution:

β Estimate	Number
0.40	1
0.45	3
0.50	4
0.55	8
0.60	6
0.65	1
0.70	1
0.75	5
0.80	1

Value Line does not track Delta and thus an estimated β for Delta was not available.

Based on the distribution of estimated β's reported above, I chose to use a β of 0.55 in calculating Delta's estimated return on equity using CAPM. With a long-horizon risk premium above 20-year U.S. Treasury bonds of 8.0% and a beta coefficient of 0.55, the CAPM model produces an estimated return on equity of 10.48% calculated as:

$K = 6.08 + 0.55 \times 8.0 = 10.48$

However, because Delta is a micro-cap stock an additional size premium of 2.6% must be added to this estimate (see Exhibit MJB-6) which results in an estimated return on equity for Delta of 13.08%. Using the lowest beta coefficient reported in the panel of 0.40 results in an estimated return on equity of 11.88% once the size premium is added. Using the highest beta coefficient reported in the panel of 0.80 results in an estimated return on equity of 15.08% once the size premium is added.

Q. WHAT RETURN ON EQUITY DO YOU RECOMMEND BE UTILIZED IN CALCULATING THE REVENUE REQUIREMENT IN THIS PROCEEDING?

A. I recommend using a 13.9% return on equity, which is derived by adding a 2% leverage adjustment to the 11.9% rate of return resulting from the two-stage DCF model as discussed in my testimony above. This is well within the reasonable range as indicated by my analysis. Alternatively, if an imputed capital structure is utilized, an allowed return on equity of 11.9% with an imputed capital structure consisting of 43.5% equity and 56.5% debt could be used in calculating Delta's revenue requirement. However, subtracting the 2% leverage adjustment would only be justified if an imputed capital structure is utilized.

Q. DOES THE RETURN ON EQUITY THAT YOU RECOMMEND PRODUCE A REASONABLE RESULT?

A. Yes. Exhibit MJB-5 shows the interest coverage for the 29 natural gas distribution companies in the panel reported by Edward Jones, which is calculated by dividing net income by the interest on long term debt for the 12 months ending December 31, 1998, coinciding with the test year utilized in this proceeding. Delta has an interest coverage of 1.75x, which is second lowest in the panel of natural gas distribution utilities. The mean interest coverage for the panel is 2.85x with a median interest coverage of 2.65x. If the revenue requirement for Delta is determined based on a 13.9% return on equity and based on an unadjusted capital structure, the resulting interest coverage would be 2.00x. If the revenue requirement for Delta is determined based on the 11.9% return on equity and based on an imputed capital structure consisting of 43.5% equity and 56.5% debt, the resulting interest coverage would be 2.01x. As can be seen from Exhibit MJB-5, the resulting interest coverage from using a 13.9% rate of return would still be the fourth lowest in the panel. Based on the resulting level of interest coverage, I believe that the 13.9% rate of return on equity that I am recommending be applied to the unadjusted capital structure is reasonable. An 11.9% return on equity applied to an imputed capital structure also produces a similar reasonable result. It would take even a higher rate of return on equity to produce a level of interest coverage that is more representative of the other companies in the panel of natural gas distribution companies. In fact, with regard to almost every key financial measure, Delta is one of the lowest in the panel of natural gas distribution companies. As shown in Exhibit MJB-1 and MJB-5, Delta has one of the highest payout ratios while having one of the lowest percentages of equity, one of the lowest interest coverages, one of the lowest earned returns on equity, and one of the lowest market to book value ratios of the natural gas distribution companies in the panel. The revenue requirement that would result from utilizing the 13.9% return on equity that I recommend would be a start to turning these poor financial results around. As discussed above, the use of an 11.9% rate of return with an imputed capital structure would produce the same type of financial improvement. However, even when these rates are placed into effect, it will take several years before there is significant improvement in these key financial measures.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

Exhibit MJB-1. Common Equity Ratios For Natural Gas Distribution Companies, 12 Months Ending December 31, 1998

	Cap (000)	Short Term Debt (000)	Original Equity Pct.	Equity (000)	Total Cap (000)	New Equity Pct.
Peoples Energy Corp.	$1,272,330	$57,445	59	$750,675	$1,329,775	56.5%
North Carolina Natural Gas	$185,190	$38,000	68	$125,929	$223,190	56.4%
Indiana Energy, Inc.	$492,676	$66,649	63	$310,386	$559,325	55.5%
Piedmont Natural Gas Company	$865,193	$74,000	57	$493,160	$939,193	52.5%
Washington Gas Light Co.	$1,157,819	$148,229	58	$671,535	$1,306,048	51.4%
Connecticut Energy Corp.	$330,556	$31,121	55	$181,806	$361,677	50.3%
EnergyNorth, Inc.	$97,217	$12,243	55	$53,469	$109,460	48.8%
EnergySouth, Inc.	$123,432	$5,631	50	$61,716	$129,063	47.8%
Roanoke Gas Company	$47,808	$10,174	57	$27,251	$57,982	47.0%
Public Service of North Carolina	$388,524	$103,800	58	$225,344	$492,324	45.8%
Cascade Natural Gas Corp.	$232,244	$23,713	50	$116,122	$255,957	45.4%
Laclede Gas Company	$441,778	$136,157	59	$260,649	$577,935	45.1%
Northwest Natural Gas Company	$831,963	$97,264	50	$415,982	$929,227	44.8%
Providence Energy Corp.	$173,117	$30,496	52	$90,021	$203,613	44.2%
Yankee Energy System, Inc.	$301,384	$90,317	57	$171,789	$391,701	43.9%
AGL Resources Inc.	$1,392,800	$113,000	47	$654,616	$1,505,800	43.5%
Colonial Gas Company	$249,885	$52,722	52	$129,940	$302,607	42.9%
New Jersey Resources, Inc.	$635,410	$94,957	47	$298,643	$730,367	40.9%
Pennsylvania Enterprises, Inc.	$235,397	$87,548	56	$131,822	$322,945	40.8%
Atmos Energy Corp.	$775,262	$185,955	50	$387,631	$961,217	40.3%
Fall River Gas Company	$37,309	$9,000	48	$17,908	$46,309	38.7%
NUI Corp.	$504,271	$108,185	45	$226,922	$612,456	37.1%
Berkshire Energy Resources	$67,951	$23,960	50	$33,976	$91,911	37.0%
CTG Resources Inc.	$345,326	$18,234	37	$127,771	$363,560	35.1%
South Union Company	$807,169	$52,004	37	$298,653	$859,173	34.8%
Energy West	$29,387	$6,237	42	$12,343	$35,624	34.6%
South Jersey Industries Inc.	$401,078	$105,876	42	$168,453	$506,954	33.2%
Delta Natural Gas Company	**$80,110**	**$11,480**	**35**	**$28,039**	**$91,590**	**30.6%**
Corning Natural Gas Corp.	$17,328	$2,840	31	$5,372	$20,168	26.6%
		mean	51		mean	43.2%
		median	50		median	43.9%

Source: Natural Gas Industry Summary Monthly Financial & Common Stock Information, Edward Jones Co., April 30, 1999

Exhibit MJB-2
Selected Financial Statistics For
Delta Natural Gas Company

Year Ended June 30	Earnings Available For Common	Percent Change	Average # of Shares O/S	EPS	Percent Change	Common Dividends	Dividends Per Share	Percent Change
1989	1,535,077	4.04%	1,430,608	1.07	-17.05%	1,558,751	1.07	2.88%
1990	1,195,512	-22.12%	1,563,588	0.76	-28.97%	1,688,681	1.08	0.93%
1991	1,162,582	-2.75%	1,586,235	0.73	-3.95%	1,713,405	1.08	0.00%
1992	2,453,813	111.07%	1,612,437	1.52	108.22%	1,741,661	1.08	0.00%
1993	2,620,664	6.80%	1,635,945	1.60	5.26%	1,775,411	1.09	0.46%
1994	2,671,001	1.92%	1,775,068	1.50	-6.25%	1,972,368	1.11	1.84%
1995	1,917,735	-28.20%	1,850,986	1.04	-30.67%	2,073,374	1.12	1.36%
1996	2,661,349	38.78%	1,886,629	1.41	35.58%	2,113,414	1.12	0.00%
1997	1,724,265	-35.21%	2,294,134	0.75	-46.81%	2,651,073	1.14	1.79%
1998	2,451,272	42.16%	2,359,598	1.04	38.67%	2,690,233	1.14	0.00%

Exhibit MJB-2
Selected Financial Statistics For
Delta Natural Gas Company

Year Ended June 30	End of Year Common S/H Equity	% Return on Equity	Payout Ratio	Retention
1989	15,663,078	9.80%	101.54%	-1.54%
1990	15,369,126	7.78%	141.25%	-41.25%
1991	15,147,551	7.68%	147.38%	-47.38%
1992	16,227,158	15.12%	70.98%	29.02%
1993	17,501,045	14.97%	67.75%	32.25%
1994	22,164,791	12.05%	73.84%	26.16%
1995	22,511,513	8.52%	108.12%	-8.12%
1996	23,628,323	11.26%	79.41%	20.59%
1997	29,474,569	5.85%	153.75%	-53.75%
1998	29,810,294	8.22%	109.75%	-9.75%
		10.13%	105.38%	

Exhibit MJB-3
Number of Customers
Delta Natural Gas Company

	Residential Customers	Commercial Customers	Industrial Customers	Total Customers	Percent Change
1991	26,394	4,152	68	30,614	
1992	27,051	4,190	68	31,309	2.27%
1993	27,852	4,279	75	32,206	2.86%
1994	28,615	4,387	76	33,078	2.71%
1995	29,544	4,467	72	34,083	3.04%
1996	30,363	4,641	73	35,077	2.92%
1997	31,733	4,856	73	36,662	4.52%
1998	32,111	4,894	69	37,074	1.12%

Exhibit MJB-4
Results From The Constant Growth Form Of the DCF Model
Delta Natural Gas Company

1998 Annual Dividend	$1.14	
Stock Price On May 28, 1998	$17.00	
52 Week High	$19.00	
52 Week Low	$16.44	
Expected Delta Growth Rate	3.0%	Hilliard Lyons Analyst Report
Expected Delta Growth Rate	2.0%	Edward Jones Analyst Report
Expected Industry Growth Rate	5.7%	Cost of Capital Quarterly, Ibbotson Associates

Using the formula: ROE = D/P + g

Using Expected Natural Gas Distribution Industry Growth Rate

Based on the current stock price:	ROE	=	1.14/17.00 + .057	=	12.41%
Based on 52 week low:	ROE	=	1.14/16.44 + .057	=	12.63%
Based on 52 week high:	ROE	=	1.14/19.00 + .057	=	11.70%

Exhibit MJB-4
Results From The Constant Growth Form Of the DCF Model
Delta Natural Gas Company

Using Hilliard and Lyons Analyst Growth Rate

Based on the current stock price:	ROE	=	1.14/17.00 + .03	=	9.71%
Based on 52 week low:	ROE	=	1.14/16.44 + .03	=	9.93%
Based on 52 week high:	ROE	=	1.14/19.00 + .03	=	9.00%

Using Edward Jones Analyst Growth Rate

Based on the current stock price:	ROE	=	1.14/17.00 + .02	=	8.71%
Based on 52 week low:	ROE	=	1.14/16.44 + .03	=	8.93%
Based on 52 week high:	ROE	=	1.14/19.00 + .03	=	8.00%

Data Sources

The stock price, 52 week high, 52 week low, and annual dividend were obtained from the NASDAQ/AMEX internet web site on May 28, 1999.

The expected growth rates for Delta Natural Gas were obtained from a Hilliard Lyons Analyst report dated March 11, 1998 and an Edward Jones Analyst Report dated March 3, 1999.

The expected natural gas distribution industry growth rate was obtained from Cost of Capital Quarterly, Ibbotson Associates, March, 1999. The analysts' forecasts upon which the industry composite growth rate is based are obtained from Standard and Poor's Analyst's Consensus Estimate (ACE) database. The ACE database contains growth estimates and recommendations from over 200 contributing firms. The industry composite growth rate is a weighted average of the ACE growth rates based on the latest equity market capitalization.

Exhibit MJB-4
Results From the Two-Stage Form of the DCF Model

1998 Annual Dividend	$1.14	
Stock Price On May 28, 1998	$17.00	
52 Week High	$19.00	
52 Week Low	$16.44	
Expected Growth Rate	3.0%	Hilliard Lyons Analyst Report
Expected Delta Growth Rate	2.0%	Edward Jones Analyst Report
Expected Industry Growth Rate	5.7%	Cost of Capital Quarterly, Ibbotson Associates

Assumptions:
Delta grows at analyst's projected growth rate for the first five years and at the industry average thereafter.

Results of solving the two-stage DCF model iteratively for the rate of return using Hilliard Lyons

Rate of return that equates the estimated dividend stream to the current stock price:	11.85%
Rate of return that equates the estimated dividend stream to the 52 week high:	11.18%
Rate of return that equates the estimated dividend stream to the 52 week low:	12.05%

Results of solving the two-stage DCF model iteratively for the rate of return using Edward Jones

Rate of return that equates the estimated dividend stream to the current stock price:	10.75%
Rate of return that equates the estimated dividend stream to the 52 week high:	10.20%
Rate of return that equates the estimated dividend stream to the 52 week low:	10.95%

Exhibit MJB-5
Natural Gas Distribution Companies Sorted By Interest Coverage
12 Months Ending December 31, 1998

	Interest Coverage	Payout Ratio	Earned Return on Equity	Market to Book Value
North Carolina Natural Gas	6.33	64	13.2	251
New Jersey Resources, Inc.	4.61	71	14.2	219
Indiana Energy, Inc.	4.35	78	11.7	207
Peoples Energy Corp.	4.02	103	9.0	177
Piedmont Natural Gas Company	3.93	72	12.1	199
EnergySouth, Inc.	3.66	46	15.2	160
Washington Gas Light Co.	3.32	100	8.0	161
Atmos Energy Corp.	3.32	66	13.1	201
Colonial Gas Company	3.08	101	9.5	242
Public Service of North Carolina	2.92	91	9.6	260
AGL Resources Inc.	2.88	87	10.8	159
Connecticut Energy Corp.	2.84	73	10.5	214
Fall River Gas Company	2.78	112	10.5	205
Laclede Gas Company	2.74	99	9.2	137
Cascade Natural Gas Corp.	2.65	105	8.8	151
Energy West	2.54	75	11.7	174
Roanoke Gas Company	2.49	96	7.9	133
CTG Resources Inc.	2.46	72	10.0	164
EnergyNorth, Inc.	2.42	104	8.4	170
South Jersey Industries Inc.	2.36	113	8.2	153
Northwest Natural Gas Company	2.22	120	6.0	136
Pennsylvania Enterprises, Inc.	2.13	160	5.7	201
NUI Corp.	2.09	105	5.2	121
Providence Energy Corp.	2.01	126	5.7	133
Yankee Energy System, Inc.	2.00	152	5.7	172
Corning Natural Gas Corp.	1.85	101	11.1	190
Berkshire Energy Resources	1.83	118	6.7	158
Delta Natural Gas Company	**1.75**	**121**	**7.9**	**144**
South Union Company	1.27	None	1.9	224
Mean	2.86	98	9.22	180
Median	2.65	101	9.20	172

Source: Natural Gas Industry Summary Monthly Financial & Common Stock Information, Edward Jones Co., April 30, 1999

Exhibit MJB-5
Natural Gas Distribution Companies Sorted By Payout Ratio
12 Months Ending December 31, 1998

	Interest Coverage	Payout Ratio	Earned Return on Equity	Market to Book Value
Pennsylvania Enterprises, Inc.	2.13	160	5.7	201
Yankee Energy System, Inc.	2.00	152	5.7	172
Providence Energy Corp.	2.01	126	5.7	133
Delta Natural Gas Company	**1.75**	**121**	**7.9**	**144**
Northwest Natural Gas Company	2.22	120	6.0	136
Berkshire Energy Resources	1.83	118	6.7	158
South Jersey Industries Inc.	2.36	113	8.2	153
Fall River Gas Company	2.78	112	10.5	205
Cascade Natural Gas Corp.	2.65	105	8.8	151
NUI Corp.	2.09	105	5.2	121
EnergyNorth, Inc.	2.42	104	8.4	170
Peoples Energy Corp.	4.02	103	9.0	177
Colonial Gas Company	3.08	101	9.5	242
Corning Natural Gas Corp.	1.85	101	11.1	190
Washington Gas Light Co.	3.32	100	8.0	161
Laclede Gas Company	2.74	99	9.2	137
Roanoke Gas Company	2.49	96	7.9	133
Public Service of North Carolina	2.92	91	9.6	260
AGL Resources Inc.	2.88	87	10.8	159
Indiana Energy, Inc.	4.35	78	11.7	207
Energy West	2.54	75	11.7	174
Connecticut Energy Corp.	2.84	73	10.5	214
Piedmont Natural Gas Company	3.93	72	12.1	199
CTG Resources Inc.	2.46	72	10.0	164
New Jersey Resources, Inc.	4.61	71	14.2	219
Atmos Energy Corp.	3.32	66	13.1	201
North Carolina Natural Gas	6.33	64	13.2	251
EnergySouth, Inc.	3.66	46	15.2	160
South Union Company	1.27	None	1.9	224
Mean	2.91	98	9.49	178
Median	2.70	101	9.35	171

Source: Natural Gas Industry Summary Monthly Financial & Common Stock Information,
Edward Jones Co., April 30, 1999

Exhibit MJB-5
Natural Gas Distribution Companies Sorted By Return on Equity
12 Months Ending December 31, 1998

	Interest Coverage	Payout Ratio	Earned Return on Equity	Market to Book Value
EnergySouth, Inc.	3.66	46	15.2	160
New Jersey Resources, Inc.	4.61	71	14.2	219
North Carolina Natural Gas	6.33	64	13.2	251
Atmos Energy Corp.	3.32	66	13.1	201
Piedmont Natural Gas Company	3.93	72	12.1	199
Indiana Energy, Inc.	4.35	78	11.7	207
Energy West	2.54	75	11.7	174
Corning Natural Gas Corp.	1.85	101	11.1	190
AGL Resources Inc.	2.88	87	10.8	159
Connecticut Energy Corp.	2.84	73	10.5	214
Fall River Gas Company	2.78	112	10.5	205
CTG Resources Inc.	2.46	72	10.0	164
Public Service of North Carolina	2.92	91	9.6	260
Colonial Gas Company	3.08	101	9.5	242
Laclede Gas Company	2.74	99	9.2	137
Peoples Energy Corp.	4.02	103	9.0	177
Cascade Natural Gas Corp.	2.65	105	8.8	151
EnergyNorth, Inc.	2.42	104	8.4	170
South Jersey Industries Inc.	2.36	113	8.2	153
Washington Gas Light Co.	3.32	100	8.0	161
Roanoke Gas Company	2.49	96	7.9	133
Delta Natural Gas Company	**1.75**	**121**	**7.9**	**144**
Berkshire Energy Resources	1.83	118	6.7	158
Northwest Natural Gas Company	2.22	120	6.0	136
Pennsylvania Enterprises, Inc.	2.13	160	5.7	201
Providence Energy Corp.	2.01	126	5.7	133
Yankee Energy System, Inc.	2.00	152	5.7	172
NUI Corp.	2.09	105	5.2	121
South Union Company	1.27	None	1.9	224
Mean	2.86	98	9.22	180
Median	2.65	101	9.20	172

Source: Natural Gas Industry Summary Monthly Financial & Common Stock Information,
Edward Jones Co., April 30, 1999

Exhibit MJB-5
Natural Gas Distribution Companies Sorted By Market to Book Value
Most Recent Fiscal Year

	Interest Coverage	Payout Ratio	Earned Return on Equity	Market to Book Value
Public Service of North Carolina	2.92	91	9.6	260
North Carolina Natural Gas	6.33	64	13.2	251
Colonial Gas Company	3.08	101	9.5	242
South Union Company	1.27	None	1.9	224
New Jersey Resources, Inc.	4.61	71	14.2	219
Connecticut Energy Corp.	2.84	73	10.5	214
Indiana Energy, Inc.	4.35	78	11.7	207
Fall River Gas Company	2.78	112	10.5	205
Atmos Energy Corp.	3.32	66	13.1	201
Pennsylvania Enterprises, Inc.	2.13	160	5.7	201
Piedmont Natural Gas Company	3.93	72	12.1	199
Corning Natural Gas Corp.	1.85	101	11.1	190
Peoples Energy Corp.	4.02	103	9.0	177
Energy West	2.54	75	11.7	174
Yankee Energy System, Inc.	2.00	152	5.7	172
EnergyNorth, Inc.	2.42	104	8.4	170
CTG Resources Inc.	2.46	72	10.0	164
Washington Gas Light Co.	3.32	100	8.0	161
EnergySouth, Inc.	3.66	46	15.2	160
AGL Resources Inc.	2.88	87	10.8	159
Berkshire Energy Resources	1.83	118	6.7	158
South Jersey Industries Inc.	2.36	113	8.2	153
Cascade Natural Gas Corp.	2.65	105	8.8	151
Delta Natural Gas Company	**1.75**	**121**	**7.9**	**144**
Laclede Gas Company	2.74	99	9.2	137
Northwest Natural Gas Company	2.22	120	6.0	136
Roanoke Gas Company	2.49	96	7.9	133
Providence Energy Corp.	2.01	126	5.7	133
NUI Corp.	2.09	105	5.2	121
Mean	2.86	98	9.22	180
Median	2.65	101	9.20	172

Source: <u>Natural Gas Industry Summary Monthly Financial & Common Stock Information</u>, Edward Jones Co., April 30, 1999

Exhibit MJB - 6

Table 8-1 **Key Variables in Estimating the Cost of Capital**

	Value
Yields (Riskless Rates)*	
Long-term (20-year) U.S. Treasury Coupon Bond Yield	5.4%
Intermediate-term (5-year) U.S. Treasury Coupon Note Yield	4.7
Short-term (30-day) U.S. Treasury Bill Yield	4.5
Risk Premia**	
Long-horizon expected equity risk premium: large company stock total returns minus long-term government bond income returns	8.0
Intermediate-horizon expected equity risk premium: large company stock total returns minus intermediate-term government bond income returns	8.4
Short-horizon expected equity risk premium: large company stock total returns minus U.S. Treasury bill total returns†	9.4
Expected default premium: long-term corporate bond total returns minus long-term government bond total returns	0.4
Expected long-term horizon premium: long-term government bond income returns minus U.S. Treasury bill total returns†	1.4
Expected intermediate-term horizon premium: intermediate-term government bond income returns minus U.S. Treasury bill total returns†	1.0
Size Premia***	
Expected mid-capitalization equity size premium: capitalization between $918 and $4,200 million	0.5
Expected low-capitalization equity size premium: capitalization between $252 and $918 million	1.1
Expected micro-capitalization equity size premium: capitalization below $252 million	2.6

* As of December 31, 1998. Maturities are approximate.

** Expected risk premia for equities are based on the differences of historical arithmetic mean returns from 1926–1998. Expected risk premia for fixed income are based on the differences of historical arithmetic mean returns from 1970–1998.

***See Chapter 7 for complete methodology.

† For U.S. Treasury bills, the income return and total return are the same.

Note: An example of how these variables can be used is found with equation (35).

Exhibit MJB - 7

20-Year Treasury Constant Maturity Rate
Averages of Business Days
Percent
Source: H.15 Release -- Federal Reserve Board of Governors

DATE	GS20
1998.05	6.01
1998.06	5.80
1998.07	5.78
1998.08	5.66
1998.09	5.38
1998.10	5.30
1998.11	5.48
1998.12	5.36
1999.01	5.45
1999.02	5.66
1999.03	5.87
1999.04	5.82
1999.05	6.08

Exhibit MJB - 8

3-Month Treasury Bill Rate, Auction Average
Averages of Business Days, Discount Basis
Percent
Source: H.15 Release -- Federal Reserve Board of Governors

DATE	TB3MA
1998.05	5.03
1998.06	4.99
1998.07	4.96
1998.08	4.94
1998.09	4.74
1998.10	4.08
1998.11	4.44
1998.12	4.42
1999.01	4.34
1999.02	4.45
1999.03	4.48
1999.04	4.28
1999.05	4.51

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF ADJUSTMENT)
OF RATES OF DELTA NATURAL) CASE NO. 99-176
GAS COMPANY, INC.)

RECEIVED
JUL 02 1999
PUBLIC SERVICE COMMISSION

FILING REQUIREMENTS
VOLUME 3 OF 3

FILED IN SUPPORT OF PROPOSED CHANGES IN RATES

JULY 2, 1999

RECEIVED

JUL 02 1999

PUBLIC SERVICE
COMMISSION

32

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #6-n

Description of Filing Requirement:

A summary of the utility's latest depreciation study with schedules by major plant accounts. If the required information has been filed in another commission case, a reference to that case's number and style will be sufficient.

Response:

Delta's most recent depreciation study was previously filed with the Commission in Delta's last rate case, No. 90-342.

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #6-o

Description of Filing Requirement:

A list of all commercially available or in-house developed computer software, programs, and models used in the development of the schedules and work papers associated with the filing of the utility's application. This list shall include each software, program, or model, what (each) was used for, a brief description of (each), the specifications for the computer hardware and the operating system required to run the program;

Response:

See attached.

List of Software, Programs, and Models Used

Description and Purpose

Microsoft Excel 97 was used to develop the following: Revenue requirements study, all exhibits contained in testimony, rate base reconciliation, cost of service study, exhibit showing effect new rates will have upon revenues, exhibit showing effect upon average bill for each customer class, income statement and balance sheet reflecting impact of proposed adjustments.

Microsoft Excel 97 System Requirements

- Personal or multimedia computer with a 486 or higher processor
- Microsoft Windows 95 operating system or Microsoft Windows NT Workstation 3.51 Service Pack 5 or later
- 8 MB of memory for use on Windows 95; 16 MB for use on Windows NT Workstation
- VGA or higher-resolution video adapter
- Microsoft Mouse, Microsoft Intellimouse, or compatible pointing device

Microsoft Word 97 was used to develop, organize, and print testimony, proposed tariff and proposed tariff changes, table of contents and the cover pages for each filing requirement.

Microsoft Word 97 System Requirements

- Personal or multimedia computer with a 486 or higher processor
- Microsoft Windows 95 operating system or Microsoft Windows NT Workstation 3.51 Service Pack 5 or later
- 8 MB of memory for use on Windows 95; 16 MB for use on Windows NT Workstation
- 20-60 MB of available hard-disk space required

- VGA or higher-resolution video adapter
- Microsoft Mouse, Microsoft IntelliMouse, or compatible pointing device

Computers Used to Create Documentation

- IBM Pentium II Computers with 32 MB RAM

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #6-q

Description of Filing Requirement:

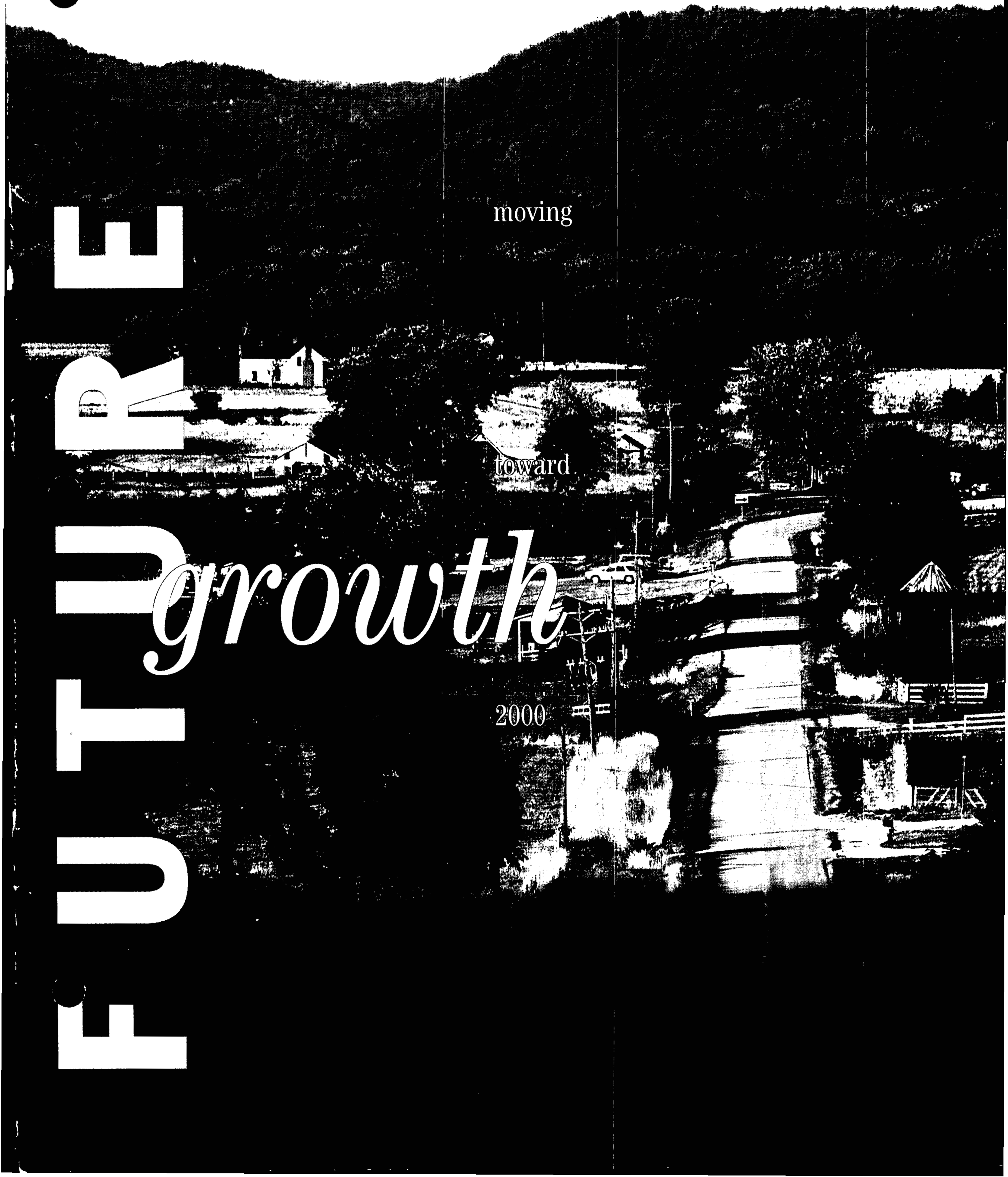
Annual report to shareholders, or members, and statistical supplements covering the two (2) most recent years, from the utility's application filing date;

Response:

See attached. Delta does not publish a statistical supplement.

1997

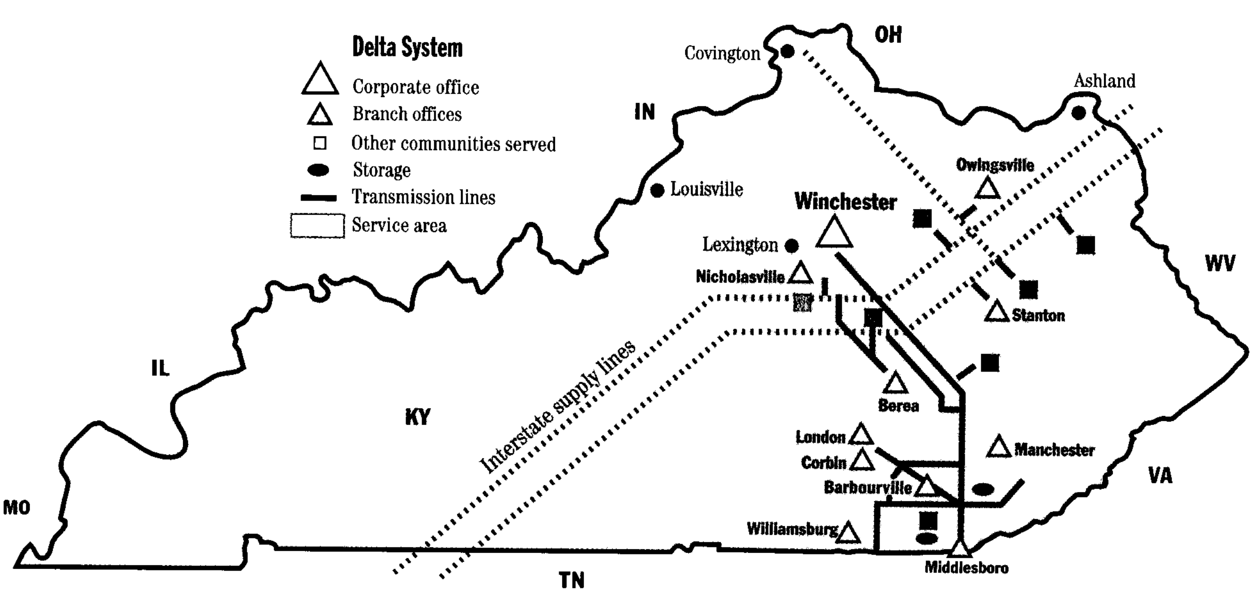
Delta Natural Gas Company, Inc.
and Subsidiary Companies



FUTURE

moving toward *growth* 2000

TOWARD 2000


Delta System
Corporate office
Branch offices
Other communities served
Storage
Transmission lines
Service area
Covington
OH
Ashland
IN
Louisville
Owingsville
Winchester
Lexington
Nicholasville
WV
Stanton
IL
Interstate supply lines
Berea
KY
London
Manchester
Corbin
VA
Barbourville
MO
Williamsburg
Middlesboro
TN

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 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 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

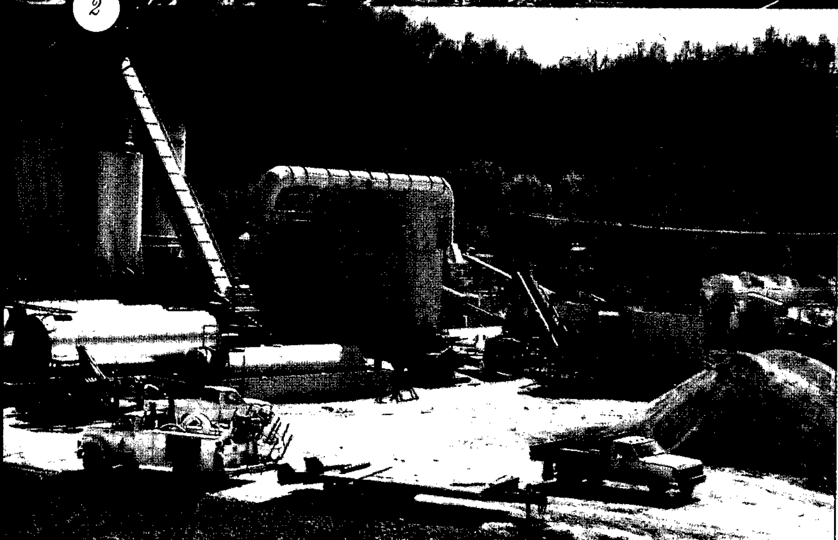
For the Years Ended June 30,	1997	1996(a)	1995	1994(b)	1993
Summary of Operations ($)					
Operating revenues	42,169,185	36,576,055	31,844,339	34,846,941	31,221,410
Operating income	5,315,582	5,437,055	4,255,088	4,850,673	4,701,816
Net income	1,724,265	2,661,349	1,917,735	2,671,001	2,620,664
Earnings per common share	.75	1.41	1.04	1.50	1.60
Dividends declared per common share	1.14	1.12	1.12	1.11	1.09
Average Number of					
Common Shares Outstanding	2,294,134	1,886,629	1,850,986	1,775,068	1,635,945
Total Assets ($)	96,681,165	81,140,637	65,948,716	61,932,480	55,129,912
Capitalization ($)					
Common shareholders' equity	29,474,569	23,628,323	22,511,513	22,164,791	17,501,045
Long-term debt	38,107,860	24,488,916	23,702,200	24,500,000	19,596,401
Notes payable refinanced subsequent to yearend	—	18,075,000	—	—	—
Total capitalization	67,582,429	66,192,239	46,213,713	46,664,791	37,097,446
Short-Term Debt ($) (c)	12,852,600	1,084,800	6,732,700	3,205,000	7,729,000
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.

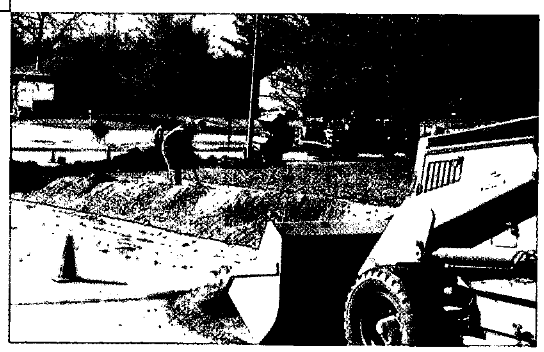
(c) Includes current portion of long-term debt.

Growth



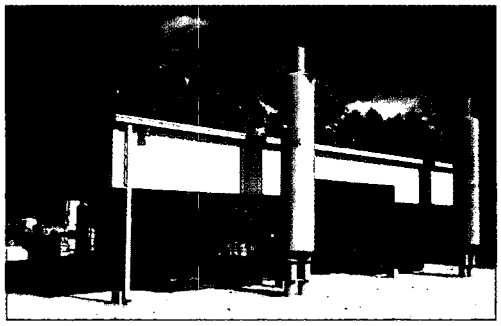
Delta extended service this past year to an asphalt plant located at Boonesborough in Madison County. This included a supply connection for delivery from Texas Eastern Transmission Corporation.

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. Develop-ment 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.



To Our Shareholders

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 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

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 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.

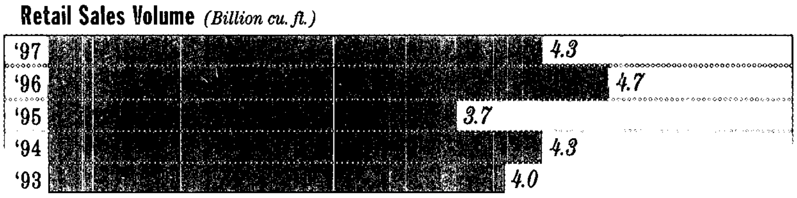
The Company's revenues are affected by various factors, including rates billed to customers, the cost of natural gas, economic conditions in the areas that the Company serves, weather conditions and competition. Delta competes for customers and sales with alternative sources of energy, including electricity, 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 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.

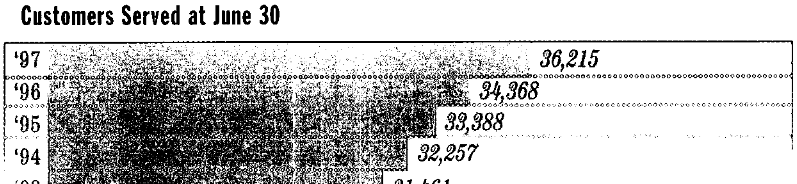
Delta's interstate gas supply is transported and/or stored by Tennessee Gas Pipeline Company ("Tennessee"), Columbia Gas Transmission Corporation ("Columbia"), Columbia Gulf Transmission Company ("Columbia Gulf") and Texas Eastern Transmission Corporation ("Texas Eastern"). Delta acquires its interstate 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



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.

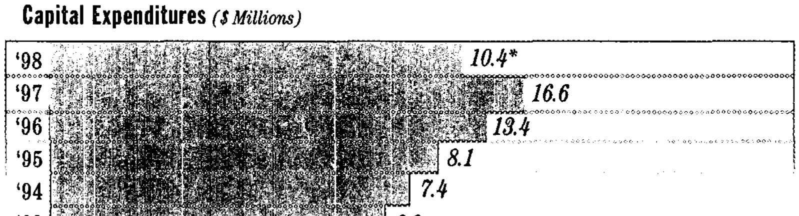
On July 11, 1997, the PSC issued a staff report entitled "Natural Gas Unbundling in Kentucky: Exploring the Next Step Toward Customer Choice." This report represented the culmination of numerous discussions among the PSC and various parties, including Delta, regarding issues related to the potential 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)*



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 impos[illegible] 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($) High	Range of Stock Prices($) Low	Dividends Per Share($)
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 proporn 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:

	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, respect[illegible]ly, 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

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,	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

The accompanying notes to consolidated financial statements are an integral part of these statements.

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	$	151,633
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		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	$ 27,203,311	$ 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

The accompanying notes to consolidated financial statements are an integral part of these statements.

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

The accompanying notes to consolidated financial statements are an integral part of these statements.

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:

	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	$ 453,900
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

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 trusteed, 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	**(136,843)**	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. 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 [illegible],000 shares under the Reinvestment Plan in December, 1994, and as of [illegible]e 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	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.

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 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.

Glenn R. Jennings

Glenn R. Jennings
President and
Chief Executive Officer

John F. Hall

John F. Hall
Vice President–Finance,
Secretary and Treasurer

Consolidated Statistics

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

nding 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

ald 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

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.

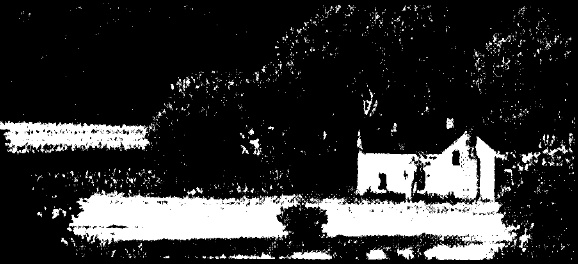
1997 Annual Meeting
The annual meeting of shareholders of the Company will be held at the General Office of the Company in Winchester, Kentucky on November 20, 1997, at 10:00 a.m. Proxies for the annual meeting will be requested from shareholders when notice of meeting, proxy statement and form of proxy 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

Delta Natural Gas Company, Inc. and Subsidiary Companies

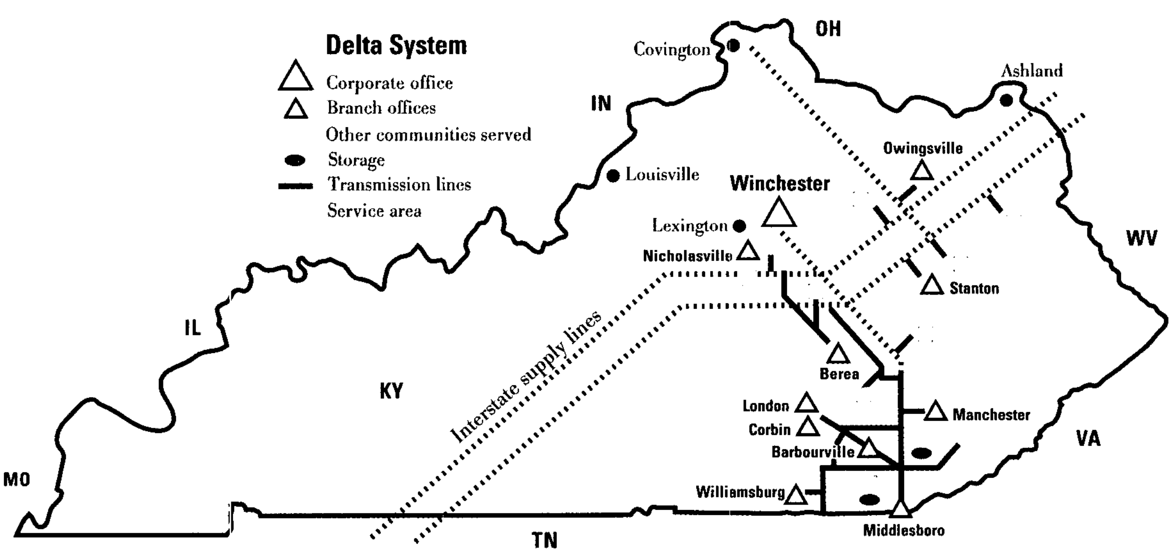
Annual Report

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

Jennings *Peet*

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 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

Glenn R. Jennings
President and
Chief Executive Officer

August 21, 1998

Delta's Mission

Maximize business growth

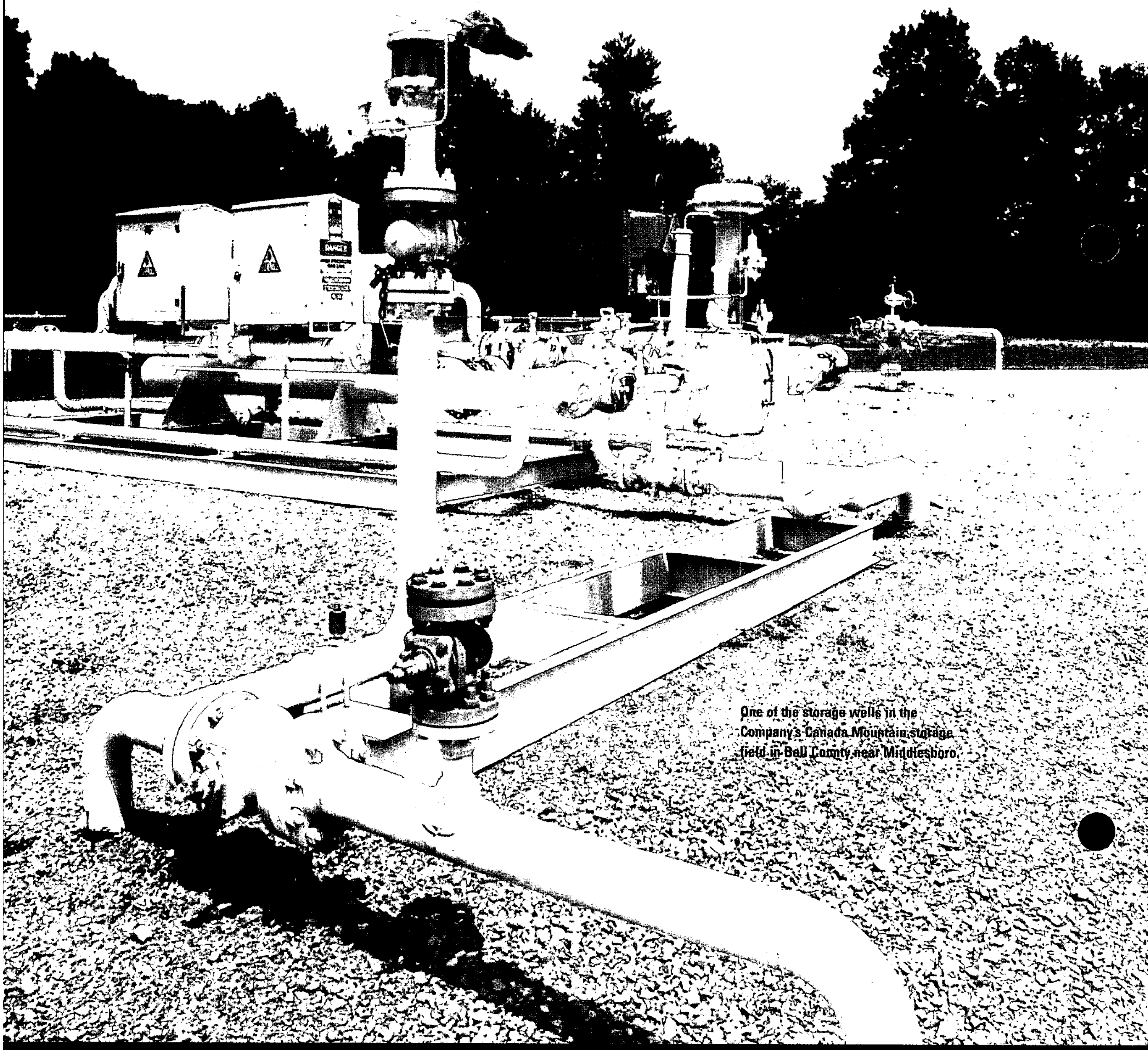
Strive for complete customer satisfaction

Ensure an excellent work environment for employees

Enhance the quality of shareholders' investment

Summary Of Operations

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 Ball 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 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.

Retail Sales Volume *(Billion cu. ft.)*

'98	4.1
'97	4.3
'96	4.7
'95	3.7
'94	4.3

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)

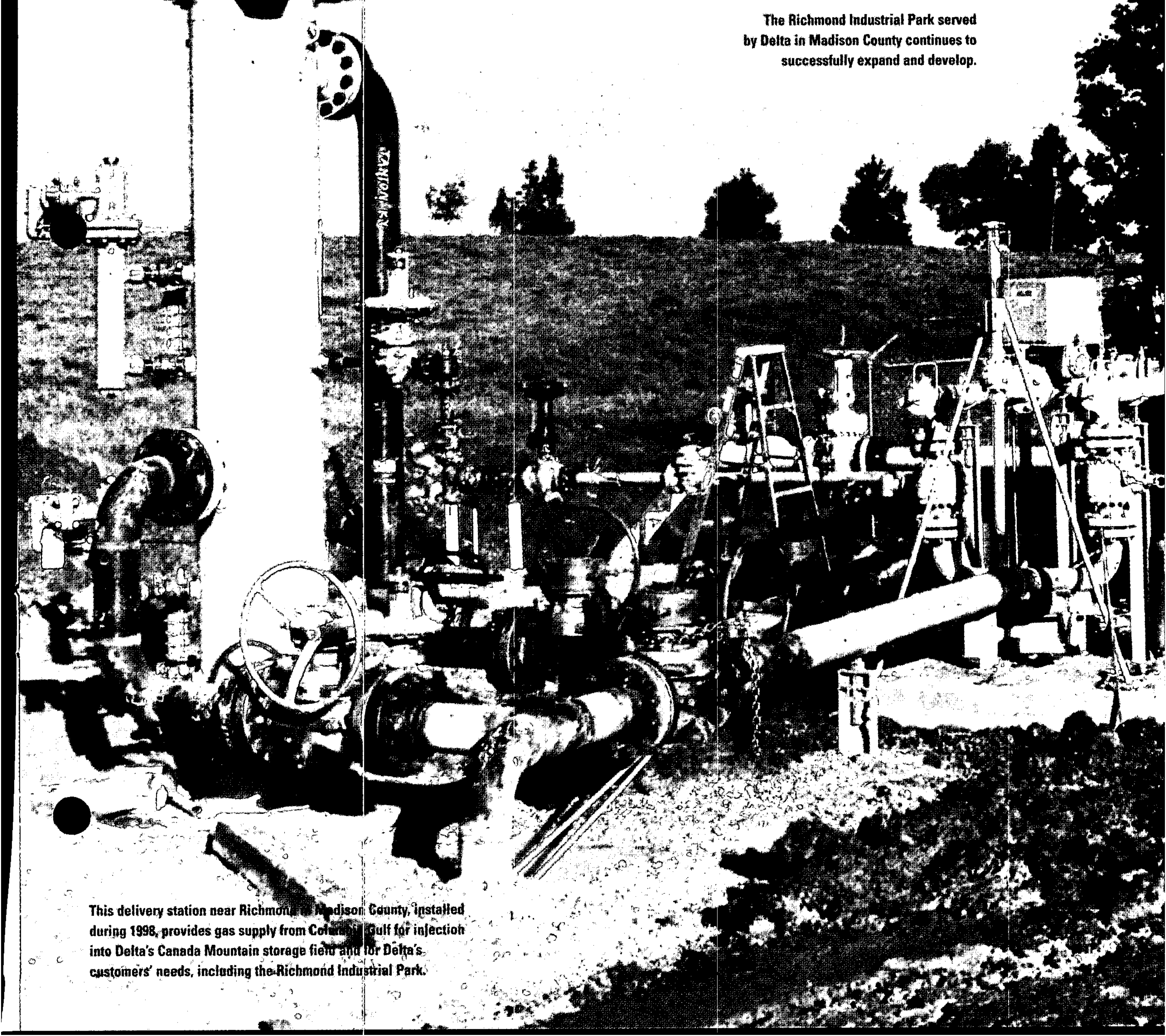
'98	93.5
'97	103.5
'96	112.3
'95	89.7
'94	106.3

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 in 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 ($) High	Low	Dividends Per Share($)
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

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 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:

	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 mangement 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

(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:

	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 trusteed, 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.:

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

Glenn R. Jennings
President and
Chief Executive Officer

John F. Hall

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

(a) Member of Nominating and
Compensation Committee

(b) Member of Audit Committee

(c) Member of Executive Committee

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

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

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

3617 Lexington Road · Winchester, Kentucky 40391 · Tel. 606 744-6171 · Fax 606 744-6552 · Website www.deltagas.com · E-mail delta@mis.net

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #6-t

Description of Filing Requirement:

If the utility had any amounts charged or allocated to it by an affiliate or general or home office...during the test period or during the previous three (3) calendar years, the utility shall file;

1) A detailed description of the method and amounts allocated or charged to that utility by the affiliate or general or home office for each allocation....;

2) An explanation of how the allocator...was determined; and

3) All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated, or paid during the test period was reasonable.

Response:

See attached.

DELTA NATURAL GAS CO., INC.
PAYMENTS TO AFFILIATES

	1998	1997	1996	1995	1994	1993
Delta Resources	6,034,774	2,687,136	3,670,592	1,495,652	1,417,630	2,648,604
Natural gas sold to Delta Natural at Delta Resources' cost. Costs are included in Delta's quarterly GCR filings.						
Deltran				-	-	-
Reservation charge for storage of natural gas. Costs are included in Delta's quarterly GCR filings.	2,114,061	1,374,225	372,748			
Enpro						
Natural gas sold to Delta Natural at $2.35 per mcf. Costs are included in Delta's quarterly GCR filings.	500,609	443,524	454,001	489,904	514,829	548,167

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #6-u

Description of Filing Requirement:

A cost of service study based on a methodology generally accepted within the industry and based on current and reliable data from a single time period.

Response:

Please refer to Volume 2, Section 31(5) to the Testimony of William Steven Seelye.

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #6-v

Description of Filing Requirement:

Local exchange carriers....

Response:

Not applicable.

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #7-a

Description of Filing Requirement:

A detailed income statement and balance sheet reflecting the impact of all proposed adjustments.

Response:

See attached.

ASSETS	Per Books 12/31/98	Backout Subs & Canada Mtn	Proposed Adjustment	Proposed
UTILITY PLANT	125,206,004	-14,323,170	1,587,945	112,470,779
Less-Accumulated provision				0
for depreciation	-33,478,352	742,254	-20,212	-32,756,310
Net utility plant	91,727,652	-13,580,916	1,567,733	79,714,469
CURRENT ASSETS				
Cash	422,379		674,876	1,097,255
Accounts receivable - net	1,781,108		-1,781,108	0
Deferred gas cost	1,354,892		-1,354,892	0
Gas in storage	3,364,903		-3,099,324	265,579
Materials and supplies	451,812			451,812
Prepayments	106,884			106,884
Total current assets	7,481,978		-5,560,448	1,921,530
OTHER ASSETS				
Cash surrender value of				
officers' life insurance	347,789		-347,789	0
Unamortized debt	3,650,173		-541,248	3,108,925
Invest in subs	1,466,060	-1,280,279	-185,781	0
Other	1,049,138		-1,049,138	0
Total other assets	6,513,160	-1,280,279	-2,123,956	3,108,925
Total assets	105,722,790	-14,861,195	-6,116,671	84,744,924
LIABILITIES AND SHAREHOLDERS' EQUITY				
CAPITALIZATION				
Common shareholders' equity	28,351,812	-5,484,286	10,509,355	33,376,881
Long-term debt	54,207,845	-8,037,940	-9,008,680	37,161,225
Total capitalization	82,559,657	-13,522,226	1,500,675	70,538,106
CURRENT LIABILITIES				
Notes payable	9,030,000	-1,338,969	-2,140,998	5,550,033
Current portion of long-ter	0			0
Accounts payable	1,749,573		-1,749,573	0
Accrued taxes	-441,509		441,509	0
Refunds due customers	72,839		-72,839	0
	-			
Customers' deposits	594,864		-594,864	0
Accrued interest on debt	1,220,198		-1,220,198	0
	0		0	0
Other current and accrued				
liabilities	881,858		-881,858	0
Total current liabiliti	13,107,823	-1,338,969	-6,218,821	5,550,033
DEFERRED CREDITS AND OTHER				
Deferred income taxes	8,436,725		0	8,436,725
Investment tax credits	602,550		-602,550	0
Regulatory liability	795,975		-795,975	0
Advances for construction a	220,060		0	220,060
Total deferred credits	10,055,310		-1,398,525	8,656,785
	105,722,790	-14,861,195	-6,116,671	84,744,924

	Per Books	---Adjustments to test period--- Revenues	Expenses	Income Taxes	Adjusted Test Period	Increase Required	Adjusted For Increase
Net Operating Revenues	34,857,742	(14,182,627)			20,675,115	2,511,797	23,186,912
Operating Expenses							
Gas Purchased	14,147,177	0	(14,147,177)		0		0
Operations & Maintenance	8,727,918	0	50,119		8,778,037		8,778,037
Depreciation	3,570,354		(20,212)		3,550,142		3,550,142
Other Taxes	1,223,848	0	(38,210)		1,185,638		1,185,638
Income Taxes	973,775			622,674	1,596,449	990,778	2,587,228
Total	28,643,072	0	(14,155,480)	622,674	15,110,266	990,778	16,101,044
Operating Income	6,214,670	(14,182,627)	(14,155,480)	622,674	5,564,849	1,521,019	7,085,868
	0	0			0		0
Interest on Debt	4,509,474		(1,395,455)		3,114,019		3,114,019
Amort of Debt Expense	0				0		0
Total Debt Expense	4,509,474	0	(1,395,455)		3,114,019		3,114,019
Net Income	1,705,196	(14,182,627)	(15,550,935)	622,674	2,450,830	1,521,019	3,971,849

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #7-c

Description of Filing Requirement:

For each proposed pro forma adjustment reflecting plant additions provide the following information:

1) The starting date of the construction of each major component of plant;

2) The proposed in-service date;

3) The total estimated cost of construction a completion;

4) The amount contained in CWIP at the end of the test period;

5) A schedule containing a complete description of actual plant retirements and anticipated retirements related to the pro forma plant additions including the actual or anticipated date of retirement;

6) The original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions;

7) An explanation of any differences in the amounts contained in the capital construction budget and the amounts of capital construction cost contained in the pro forma adjustment period; and

8) The impact on depreciation expense of all proposed pro forma adjustments for plant additions and retirements.

Response:

Not applicable since no pro forma adjustments for plant additions are proposed.

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #7-e

Description of Filing Requirement:

The number of customers to be added to the test period-end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.

Response:

See Volume 2, Section 31(6) to the Testimony of Randall J. Walker.

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #6-p

Description of Filing Requirement:

Prospectuses of the most recent stock or bond offerings;

Response:

See attached.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED MARCH 11, 1998

PROSPECTUS

DELTA NATURAL GAS COMPANY, INC.

$25,000,000 % Debentures due 2018

The % 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	%	%	%
Total	$	$	$

(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 , 1998.

Edward D. Jones & Co., L.P.

The date of this Prospectus is , 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
Maturity	April 1, 2018
Interest	% payable, semi-annually on each April 1 and October 1, commencing October 1, 1998
Beneficial Owner's Redemption Privilege	At 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 Privilege	The 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 Proceeds	To 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.

	For the Twelve Months Ended December 31, 1997	For the Fiscal Years Ended June 30, 1997	1996	1995
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

	December 31, 1997 Actual		As Adjusted(1)	
CAPITALIZATION				
Long-Term Debt (Including Current Portion)	$39,530,373	58.3%	$54,530,373	65.9%
Common Shareholders' Equity	28,255,698	41.7	28,255,698	34.1
Total Capitalization	$67,786,071	100.0%	$82,786,071	100.0%
SHORT-TERM NOTES PAYABLE	$19,395,000		$ 5,592,500	

	For the Twelve Months Ended December 31, 1997	For the Fiscal Years Ended June 30, 1997	1996	1995
RATIO OF EARNINGS TO FIXED CHARGES(2)				
Actual	1.78x	1.74x	2.50x	2.24x
Pro Forma(1)	1.75x			

(1) Adjusted to reflect the issuance of the Debentures (at an assumed interest rate of 7.1%) 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

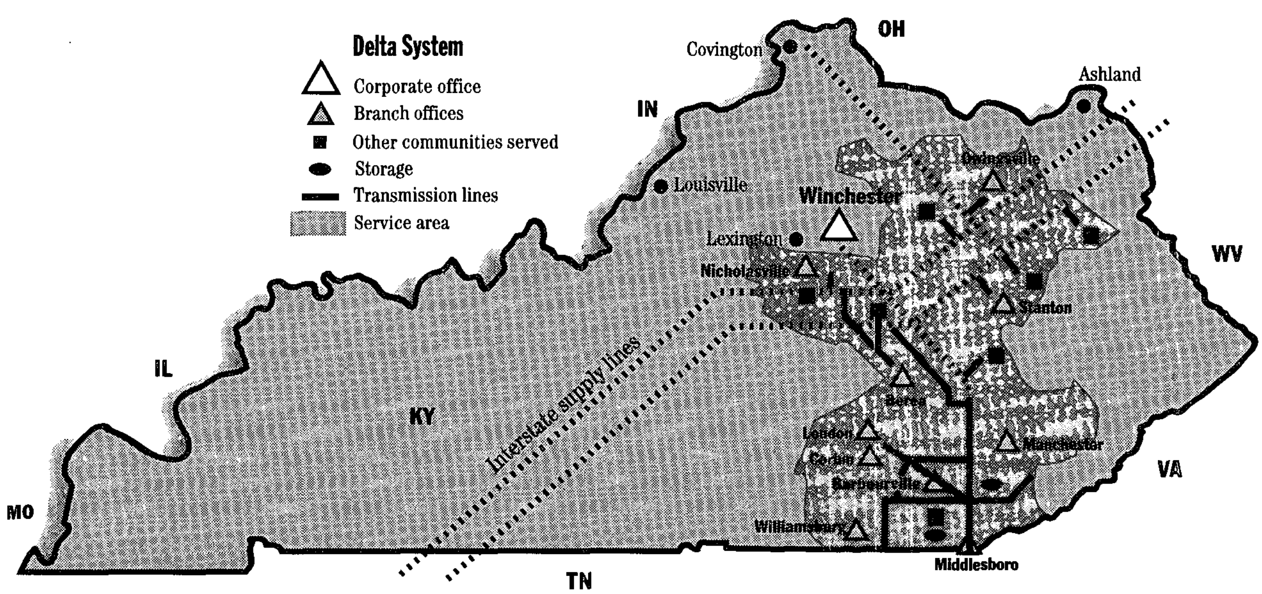
Delta is engaged primarily in the distribution, transmission and storage of natural gas with its facilities which are located in 20 counties in central and southeastern Kentucky. Delta serves 38,000 residential, commercial, industrial and transportation customers and makes transportation deliveries to 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.

	Actual		As Adjusted	
Long-term debt (including current portion)				
9% Debentures, due 2011	$10,000,000		$ —	
6 ⅝% Debentures, due 2023	13,325,000		13,325,000	
8.3% Debentures, due 2026	15,000,000		15,000,000	
% Debentures, due 2018	—		25,000,000	
Other long-term debt	1,205,373		1,205,373	
Total long-term debt	$39,530,373	58.3%	$54,530,373	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	282,553		282,553	
Total common shareholders' equity	$28,255,698	41.7%	$28,255,698	34.1%
Total capitalization	$67,786,071	100.0%	$82,786,071	100.0%
Short-term notes payable	$19,395,000		$ 5,592,500	

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 ($)						
Common shareholders' equity	28,255,698	29,474,569	23,628,323	22,511,513	22,164,791	17,501,045
Long-term debt	37,976,596	38,107,860	24,488,916	23,702,200	24,500,000	19,596,401
Notes payable refinanced subsequent to year end	—	—	18,075,000	—	—	—
Total capitalization	66,232,294	67,582,429	66,192,239	46,213,713	46,664,791	37,097,446
Short-Term Debt ($) (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)	1.75x					

(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 (at an assumed rate of 7.1%) 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	$ 426,203	$ 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 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.

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	71	74	75	72	76	75
Total	37,789	36,215	34,368	33,388	32,257	31,461
Operating Revenues ($000)						
Residential sales	20,526	19,694	16,540	14,772	16,597	14,578
Commercial sales	12,449	11,977	9,788	8,673	9,663	8,269
Industrial sales	1,976	1,890	1,483	1,248	1,671	1,383
On-system transportation	3,686	3,214	2,913	2,588	2,310	2,451
Off-system transportation	438	382	418	461	623	836
Subsidiary sales	5,889	4,904	5,297	3,959	3,755	3,532
Other	111	108	137	143	228	172
Total	45,075	42,169	36,576	31,844	34,847	31,221
System Throughput (Million Cu. Ft.)						
Residential sales	2,528	2,464	2,741	2,173	2,511	2,341
Commercial sales	1,591	1,557	1,673	1,328	1,506	1,368
Industrial sales	289	278	291	223	316	281
Total retail sales	4,408	4,299	4,705	3,724	4,333	3,990
On-system transportation	3,294	2,863	2,570	2,390	2,186	2,248
Off-system transportation	1,372	1,205	1,134	1,452	1,997	2,668
Total	9,074	8,367	8,409	7,566	8,516	8,906
Average Annual Consumption Per End of Period Residential Customer (Thousand Cu. Ft.)	77	79	92	75	90	86
Lexington, Kentucky Degree Days						
Actual	5,073	4,869	5,280	4,215	4,999	4,688
Percent of 30 year average (4,727)	107.3	103.0	111.7	89.2	105.8	99.2
Average Revenue Per Mcf Sold at Retail ($)	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:

Date of Application	Annual Revenue Increase Requested	Annual Revenue Increase Approved		Test Year (Twelve Months Ended)	Authorized Return on Common Equity
		Date Effective	Amount		
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.

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DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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	For the Fiscal Years Ended June 30,		
	(Unaudited)	1997	1996	1995
Operating Revenues	$45,074,546	$42,169,185	$36,576,055	$31,844,339
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)	1,154,275	964,800	1,559,500	1,042,400
Total operating expenses	$38,977,553	$36,853,603	$31,139,000	$27,589,251
Operating Income	$ 6,096,993	$ 5,315,582	$ 5,437,055	$ 4,255,088
Other Income and Deductions, Net	28,794	40,874	32,503	50,582
Income Before Interest Charges	$ 6,125,787	$ 5,356,456	$ 5,469,558	$ 4,305,670
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	111,600	115,366	88,800	88,800
Total interest charges	$ 4,087,549	$ 3,632,191	$ 2,808,209	$ 2,387,935
Net Income	$ 2,038,238	$ 1,724,265	$ 2,661,349	$ 1,917,735
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 (Unaudited)	For the Fiscal Years Ended June 30, 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	$ 5,902,623	$ 6,209,226	$ 3,094,809	$ 6,943,183
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	$(14,236,815)	$(16,648,994)	$(13,373,416)	$ (8,122,838)
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	$ 8,760,395	$ 10,768,558	$ 10,294,461	$ 1,158,887
Net Increase (Decrease) in Cash and Cash Equivalents	$ 426,203	$ 328,790	$ 15,854	$ (20,768)
Cash and Cash Equivalents, Beginning of Year	18,201	151,633	135,779	156,547
Cash and Cash Equivalents, End of Year	$ 444,404	$ 480,423	$ 151,633	$ 135,779
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	As of June 30, 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	$ 2,361,922	$ 2,342,223	$ 1,903,580	$ 1,868,734
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	$27,528,243	$27,203,311	$20,572,132	$20,022,643
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	$(1,917,020)	$(1,917,020)	$(1,620,252)	$(1,604,792)
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	$ 282,553	$ 1,846,055	$ 2,772,863	$ 2,224,928

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 (Unaudited)	As of June 30, 1997	As of June 30, 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)	282,553	1,846,055	2,772,863
Total common shareholders' equity	$28,255,698	$29,474,569	$23,628,323
Long-Term Debt (Notes 6 and 7)			
Debentures, 8.3%, due 2026	$15,000,000	$15,000,000	$ —
Debentures, 6 ⅝%, 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	53,777	87,559	172,135
Total long-term debt	$39,530,373	$40,095,460	$25,573,716
Less—Amounts due within one year, included in current liabilities	(1,553,777)	(1,987,600)	(1,084,800)
Net long-term debt	$37,976,596	$38,107,860	$24,488,916
Notes Payable Refinanced Subsequent to Year End (Note 5)	$ —	$ —	$18,075,000
Total capitalization	$66,232,294	$67,582,429	$66,192,239

The accompanying notes to consolidated financial statements are an integral part of these statements.

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.

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

Reconciliation of the statutory federal income tax rate to the effective income tax rate is shown in the table below:

	For the Years Ended June 30,		
	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 trusteed, 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. 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:

	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	(136,843)	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.

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 6⅝% 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 6⅝% 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.

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Basic Earnings (Loss) Per Common Share(a)	Diluted Earnings (Loss) Per Common Share(a)
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.

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DELTA NATURAL GAS COMPANY, INC.

$25,000,000

% Debentures due 2018

PROSPECTUS

Edward D. Jones & Co., L.P.

, 1998

Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #6-s

<u>Description of Filing Requirement:</u>

SEC's annual report for the most recent two (2) years, Form 10-K's and any Form 8-K's issued within the past two (2) years, and Form 10-Q's issued during the past six (6) quarters updated as current information becomes available;

<u>Response:</u>

See attached.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] 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
None	None

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 [X] 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 [X]

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	**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

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.

	Range of Stock Prices($)		Dividends
Quarter	High	Low	Per Share($)
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

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,	1998(a)	1997	1996(b)	1995	1994(c)
Summary of Operations ($)					
Operating revenues	**44,258,000**	42,169,185	36,576,055	31,844,339	34,846,941
Operating income	**6,731,859**	5,315,582	5,437,055	4,255,088	4,850,673
Net income	**2,451,272**	1,724,265	2,661,349	1,917,735	2,671,001
Earnings per common share	**1.04**	.75	1.41	1.04	1.50
Dividends declared per common share	**1.14**	1.14	1.12	1.12	1.11
Average Number of Common Shares Outstanding	**2,359,598**	2,294,134	1,886,629	1,850,986	1,775,068
Total Assets ($).........	**102,866,613**	96,681,165	81,140,637	65,948,716	61,932,480
Capitalization ($).......					
Common share-holders' equity	**29,810,294**	29,474,569	23,628,323	22,511,513	22,164,791
Long-term debt	**52,612,494**	38,107,860	24,488,916	23,702,200	24,500,000
Notes payable re-financed subsequent to yearend	**-**	-	18,075,000	-	-
Total capitalization	**82,422,788**	67,582,429	66,192,239	46,213,713	46,664,791
Short-Term Debt ($)(d)..........	**3,665,000**	12,852,600	1,084,800	6,732,700	3,205,000

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:

	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 offet 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

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 Wiser 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 Wiser 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 Wiser 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 Wiser 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:

/s/ Glenn R. Jennings (Glenn R. Jennings)	President, Chief Executive Officer and Director	September 11, 1998

(ii) Principal Financial Officer and Principal Accounting Officer:

/s/ John F. Hall (John F. Hall)	Vice President - Finance, Secretary and Treasurer	September 11, 1998

(iii) A Majority of the Board of Directors:

/s/ H. D. Peet (H. D. Peet)	Chairman of the Board	September 11, 1998
/s/ Donald R. Crowe (Donald R. Crowe)	Director	September 11, 1998
/s/ Jane Hylton Green (Jane Hylton Green)	Director	September 11, 1998

/s/ Billy Joe Hall (Billy Joe Hall)	Director	September 11, 1998
/s/ John D. Harrison (John D. Harrison)	Director	September 11, 1998
/s/ Virgil E. Scott (Virgil E. Scott)	Director	September 11, 1998
/s/ Henry C. Thompson (Henry C. Thompson)	Director	September 11, 1998
/s/ Arthur E. Walker, Jr. (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	$ 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.

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	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)

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.......	**(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.

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	(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

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**	$29,474,569
Long-term debt (Notes 6 and 7)........	**52,612,494**	38,107,860
Total capitalization	**$ 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.

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	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.

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)	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.

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:

	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
Deferred gas cost/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 trusteed, 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 $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.

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.

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 Additions		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

EXHIBIT 12

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
COMPUTATION OF THE CONSOLIDATED RATIO OF EARNINGS
TO FIXED CHARGES

	1998	1997	1996	1995	1994
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	4,348,498	3,632,191	2,808,209	2,387,935	2,214,659
Total	$8,200,770	$6,321,256	$7,029,058	$5,348,070	$6,395,260
Fixed Charges:					
Interest on debt. . . .	$4,223,946	$3,516,825	$2,719,409	$2,299,135	$2,123,255
Amortization of debt expense.	124,552	115,366	88,800	88,800	91,404
Total	$4,348,498	$3,632,191	$2,808,209	$2,387,935	$2,214,659
Ratio of Earnings to Fixed Charges	1.89x	1.74x	2.50x	2.24x	2.89x

EXHIBIT 21

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.

EXHIBIT 23

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

FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] 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
None	None

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 [X] 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 [X]

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.

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PART I

Item 1. Business

General

In 1951, Delta established its first retail gas distribution system, which provided service to approximately 300 customers in Owingsville and Frenchburg, Kentucky. As a result of acquisitions and expansions of its customer base within its existing service areas, Delta currently provides retail gas distribution service for approximately 36,000 customers in central and southeastern Kentucky and, additionally, provides transportation service to industrial customers and interconnected pipelines located in the area.

During 1995, Delta acquired leases for the storage of natural gas under approximately 8,000 acres on Canada Mountain in Bell County, Kentucky and is currently completing the development of the property as an underground natural gas storage facility. This storage field allows Delta to purchase and store gas during the non-heating months and withdraw and sell the gas during the peak usage winter months.

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 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 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.

Consolidated Statistics

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

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.

	Range of Stock Prices($)		Dividends
Quarter	High	Low	Per Share($)
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

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,	1997	1996(a)	1995	1994(b)	1993
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 ($).......					
Common shareholders' equity	**29,474,569**	23,628,323	22,511,513	22,164,791	17,501,045
Long-term debt	**38,107,860**	24,488,916	23,702,200	24,500,000	19,596,401
Notes payable refinanced subsequent to yearend	-	18,075,000	-	-	-
Total capitalization	**67,582,429**	66,192,239	46,213,713	46,664,791	37,097,446
Short-Term Debt ($)(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:

	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 periods.

Item 8. Financial Statements and Supplementary Data

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 Wiser 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 Wiser 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 Wiser 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 Wiser 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:

/s/ Glenn R. Jennings (Glenn R. Jennings)	President, Chief Executive Officer and Director	September 11, 1997

(ii) Principal Financial Officer and Principal Accounting Officer:

/s/ John F. Hall (John F. Hall)	Vice President - Finance, Secretary and Treasurer	September 11, 1997

(iii) A Majority of the Board of Directors:

/s/ H. D. Peet (H. D. Peet)	Chairman of the Board	September 11, 1997
/s/ Donald R. Crowe (Donald R. Crowe)	Director	September 11, 1997
/s/ Jane Hylton Green (Jane Hylton Green)	Director	September 11, 1997

/s/ Billy Joe Hall (Billy Joe Hall)	Director	September 11, 1997
/s/ John D. Harrison (John D. Harrison)	Director	September 11, 1997
/s/ Virgil E. Scott (Virgil E. Scott)	Director	September 11, 1997
/s/ Henry C. Thompson (Henry C. Thompson)	Director	September 11, 1997
/s/ Arthur E. Walker, Jr. (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

Glenn R. Jennings
President & Chief Executive Officer

John F. Hall

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	**$ 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

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	$ 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)

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)	$(2,073,374)
Issuance of common stock, net....	**6,773,054**	568,875	502,361
Issuance of debentures, net......	**14,334,833**	-	-
Repayment of long-term debt	**(478,256)**	(561,000)	(240,100)
Issuance of notes payable........	**30,975,000**	25,955,000	19,495,000
Repayment of notes payable.......	**(38,185,000)**	(13,555,000)	(16,525,000)
Net cash provided by financing activities	**$ 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

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	(31,734,976)	(26,749,774)
Net gas plant	$ 85,094,182	$ 72,045,849
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	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

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	$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.

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
$1.00 par value of 438,643, 34,846 and 29,394 shares issued in 1997, 1996 and 1995, respectively -			
Public issuance of common shares ..	**400,000**	-	-
Dividend reinvestment and stock purchase plan	**31,187**	28,024	25,802
Employee stock purchase plan and other	**7,456**	6,822	3,592
Balance, end of year	**$ 2,342,223**	$ 1,903,580	$ 1,868,734
Premium on Common Shares			
Balance, beginning of year	**$ 20,572,132**	$20,022,643	$19,532,909
Premium on issuance of common shares-			
Public issuance of common shares ..	**6,000,000**	-	-
Dividend reinvestment and stock purchase plan	**519,478**	440,621	425,357
Employee stock purchase plan and other	**111,701**	108,868	64,377
Balance, end of year	**$ 27,203,311**	$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

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)	**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

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:

	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	$ 453,900
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

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 trusteed, 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	(136,843)	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 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	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.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

Column A	Column B	Column C Additions		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, 1997	$ 105,756	$ 220,000	$ 27,402	$ 239,213	$ 113,945
June 30, 1996	$ 81,608	$ 156,000	$ 13,344	$ 145,196	$ 105,756
June 30, 1995	$ 131,324	$ 140,800	$ 24,449	$ 214,965	$ 81,608

EXHIBIT 12

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
COMPUTATION OF THE CONSOLIDATED RATIO OF EARNINGS
TO FIXED CHARGES

	1997	1996	1995	1994	1993
Earnings:					
Net income	$1,724,265	$2,661,349	$1,917,735	$2,671,001	$2,620,664
Provisions for income taxes	964,800	1,559,500	1,042,400	1,509,600	1,543,700
Fixed charges	3,632,191	2,808,209	2,387,935	2,214,659	2,210,833
Total	$6,321,256	$7,029,058	$5,348,070	$6,395,260	$6,375,197
Fixed Charges:					
Interest on debt	$3,516,825	$2,719,409	$2,299,135	$2,123,255	$2,134,306
Amortization of debt expense	115,366	88,800	88,800	91,404	76,527
Total	$3,632,191	$2,808,209	$2,387,935	$2,214,659	$2,210,833
Ratio of Earnings to Fixed Charges:	1.74x	2.50x	2.24x	2.89x	2.88x

EXHIBIT 21

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.

EXHIBIT 23

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

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, 1997

_____ 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 (Address of Principal Executive Offices)	40391 (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
2,353,781 Shares Outstanding as of September 30, 1997.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30		Twelve Months Ended September 30	
	1997	1996	1997	1996
OPERATING REVENUES	$ 5,215,272	$4,074,332	$43,310,125	$36,875,538
OPERATING EXPENSES				
Purchased gas	$ 2,108,688	$1,466,145	$23,907,765	$17,336,970
Operation and maintenance	2,229,271	2,038,525	8,822,381	8,662,007
Depreciation and depletion	846,154	727,190	3,054,221	2,634,493
Taxes other than income taxes	330,454	246,123	1,141,020	1,050,842
Income taxes	(481,200)	(439,800)	923,400	1,570,500
Total operating expenses	$ 5,033,367	$4,038,183	$37,848,787	$31,254,812
OPERATING INCOME	$ 181,905	$ 36,149	$ 5,461,338	$ 5,620,726
OTHER INCOME AND DEDUCTIONS, NET	4,413	14,003	31,284	39,300
INCOME BEFORE INTEREST CHARGES	$ 186,318	$ 50,152	$ 5,492,622	$ 5,660,026
INTEREST CHARGES	1,000,300	784,448	3,848,043	2,972,311
NET INCOME (LOSS)	$ (813,982)	$ (734,296)	$ 1,644,579	$ 2,687,715
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,348,453	2,212,638	2,334,164	1,988,707
NET INCOME (LOSS) PER COMMON SHARE	$ (.35)	$ (.33)	$ .70	$ 1.35
DIVIDENDS DECLARED PER COMMON SHARE	$ .285	$ .285	$ 1.14	$ 1.125

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	September 30, 1997	June 30, 1997	September 30, 1996
GAS UTILITY PLANT	$ 121,085,327	$ 116,829,158	$ 103,908,130
Less-Accumulated provision for depreciation	(32,684,990)	(31,734,976)	(27,245,397)
Net gas plant	$ 88,400,337	$ 85,094,182	$ 76,662,733
CURRENT ASSETS			
Cash and cash equivalents	$ 169,731	$ 480,423	$ 260,072
Accounts receivable - net	1,313,799	2,414,632	384,482
Gas in storage	2,368,774	1,209,171	479,216
Deferred gas costs	2,631,094	2,180,606	3,540,863
Materials and supplies	688,607	773,108	587,990
Prepayments	591,012	716,076	241,636
Total current assets	$ 7,763,017	$ 7,774,016	$ 5,494,259
OTHER ASSETS			
Cash surrender value of officers' life insurance	$ 329,917	$ 321,339	$ 312,913
Note receivable from officer	128,000	134,000	120,000
Unamortized debt expense and other	3,355,249	3,357,628	2,924,658
Total other assets	$ 3,813,166	$ 3,812,967	$ 3,357,571
Total assets	$ 99,976,520	$ 96,681,165	$ 85,514,563
LIABILITIES AND SHAREHOLDERS' EQUITY			
CAPITALIZATION			
Common shareholders' equity	$ 28,192,000	$ 29,474,569	$ 28,601,950
Long-term debt	38,117,638	38,107,860	38,997,690
Total capitalization	$ 66,309,638	$ 67,582,429	$ 67,599,640
CURRENT LIABILITIES			
Notes payable	$ 15,485,000	$ 10,865,000	$ 3,355,000
Current portion of long-term debt	1,987,600	1,987,600	1,584,800
Accounts payable	3,096,744	2,386,717	1,999,886
Accrued taxes	238,147	1,132,315	(103,741)
Refunds due customers	566,142	577,874	116,090
Customers' deposits	392,158	368,561	302,043
Accrued interest on debt	1,241,222	1,033,220	647,917
Accrued vacation	516,032	516,032	485,847
Other accrued liabilities	405,796	492,501	271,143
Total current liabilities	$ 23,928,841	$ 19,359,820	$ 8,658,985
DEFERRED CREDITS AND OTHER			
Deferred income taxes	$ 7,921,100	$ 7,921,100	$ 7,318,500
Investment tax credits	708,400	708,400	779,400
Regulatory liability	892,100	892,100	938,300
Advances for construction and other	216,441	217,316	219,738
Total deferred credits and other	$ 9,738,041	$ 9,738,916	$ 9,255,938
Total liabilities and shareholders' equity	$ 99,976,520	$ 96,681,165	$ 85,514,563

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended September 30 1997	Three Months Ended September 30 1996	Twelve Months Ended September 30 1997	Twelve Months Ended September 30 1996
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ (813,982)	$ (734,296)	$ 1,644,579	$ 2,687,715
Adjustments to reconcile net income (loss) to net cash from operating activities:				
Depreciation, depletion and amortization	902,512	783,527	3,270,189	2,821,034
Deferred income taxes and investment tax credits	-	-	485,400	1,762,500
Other, net	160,285	133,978	692,449	522,271
(Increase) decrease in other assets	(327,792)	984,897	(2,926,294)	(4,078,289)
Increase (decrease) in other liabilities	(51,854)	(888,475)	2,733,759	307,812
Net cash provided by (used in) operating activities	$ (130,831)	$ 279,631	$ 5,900,082	$ 4,023,043
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	$ (4,314,597)	$ (5,478,052)	$ (15,485,538)	$ (15,929,336)
Net cash used in investing activities	$ (4,314,597)	$ (5,478,052)	$ (15,485,538)	$ (15,929,336)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends on common stock	$ (669,494)	$ (659,786)	$ (2,660,781)	$ (2,247,733)
Issuance of common stock, net	200,907	6,367,709	606,252	6,720,718
Issuance of long-term debt, net	-	14,334,834	-	14,310,334
Repayment of long-term debt	(16,677)	(15,897)	(580,356)	(562,471)
Issuance of notes payable	8,230,000	5,015,000	34,190,000	25,770,000
Repayment of notes payable	(3,610,000)	(19,735,000)	(22,060,000)	(31,980,000)
Net cash provided by financing activities	$ 4,134,736	$ 5,306,860	$ 9,495,115	$ 12,010,848
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (310,692)	$ 108,439	$ (90,341)	$ 104,555
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	480,423	151,633	260,072	155,517
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 169,731	$ 260,072	$ 169,731	$ 260,072
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$ 764,398	$ 742,461	$ 3,143,138	$ 2,547,821
Income taxes (net of refunds)	$ 563,200	$ (66,222)	$ 262,037	$ 161,926

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, 1997 for additional footnote disclosures, including a summary of significant accounting policies.

(3) On July 19, 1996, Delta completed the issuance and sale of $15,000,000 of 8.3% Debentures that mature in July, 2026 and 400,000 shares of common stock. The net proceeds of approximately $20.4 million were used to repay short-term notes payable and for working capital

(4) On March 14, 1997, Delta filed a request for increased rates with the Kentucky Public Service Commission (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 the twelve months ended December 31, 1996. The increased rates were requested to become effective on April 13, 1997. The PSC suspended the implementation of the proposed rates so that they could investigate and determine the reasonableness of those rates. The hearing for cross-examination of witnesses was held during September, 1997. This rate increase request is still being considered by the PSC.

(5) 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

Capital expenditures for Delta for fiscal 1998 are expected to be approximately $10.4 million, of which approximately $4.3 million was expended during the three months ended September 30, 1997. Planned capital expenditures for fiscal 1998 include approximately $2.6 million for continued development of an underground storage field. 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 million, of which approximately $15.5 million was borrowed at September 30, 1997. The line of credit, which is with Bank One, Kentucky, NA, expires November 15, 1997 and Delta plans to extend the line of credit through November 15, 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 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 notes payable and for working capital.

Delta's sales are seasonal in nature, and the largest proportion of cash is received during the winter heating months when sales volumes increase considerably. During non-heating months, cash needs for operations and construction are partially met through short-term borrowings. Additionally, most construction activity takes place during the non-heating season because of more favorable weather conditions, thus increasing seasonal cash needs.

The primary cash flows during the three and twelve month periods ending September 30, 1997 and 1996 are summarized below:

	Three Months Ended September 30	
	1997	1996
Provided by (used in) operating activities	$ (130,831)	$ 279,631
Used in investing activities	(4,314,597)	(5,478,052)
Provided by financing activities	4,134,736	5,306,860
Net increase (decrease) in cash and cash equivalents	$ (310,692)	$ 108,439

	Twelve Months Ended September 30	
	1997	1996
Provided by operating activities	$ 5,900,082	$ 4,023,043
Used in investing activities	(15,485,538)	(15,929,336)
Provided by financing activities	9,495,115	12,010,848
Net increase (decrease) in cash and cash equivalents	$ (90,341)	$ 104,555

RESULTS OF OPERATIONS

Operating Revenues

The increase in operating revenues for the three months ended September 30, 1997 of $1,141,000 was due primarily to a 237,000 Mcf (36.2%) increase in on-system transportation volumes and a 197,097 Mcf (53.3%) increase in sales to Resources customers. An increase in retail sales volumes of 21,000 Mcf (8.3%) and increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause also contributed to the increase.

The increase in operating revenues for the twelve months ended September 30, 1997 of $6,435,000, 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 401,000 Mcf as a result of the warmer winter weather in 1997. Billed degree days were 104% of normal degree days for 1997 as compared with 112% in 1996. In addition, on-system transportation volumes for 1997 increased 411,000 Mcf, or 15.3%.

Operating Expenses

The increase in purchased gas expense of $643,000 for the three months ended September 30, 1997, was due primarily to increased gas purchases for Resources' customers, increases in the cost of gas purchased for retail sales and increased volumes of gas purchased for retail sales.

The increase in purchased gas expense of $6,571,000 for the twelve months ended September 30, 1997, was due primarily to increases in the cost of gas purchased for retail sales. The increase was partially offset by decreased gas purchases for retail sales resulting from the warmer winter weather in 1997.

The increases in operation and maintenance expenses of $191,000 and $160,000 for the three and twelve months ended September 30, 1997, respectively, were primarily due to increases in payroll and related benefit costs.

The increases in depreciation and depletion expense for the three and twelve months ended September 30, 1997 of $119,000 and $420,000, respectively, were primarily due to additional depreciable plant.

The increase in taxes other than income taxes for the three and twelve months ended September 30, 1997 of $84,000 and $90,000, 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.

The decreases in income taxes for the three and twelve months ending September 30, 1997 of $41,000 and $647,000, respectively, were primarily due to the decreases in net income.

Interest Charges

The increases in interest charges for the three and twelve months ended September 30, 1997 of $216,000 and $876,000, respectively, were due primarily to increased borrowings for the periods.

Earnings per Common Share

For the twelve months ended September 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.

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, 1997.

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)

Glenn R. Jennings

DATE: November 12, 1997

Glenn R. Jennings
President and Chief Executive Officer
(Duly Authorized Officer)

John F. Hall

John F. Hall
Vice President - Finance, Secretary and Treasurer
(Principal Financial Officer)

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 December 31, 1997

_____ 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 (Address of Principal Executive Offices)	40391 (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
2,361,922 Shares Outstanding as of December 31, 1997.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended December 31		Six Months Ended December 31		Twelve Months Ended December 31	
	1997	1996	1997	1996	1997	1996
OPERATING REVENUES	$11,787,820	$10,023,399	$17,003,092	$14,097,731	$45,074,546	$38,492,151
OPERATING EXPENSES						
Purchased gas	$ 6,377,384	$ 5,722,274	$ 8,486,072	$ 7,188,419	$24,562,876	$19,221,120
Operation and maintenance	2,221,490	2,146,977	4,450,761	4,185,502	8,896,894	8,813,219
Depreciation and depletion	848,404	701,040	1,694,558	1,428,230	3,201,585	2,712,661
Taxes other than income taxes	272,398	251,495	602,852	497,618	1,161,923	1,061,115
Income taxes	341,975	111,100	(139,225)	(328,700)	1,154,275	1,304,600
Total operating expenses	$10,061,651	$ 8,932,886	$15,095,018	$12,971,069	$38,977,553	$33,112,715
OPERATING INCOME	$ 1,726,169	$ 1,090,513	$ 1,908,074	$ 1,126,662	$ 6,096,993	$ 5,379,436
OTHER INCOME AND DEDUCTIONS, NET	6,518	9,009	10,931	23,012	28,794	41,027
INCOME BEFORE INTEREST CHARGES	$ 1,732,687	$ 1,099,522	$ 1,919,005	$ 1,149,674	$ 6,125,787	$ 5,420,463
INTEREST CHARGES	1,140,875	901,369	2,141,175	1,685,817	4,087,549	3,183,684
NET INCOME (LOSS)	$ 591,812	$ 198,153	$ (222,170)	$ (536,143)	$ 2,038,238	$ 2,236,779
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,357,107	2,321,571	2,352,637	2,259,639	2,342,910	2,090,251
BASIC EARNINGS (LOSS) PER COMMON SHARE	$ .25	$ .09	$ (.09)	$ (.24)	$ .87	$ 1.07
DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ .25	$ .09	$ (.09)	$ (.24)	$ .87	$ 1.07
DIVIDENDS DECLARED PER COMMON SHARE	$ .285	$ .285	$ .57	$ .57	$ 1.14	$ 1.13

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	December 31, 1997	June 30, 1997	December 31, 1996
UTILITY PLANT	$ 123,913,386	$ 116,829,158	$ 108,226,719
Less-Accumulated provision for depreciation	(33,251,728)	(31,734,976)	(27,896,192)
Net utility plant	$ 90,661,658	$ 85,094,182	$ 80,330,527
CURRENT ASSETS			
Cash and cash equivalents	$ 444,404	$ 480,423	$ 18,201
Accounts receivable - net	3,615,358	2,414,632	2,218,541
Gas in Storage	1,855,202	1,209,171	411,625
Deferred gas cost	3,796,666	2,180,606	5,851,153
Materials and supplies	710,358	773,108	640,722
Prepayments	388,449	716,076	174,857
Total current assets	$ 10,810,437	$ 7,774,016	$ 9,315,099
OTHER ASSETS			
Cash surrender value of officers' life insurance	$ 329,913	$ 321,339	$ 312,913
Note receivable from officer	122,000	134,000	114,000
Unamortized debt expense and other	3,335,330	3,357,628	2,896,758
Total other assets	$ 3,787,243	$ 3,812,967	$ 3,323,671
Total assets	$ 105,259,338	$ 96,681,165	$ 92,969,297
LIABILITIES AND SHAREHOLDERS' EQUITY			
CAPITALIZATION			
Common shareholders' equity	$ 28,255,698	$ 29,474,569	$ 28,248,744
Long-term debt	37,976,596	38,107,860	38,257,155
Total capitalization	$ 66,232,294	$ 67,582,429	$ 66,505,899
CURRENT LIABILITIES			
Notes payable	$ 19,395,000	$ 10,865,000	$ 7,790,000
Current portion of long-term debt	1,553,777	1,987,600	1,986,300
Accounts payable	4,391,125	2,386,717	4,979,032
Accrued taxes	592,850	1,132,315	(184,122)
Refunds due customers	461,147	577,874	82,060
Customers' deposits	498,566	368,561	381,341
Accrued interest on debt	1,081,096	1,033,220	890,233
Accrued vacation	516,032	516,032	485,847
Other current and accrued liabilities	385,701	492,501	369,381
Total current liabilities	$ 28,875,294	$ 19,359,820	$ 16,780,072
DEFERRED CREDITS AND OTHER			
Deferred income taxes	$ 8,393,000	$ 7,921,100	$ 7,801,800
Investment tax credits	673,500	708,400	743,900
Regulatory liability	867,675	892,100	915,200
Advances for construction and other	217,575	217,316	222,426
Total deferred credits and other	$ 10,151,750	$ 9,738,916	$ 9,683,326
Total liabilities and shareholders' equity	$ 105,259,338	$ 96,681,165	$ 92,969,297

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended December 31 1997	Six Months Ended December 31 1996	Twelve Months Ended December 31 1997	Twelve Months Ended December 31 1996
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ (222,170)	$ (536,143)	$ 2,038,238	$ 2,236,779
Adjustments to reconcile net income (loss) to net cash from operating activities:				
Depreciation, depletion and amortization	1,823,208	1,537,572	3,436,840	2,930,125
Deferred income taxes and investment tax credits	412,575	424,700	473,275	1,822,700
Other, net	380,844	358,853	688,134	606,155
Increase in other assets	(3,109,967)	(3,071,814)	(1,651,758)	(4,981,623)
Increase in other liabilities	1,419,556	2,398,800	917,894	450,684
Net cash provided by operating activities	$ 704,046	$ 1,111,968	$ 5,902,623	$ 3,064,820
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	$ (7,659,582)	$ (10,071,761)	$ (14,236,815)	$ (16,205,617)
Net cash used in investing activities	$ (7,659,582)	$ (10,071,761)	$ (14,236,815)	$ (16,205,617)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends on common stock	$ (1,341,332)	$ (1,321,313)	$ (2,671,093)	$ (2,382,238)
Issuance of common stock	344,631	6,477,877	639,809	6,748,390
Issuance of long-term debt	-	14,334,834	-	13,848,192
Repayment of long-term debt	(613,782)	(380,037)	(813,321)	(577,284)
Issuance of short-term debt	16,605,000	12,300,000	35,280,000	28,335,000
Repayment of short-term debt	(8,075,000)	(22,585,000)	(23,675,000)	(33,255,000)
Net cash provided by financing activities	$ 6,919,517	$ 8,826,361	$ 8,760,395	$ 12,717,060
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (36,019)	$ (133,432)	$ 426,203	$ (423,737)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	480,423	151,633	18,201	441,938
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 444,404	$ 18,201	$ 444,404	$ 18,201
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$ 2,149,099	$ 1,373,614	$ 4,008,286	$ 2,719,833
Income taxes (net of refunds)	$ 563,200	$ (131,000)	$ 366,032	$ 97,148

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, 1997 for additional footnote disclosures, including a summary of significant accounting policies.

(3) On July 19, 1996, Delta completed the issuance and sale of $15,000,000 of 8.3% Debentures that mature in July, 2026 and 400,000 shares of common stock. The net proceeds of approximately $20.4 million were used to repay short-term notes payable and for working capital.

(4) Effective November 30, 1997, Delta received approval from the Kentucky Public Service Commission ("PSC") for an annual revenue increase of approximately $1,670,000. This resulted from a general rate case that Delta had filed with the PSC during March, 1997. The PSC has agreed to a re-hearing, scheduled for April 2, 1998, on tax-related items that could result in approximately $157,000 of additional annual revenues.

(5) The Company adopted Statement of Financial Standards No. 128, "Earnings per Share", during the second quarter of fiscal 1998. The adoption of this statement had no impact on current or prior year earnings per share.

(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

Capital expenditures for Delta for fiscal 1998 are expected to be approximately $11.6 million, of which approximately $7.7 million 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 million, of which approximately $19.4 million 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 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. The Company anticipates a long-term debt financing during the third or fourth quarter of fiscal 1998. Proceeds are to be used to refinance certain long-term debt and to repay short-term borrowings.

Delta's sales are seasonal in nature, and the largest proportion of cash is received during the winter heating months when sales volumes increase considerably. During non-heating months, cash needs for operations and construction are partially met through short-term borrowings. Additionally, most construction activity takes place during the non-heating season because of more favorable weather conditions, thus increasing seasonal cash needs.

The primary cash flows for the six and twelve month periods ending December 31, 1997 and 1996 are summarized below:

	Six Months Ended December 31	
	1997	1996
Provided by operating activities	$ 704,046	$ 1,111,968
Used in investing activities	(7,659,582)	(10,071,761)
Provided by financing activities	6,919,517	8,826,361
Net decrease in cash and cash equivalents	$ (36,019)	$ (133,432)

	Twelve Months Ended December 31	
	1997	1996
Provided by operating activities	$ 5,902,623	$ 3,064,820
Used in investing activities	(14,236,815)	(16,205,617)
Provided by financing activities	8,760,395	12,717,060
Net increase (decrease) in cash and cash equivalents	$ 426,203	$ (423,737)

RESULTS OF OPERATIONS

Operating Revenues

The increases in operating revenues for the three and six months ended December 31, 1997 of $1,764,000 and $2,905,000, respectively, were due primarily to increases in retail sales volumes of 89,000 Mcf (8.9%) and 110,000 Mcf (8.8%), respectively, as compared to similar periods of 1996, increases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause and the general rate increase effective November 30, 1997. In addition, on-system transportation volumes for the three and six months ended December 31, 1997, increased 195,000 Mcf (27.2%) and 431,000 Mcf (31.5%), respectively, as compared with the similar periods of 1996 and sales to Resources' customers increased 134,000 Mcf (24.8%) and 331,000 Mcf (36.4%), respectively, as compared with the similar periods of 1996. Heating degree days billed were 84% of the thirty-year average ("normal") for the six months ended December 31, 1997, as compared with 72% for the similar period of 1996.

The increase in operating revenues of $6,582,000 for the twelve months ended December 31, 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 the general rate increase effective November 30, 1997. In addition, on-system transportation volumes for the twelve months ended December 31, 1997, increased 580,000 Mcf (21.4%) and sales to Resources' customers increased 367,000 Mcf (20.1%). These increases were partially offset by a decrease in retail sales volumes of 252,000 Mcf (5.4%). Heating degree days billed were 107% of normal weather for 1997 as compared with 110% for 1996.

Operating Expenses

The increases in purchased gas expense for the three and six months ended December 31, 1997 of $655,000 and $1,298,000, respectively, were due primarily to increased gas purchases for retail sales and for Resources' customers, increases in the cost of gas purchased for retail sales and increased volumes of gas purchased for retail sales.

The increase in purchased gas expense of $5,342,000 for the twelve months ended December 31, 1997, was due primarily to increases in the cost of gas purchased for retail sales. The increase was partially offset by decreased gas purchases for retail sales resulting from the reduced sales due to the warmer winter weather during 1997.

The increases in depreciation expense for the three, six and twelve months ended December 31, 1997 of $147,000, $266,000 and $489,000, respectively, were due primarily to additional depreciable plant.

The increases in taxes other than income taxes for the six and twelve months ended December 31, 1997 of $105,000 and $101,000, 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 payroll.

The increases in income taxes for the three and six months ended December 31, 1997, of $231,000 and $189,000, respectively, and the decrease in income taxes for the twelve months ended December 31, 1997 of $150,000, were primarily due to changes in net income.

Interest Charges

The increases in interest charges for the three and six months ended December 31, 1997 of $240,000 and $455,000, respectively, were due primarily to increased average short-term borrowings. The increase for the twelve months ended December 31, 1997 of $904,000 was due primarily to the increased long-term debt issued in July, 1996.

Basic Earnings (Loss) Per Common Share

For the twelve months ended December 31, 1997, the basic earnings (loss) 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.

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, 1997.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a) The Registrant held its annual meeting of shareholders on November 20, 1997.

(b) Jane Hylton Green, Harrison D. Peet and Henry C. Thompson were elected to Delta's Board of Directors for three-year terms expiring in 2000. Glenn R. Jennings, Virgil E. Scott and Arthur E. Walker, Jr. will continue to serve on Delta's Board of Directors until the election in 1999. Donald R. Crowe, Billy Joe Hall and John D. Harrison will continue to serve on Delta's Board of Directors until the election in 1998.

(c) The total shares voted in the election of Directors were 2,049,614. There were no broker non-votes. The shares voted for each Nominee were:

Jane Hylton Green	For	2,023,120	Withheld	26,494
Harrison D. Peet	For	2,023,022	Withheld	26,592
Henry C. Thompson	For	2,023,423	Withheld	26,191

(d) Not applicable.

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. On December 29, 1997, the Registrant filed a report on Form 8-K disclosing an Order from the Kentucky Public Service Commission (general rate case 97-066) approving new rates effective November 30, 1997. The approved new rates provided for additional annual revenues of approximately $1,670,000. The Form 8-K also disclosed that the Registrant had filed for rehearing on approximately $900,000 of additional revenues the PSC had disallowed.

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)

Glenn R. Jennings

DATE: February 12, 1998

Glenn R. Jennings
President and Chief Executive Officer
(Duly Authorized Officer)

John F. Hall

John F. Hall
Vice President - Finance, Secretary and Treasurer
(Principal Financial Officer)

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 March 31, 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 (Address of Principal Executive Offices)	40391 (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
2,367,461 Shares Outstanding as of March 31, 1998.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31		Nine Months Ended March 31		Twelve Months Ended March 31	
	1998	1997	1998	1997	1998	1997
OPERATING REVENUES	$ 18,305,458	$ 18,651,406	$ 35,308,550	$ 32,749,137	$ 44,728,600	$ 41,119,975
OPERATING EXPENSES						
Purchased gas	$ 10,062,400	$ 11,170,918	$ 18,548,472	$ 18,359,337	$ 23,454,358	$ 22,430,369
Operation and maintenance	2,242,846	2,223,012	6,693,607	6,408,514	8,916,730	8,887,471
Depreciation and depletion	868,254	750,982	2,562,812	2,179,212	3,318,856	2,852,810
Taxes other than income taxes	312,399	270,250	915,251	767,868	1,204,072	1,050,653
Income taxes	1,377,325	1,201,400	1,238,100	872,700	1,330,200	906,000
Total operating expenses	$ 14,863,224	$ 15,616,562	$ 29,958,242	$ 28,587,631	$ 38,224,216	$ 36,127,303
OPERATING INCOME	$ 3,442,234	$ 3,034,844	$ 5,350,308	$ 4,161,506	$ 6,504,384	$ 4,992,672
OTHER INCOME AND DEDUCTIONS, NET	10,217	4,979	21,148	27,991	34,032	44,975
INCOME BEFORE INTEREST CHARGES	$ 3,452,451	$ 3,039,823	$ 5,371,456	$ 4,189,497	$ 6,538,416	$ 5,037,647
INTEREST CHARGES	1,086,122	989,505	3,227,297	2,675,322	4,184,165	3,475,994
NET INCOME	$ 2,366,329	$ 2,050,318	$ 2,144,159	$ 1,514,175	$ 2,354,251	$ 1,561,653
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,363,783	2,329,286	2,356,167	2,280,928	2,351,418	2,192,288
BASIC EARNINGS PER COMMON SHARE	$ 1.00	$ .88	$ .91	$ .66	$ 1.00	$ .71
DILUTED EARNINGS PER COMMON SHARE	$ 1.00	$ .88	$ .91	$ .66	$ 1.00	$ .71
DIVIDENDS DECLARED PER COMMON SHARE	$ .285	$ .285	$ .855	$ .855	$ 1.14	$ 1.135

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	March 31, 1998	June 30, 1997	March 31, 1997
UTILITY PLANT	$ 125,182,821	$ 116,829,158	$ 110,214,371
Less-Accumulated provision for depreciation	(34,099,719	(31,734,976)	(28,694,189)
Net utility plant	$ 91,083,102	$ 85,094,182	$ 81,520,182
CURRENT ASSETS			
Cash and cash equivalents	$ 8,940,640	$ 480,423	$ 993,517
Accounts receivable - net	4,813,515	2,414,632	3,234,489
Deferred (advance) gas cost recovery	(163,693	1,209,171	4,120,929
Gas in storage	443,663	2,180,606	326,088
Materials and supplies	692,025	773,108	813,760
Prepayments	373,649	312,379	385,377
Total current assets	$ 15,099,799	$ 7,370,319	$ 9,874,160
OTHER ASSETS			
Cash surrender value of Officers' life insurance	$ 329,913	$ 321,339	$ 312,913
Note receivable from officer	116,000	134,000	108,000
Unamortized debt expense and other	4,629,086	3,761,325	3,359,875
Total other assets	$ 5,074,999	$ 4,216,664	$ 3,780,788
Total assets	$ 111,257,900	$ 96,681,165	$ 95,175,130
LIABILITIES AND SHAREHOLDERS' EQUITY			
CAPITALIZATION			
Common shareholders' equity	$ 30,048,071	$ 29,474,569	$ 29,800,389
Long-term debt	52,614,870	38,107,860	38,206,645
Total capitalization	$ 82,662,941	$ 67,582,429	$ 68,007,034
CURRENT LIABILITIES			
Notes payable	$ -	$ 10,865,000	$ 9,010,000
Current portion of long-term debt	11,766,700	1,987,600	1,986,300
Accounts payable	2,185,433	2,386,717	2,800,265
Accrued taxes	1,550,746	1,132,315	858,870
Refunds due customers	149,207	577,874	474,102
Customers' deposits	509,098	368,561	401,247
Accrued interest on debt	1,330,529	1,033,220	1,047,839
Accrued vacation	516,032	516,032	485,847
Other current and accrued liabilities	441,839	492,501	424,835
Total current liabilities	$ 18,449,584	$ 19,359,820	$ 17,489,305
DEFERRED CREDITS AND OTHER			
Deferred income taxes	$ 8,393,000	$ 7,921,100	$ 7,801,800
Investment tax credits	673,500	708,400	743,900
Regulatory liability	861,300	892,100	915,200
Advances for construction and other	217,575	217,316	217,891
Total deferred credits and other	$ 10,145,375	$ 9,738,916	$ 9,678,791
Total liabilities and shareholders' equity	$ 111,257,900	$ 96,681,165	$ 95,175,130

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended March 31		Twelve Months Ended March 31	
	1998	1997	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 2,144,159	$ 1,514,175	$ 2,354,251	$ 1,561,653
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation, depletion and amortization	2,776,232	2,341,348	3,585,434	3,099,994
Deferred income taxes and investment tax credits	406,200	424,700	466,900	1,804,100
Other, net	555,788	496,617	792,836	626,270
(Increase) decrease in other assets	611,909	(3,140,576	2,138,879	(944,763)
Increase (decrease) in other liabilities	175,923	1,883,498	189,563	(415,016)
Net cash provided by operating activities	$ 6,670,211	$ 3,519,762	$ 9,527,863	$ 5,732,238
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures	$ (9,138,924)	$ (12,149,508	$ (13,705,277)	$ (16,026,733)
Net cash used in investing activities	$ (9,138,924)	$ (12,149,508	$ (13,705,277)	$ (16,026,733)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends on common stock	$ (2,014,795)	$ (1,985,174	$ (2,680,694)	$ (2,516,715)
Issuance of common stock	444,138	6,643,065	574,125	6,769,044
Issuance of long-term debt	24,147,443	14,334,834	24,147,443	13,848,192
Repayment of long-term debt	(782,856)	(456,095	(906,337)	(563,810)
Issuance of short-term debt	23,675,000	22,835,000	31,815,000	29,730,000
Repayment of short-term debt	(34,540,000)	(31,900,000	(40,825,000)	(36,180,000)
Net cash provided by financing activities	$ 10,928,930	$ 9,471,630	$ 12,124,537	$ 11,086,711
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 8,460,217	$ 841,884	$ 7,947,123	$ 792,216
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	480,423	151,633	993,517	201,301
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,940,640	$ 993,517	$ 8,940,640	$ 993,517
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for				
Interest	$ 3,013,688	$ 2,177,613	$ 4,013,075	$ 2,840,692
Income taxes (net of refunds)	$ 563,200	$ (220,813	$ 351,850	$ 65,687

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, 1997 for additional footnote disclosures, including a summary of significant accounting policies.

(3) On July 19, 1996, Delta completed the issuance and sale of $15,000,000 of 8.3% Debentures that mature in July, 2026 and 400,000 shares of common stock. The net proceeds of approximately $20.4 million were used to repay short-term notes payable and for working capital.

(4) Effective November 30, 1997, Delta received approval from the Kentucky Public Service Commission ("PSC") for an annual revenue increase of approximately $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 approximately $157,000 in this rate case, resulting from a rehearing of certain tax-related items.

(5) The PSC, by its order dated April 24, 1998, approved the Company's continuing recovery in its rates, effective March 2, 1998, of costs in connection with its recently developed underground storage facilities on Canada Mountain. The Company does not expect the implementation of this order to have a material adverse impact on its financial position or results of operations.

(6) 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. Unamortized debt expense of \$332,200 and call premium of \$300,000 on the redeemed 9% Debentures were deferred and are being amortized over the term of the related debt consistent with regulatory treatment.

(7) The Company adopted Statement of Financial Standards No. 128, "Earnings per Share", during the second quarter of fiscal 1998. The adoption of this statement had no impact on current or prior year earnings per share.

(8) For comparative purposes, certain fiscal 1997 amounts have been reclassified to conform with fiscal 1998 presentation. There was no impact on the previously reported net income for fiscal 1997.

(9) 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

Capital expenditures for Delta for fiscal 1998 are expected to be approximately $11.6 million, of which approximately $9.1 million was expended during the nine months ended March 31, 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 none was borrowed at March 31, 1998. The line of credit, which is with Bank One, Kentucky, NA, expires during November, 1998. These short-term borrowings are periodically repaid with long-term debt and equity securities, as was done when the net proceeds from the sale of $25,000,000 of debentures in March, 1998 was used to redeem the Company's $10,000,000 of 9% Debentures that would have matured in April, 2011 and to repay short-term borrowings.

Delta's sales are seasonal in nature, and the largest proportion of cash is received during the winter heating months when sales volumes increase considerably. During non-heating months, cash needs for operations and construction are partially met through short-term borrowings. Additionally, most construction activity takes place during the non-heating season because of more favorable weather conditions, thus increasing seasonal cash needs.

The primary cash flows for the nine and twelve month periods ending March 31, 1998 and 1997 are summarized below:

	Nine Months Ended March 31	
	1998	1997
Provided by operating activities	$ 6,670,211	$ 3,519,762
Used in investing activities	(9,138,924)	(12,149,508)
Provided by financing activities	10,928,930	9,471,630
Net increase in cash and cash equivalents	$ 8,460,217	$ 841,884

	Twelve Months Ended March 31	
	1998	1997
Provided by operating activities	$ 9,527,863	$ 5,732,238
Used in investing activities	(13,705,277)	(16,026,733)
Provided by financing activities	12,124,537	11,086,711
Net increase in cash and cash equivalents	$ 7,947,123	$ 792,216

RESULTS OF OPERATIONS

Operating Revenues

The increases in operating revenues for the nine and twelve months ended March 31, 1998 of approximately $2,559,000 and $3,609,000, respectively, were 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 the general rate increase effective November 30, 1997. In addition, on-system transportation volumes for the nine and twelve months ended March 31, 1998 increased 504,000 Mcf (23%) and 554,000 Mcf (20%), respectively, and sales to Resources' customers increased 407,000 Mcf (29%) and 426,000 Mcf (23%), respectively. The increases were partially offset by decreases in Delta's retail sales volumes of approximately 71,000 Mcf and 144,000 Mcf for the respective periods. Billed degree days were approximately 85.2% and 101.5% of the thirty-year average degree days for the nine and twelve months ended March 31, 1998 as compared with approximately 87.5% and 100% for the similar periods of 1997.

Operating Expenses

The decrease in purchased gas expense for the three months ended March 31, 1998 of approximately $1,109,000 was due primarily to a decrease in gas purchases for retail sales of approximately 180,000 Mcf (8.4%) resulting from warmer winter weather in 1998. Billed degree days in 1998 were 6% less than the billed degree days for the same period in 1997.

The increases in depreciation expense for the three, nine and twelve months ended March 31, 1998 of approximately $117,000, $384,000 and $466,000, respectively, were due primarily to additional depreciable plant.

The increases in taxes other than income taxes for the nine and twelve months ended March 31, 1998 of $147,000 and $153,000, 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 payroll.

The increases in income taxes for the three, nine and twelve months ended March 31, 1998, of $176,000, $365,000 and $424,000, respectively, were primarily due to increases in net income.

Interest Charges

The increases in interest charges for the three and nine months ended March 31, 1998 of $97,000 and $552,000, respectively, were due primarily to increased average short-term borrowings. The increase in interest charges for the twelve months ended March 31, 1998 of $708,000 was due to increased average short-term borrowings and increased long-term debt issued in July, 1996.

Basic Earnings Per Common Share

For the twelve months ended March 31, 1998, the basic 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 1998 period.

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, 1997.

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)

Glenn R. Jennings

DATE: May 11, 1998

Glenn R. Jennings
President and Chief Executive Officer
(Duly Authorized Officer)

John F. Hall

John F. Hall
Vice President - Finance, Secretary and Treasurer
(Principal Financial Officer)

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 (Address of Principal Executive Offices)	40391 (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

M 1. FINANCIAL STATEMENTS.

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	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
OME 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	$ 93,196,800	$ 92,098,678	$ 88,400,337
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	$ 6,511,764	$ 5,469,429	$ 7,422,620
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	$ 5,171,090	$ 5,298,506	$ 4,153,563
Total assets	$ 104,879,654	$ 102,866,613	$ 99,976,520
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	$ 81,168,248	$ 82,422,788	$ 66,309,638
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	$ 14,005,521	$ 10,733,905	$ 23,928,841
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	$ 9,705,885	$ 9,709,920	$ 9,738,041
Total liabilities and shareholders' equity	$ 104,879,654	$ 102,866,613	$ 99,976,520

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended September 30 1998	Three Months Ended September 30 1997	Twelve Months Ended September 30 1998	Twelve Months Ended September 30 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:

	Three Months Ended September 30	
	1998	1997
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	4,593,246	4,134,736
Net increase (decrease) in cash and cash equivalents	$ 75,886	$ (310,692)

	Twelve Months Ended September 30	
	1998	1997
Provided by operating activities	$ 7,124,680	$ 5,900,082
Used in investing activities	(9,141,669)	(15,485,538)
Provided by financing activities	2,041,680	9,495,115
Net increase (decrease) in cash and cash equivalents	$ 24,691	$ (90,341)

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)

Glenn R. Jennings

DATE: November 3, 1998

Glenn R. Jennings
President and Chief Executive Officer
(Duly Authorized Officer)

John F. Hall

John F. Hall
Vice President - Finance, Secretary and Treasurer
(Principal Financial Officer)

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 December 31, 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 (Address of Principal Executive Offices)	40391 (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
2,394,633 Shares Outstanding as of December 31, 1998.

ITEM 1. FINANCIAL STATEMENTS.

PART 1 - FINANCIAL INFORMATION

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended December 31		Six Months Ended December 31		Twelve Months Ended December 31	
	1998	1997	1998	1997	1998	1997
OPERATING REVENUES	$ 8,630,074	$11,787,820	$13,568,209	$17,003,092	$40,823,124	$45,074,546
OPERATING EXPENSES						
Purchased gas	$ 3,560,085	$ 6,377,384	$ 5,081,164	$ 8,486,072	$19,094,583	$24,562,876
Operation and maintenance	2,232,268	2,221,490	4,384,316	4,450,761	8,901,768	8,896,894
Depreciation and depletion	961,346	848,404	1,900,275	1,694,558	3,651,099	3,201,585
Taxes other than income taxes	323,076	272,398	634,237	602,852	1,243,443	1,161,923
Income taxes	138,025	341,975	(278,750)	(139,225)	1,261,475	1,154,275
Total operating expenses	$ 7,214,800	$10,061,651	$11,721,242	$15,095,018	$34,152,368	$38,977,553
OPERATING INCOME	$ 1,415,274	$ 1,726,169	$ 1,846,967	$ 1,908,074	$ 6,670,756	$ 6,096,993
OTHER INCOME AND DEDUCTIONS, NET	10,487	6,518	15,082	10,931	72,059	28,794
INCOME BEFORE INTEREST CHARGES	$ 1,425,761	$ 1,732,687	$ 1,862,049	$ 1,919,005	$ 6,742,815	$ 6,125,787
INTEREST CHARGES	1,172,986	1,140,875	2,303,051	2,141,175	4,510,374	4,087,549
NET INCOME (LOSS)	$ 252,775	$ 591,812	$ (441,002)	(222,170)	2,232,441	$ 2,038,238
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,390,737	2,357,107	2,386,177	2,352,637	2,376,645	2,342,910
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ .11	$ .25	$ (.18)	(.09)	.94	$ .87
DIVIDENDS DECLARED PER COMMON SHARE	$ .285	$ .285	$ .57	.57	1.14	$ 1.14

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	December 31, 1998	June 30, 1998	December 31, 1997
UTILITY PLANT	$ 131,386,516	$ 127,028,159	$ 123,913,386
Less-Accumulated provision for depreciation	(36,790,643)	(34,929,481)	(33,251,728)
Net utility plant	$ 94,595,873	$ 92,098,678	$ 90,661,658
CURRENT ASSETS			
Cash and cash equivalents	$ 422,379	$ 118,536	$ 444,404
Accounts receivable - net	1,903,643	2,538,800	3,615,358
Gas in storage	3,364,903	2,050,000	1,855,202
Deferred gas cost	1,354,892	-	3,796,666
Materials and supplies	451,812	520,362	710,358
Prepayments	106,884	241,731	120,607
Total current assets	$ 7,604,513	$ 5,469,429	$ 10,542,595
OTHER ASSETS			
Cash surrender value of Officers' life insurance	$ 347,789	$ 339,215	$ 329,913
Note receivable from officer	134,000	110,000	122,000
Unamortized debt expense and other	4,589,311	4,849,291	3,603,172
Total other assets	$ 5,071,100	$ 5,298,506	$ 4,055,085
Total assets	$ 107,271,486	$ 102,866,613	$ 105,259,338
LIABILITIES AND SHAREHOLDERS' EQUITY			
CAPITALIZATION			
Common shareholders' equity	$ 28,351,812	$ 29,810,294	$ 28,255,698
Long-term debt	51,757,845	52,612,494	37,976,596
Total capitalization	$ 80,109,657	$ 82,422,788	$ 66,232,294
CURRENT LIABILITIES			
Notes payable	$ 9,030,000	$ 1,875,000	$ 19,395,000
Current portion of long-term debt	2,450,000	1,790,000	1,553,777
Accounts payable	2,870,630	2,050,628	4,391,125
Accrued taxes	(43,869)	1,085,766	592,850
Refunds due customers	72,839	117,123	461,147
Advance recovery of gas costs	-	1,148,019	-
Customers' deposits	594,863	438,134	498,566
Accrued interest on debt	1,220,198	1,215,265	1,081,096
Accrued vacation	528,952	528,952	516,032
Other accrued liabilities	382,906	485,018	385,701
Total current liabilities	$ 17,106,519	$ 10,733,905	$ 28,875,294
DEFERRED CREDITS AND OTHER			
Deferred income taxes	$ 8,436,725	$ 8,023,475	$ 8,393,000
Investment tax credits	602,550	637,300	673,500
Regulatory liability	795,975	831,425	867,675
Advances for construction and other	220,060	217,720	217,575
Total deferred credits and other	$ 10,055,310	$ 9,709,920	$ 10,151,750
Total liabilities and shareholders' equity	$ 107,271,486	$ 102,866,613	$ 105,259,338

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended December 31		Twelve Months Ended December 31	
	1998	1997	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ (441,002)	$ (222,170)	$ 2,232,441	$ 2,038,238
Adjustments to reconcile net income (loss) to net cash from operating activities:				
Depreciation, depletion and amortization	2,238,006	1,823,208	4,307,282	3,436,840
Deferred income taxes and investment tax credits	343,050	412,575	(98,925)	473,275
Other, net	387,858	380,844	705,594	688,134
(Increase)decrease in other assets	(3,011,834)	(3,109,967)	2,594,114	(1,651,758)
Increase(decrease) in other liabilities	(292,027)	1,419,556	(2,297,513)	917,894
Net cash provided by (used in) operating activities	$ (775,949)	$ 704,046	$ 7,442,993	$ 5,902,623
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	$ (4,820,728)	$ (7,659,582)	$ (8,355,710)	$ (14,236,815)
Net cash used in investing activities	$ (4,820,728)	$ (7,659,582)	$ (8,355,710)	$ (14,236,815)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends on common stock	$ (1,360,481)	$ (1,341,332)	$ (2,709,382)	$ (2,671,093)
Issuance of common stock, net	343,001	344,631	573,055	639,809
Issuance of long-term debt, net	-	-	23,797,796	-
Repayment of long-term debt	(237,000)	(613,782)	(10,405,777)	(813,321)
Issuance of notes payable	12,140,000	16,605,000	21,735,000	35,280,000
Repayment of notes payable	(4,985,000)	(8,075,000)	(32,100,000)	(23,675,000)
Net cash provided by financing activities	$ 5,900,520	$ 6,919,517	$ 890,692	$ 8,760,395
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 303,843	$ (36,019)	$ (22,025)	$ 426,203
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	118,536	480,423	444,404	18,201
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 422,379	$ 444,404	$ 422,379	$ 444,404
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$ 2,378,698	$ 2,149,099	$ 4,520,604	$ 4,008,286
Income taxes (net of refunds)	$ 380,400	$ 563,200	$ 1,456,400	$ 366,032

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) 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. Delta adopted SFAS 130 during the quarter ended September 30, 1998. The adoption of this statement had no impact on the financial statements of the Company.

(4) 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 re-hearing of certain tax-related items in this rate case, Delta also received approval from the PSC for an additional revenue increase of $117,000.

(5) 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.

(6) On February 5, 1999, Delta filed proposed new tariffs with the PSC that would provide for annual rate adjustments each July 1, beginning July 1, 1999. The tariffs would adjust Delta's rates annually to reflect Delta's budgeted plans for the next fiscal year and would provide a return on equity within a band of 11.1% to 12.1%. The tariffs are proposed for an experimental three year period. The PSC has taken no action on the proposed tariffs.

(7) 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 $4.8 million was expended during the six months ended December 31, 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 $9 million was borrowed at December 31, 1998. The line of credit, which is with Bank One, Kentucky, NA, requires renewal during 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 $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 for the six and twelve month periods ending December 31, 1998 and 1997 are summarized below:

	Six Months Ended December 31	
	1998	1997
Used in operating activities	$ (775,949)	$ 704,046
Used in investing activities	(4,820,728)	(7,659,582)
Provided by financing activities	5,900,520	6,919,517
Net increase (decrease) in cash and cash equivalents	$ 303,843	$ (36,019)

	Twelve Months Ended December 31	
	1998	1997
Provided by operating activities	$ 7,442,993	$ 5,902,623
Used in investing activities	(8,355,710)	(14,236,815)
Provided by financing activities	890,692	8,760,395
Net increase (decrease) in cash and cash equivalents	$ (22,025)	$ 426,203

RESULTS OF OPERATIONS

Operating Revenues

The decreases in operating revenues for the three, six and twelve months ended December 31, 1998 of $3,158,000, $3,435,000 and $4,251,000, respectively, were due primarily to decreases in retail sales volumes of 372,000 Mcf (34%), 410,000 Mcf (30%) and 706,000 Mcf (16%), respectively, as compared to similar periods of 1997, resulting from warmer winter weather in 1998. Heating degree days billed were 47%, 46% and 83%, of the thirty-year average ("normal") for the three, six and twelve months ended December 31, 1998, as compared with 76%, 75% and 104% for the similar periods of 1997.

Operating revenues for the periods also decreased due to decreases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause. This decrease was offset by the general rate increase effective November 30, 1997.

Operating Expenses

The decreases in purchased gas expense for the three, six and twelve months ended December 31, 1998 of $2,817,000, $3,405,000 and $5,468,000 respectively, were due primarily to 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 expense for the three, six and twelve months ended December 31, 1998 of $113,000, $206,000 and $450,000, respectively, were due primarily to additional depreciable plant.

The decreases in income taxes for the three and six months ended December 31, 1998, of $204,000 and $140,000, respectively, and the increase in income taxes for the twelve months ended December 31, 1998 of $107,000, were primarily due to changes in net income.

Interest Charges

The increases in interest charges for the six and twelve months ended December 31, 1998 of $162,000 and $423,000, respectively, were due primarily to increased borrowings for the periods.

The "Year 2000" Issue

The Company is working to address 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, which has coordinated 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 and service providers.

The Committee is assessing the likelihood of miscalculations or system failures as a result of these items, systems or service providers. The Company has assessed 94% of these inventoried items, systems and service providers. This assessment percentage for the items Delta deems as "critical" stands at 92%. Delta has been diligently working to insure that critical or otherwise important items assessed as certain to fail are either repaired or replaced so as not to cause business interruption or data integrity problems on January 1, 2000.

The costs incurred to date related to Year 2000 activities have not been material to the Company, and based upon current estimates, the Company does not believe that the total cost of its Year 2000 readiness programs will have a material adverse impact on the Company's results of operations or 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 systems and 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 has sent 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. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a) The Registrant held its annual meeting of shareholders on November 19, 1998.

(b) Donald R. Crowe, Billy Joe Hall and John D. Harrison were elected to Delta's Board of Directors for three-year terms expiring in 2001. Glenn R. Jennings, Virgil E. Scott and Arthur E. Walker, Jr. will continue to serve on Delta's Board of Directors until the election in 1999. Jane Hylton Green, Harrison D. Peet and Henry C. Thompson will continue to serve on Delta's Board of Directors until the election in 2000.

(c) The total shares voted in the election of Directors were 2,134,581. There were no broker non-votes. The shares voted for each Nominee were:

Donald R. Crowe	For	2,113,653	Withheld	20,928
Billy Joe Hall	For	2,115,754	Withheld	18,827
John D. Harrison	For	2,109,490	Withheld	25,091

(d) Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

Exhibit No. 10(M) - Employment agreement dated November 30, 1998 between Delta and Glenn R. Jennings, an officer.

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)

Glenn R. Jennings

DATE: February 11, 1999

Glenn R. Jennings
President and Chief Executive Officer
(Duly Authorized Officer)

John F. Hall

John F. Hall
Vice President - Finance, Secretary and Treasurer
(Principal Financial Officer)

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 March 31, 1999

_____ 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 (Address of Principal Executive Offices)	40391 (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
2,402,722 Shares Outstanding as of March 31, 1999.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31		Nine Months Ended March 31		Twelve Months Ended March 31	
	1999	1998	1999	1998	1999	1998
OPERATING REVENUES	$ 16,890,711	$ 18,305,458	$ 30,458,920	$ 35,308,550	$ 39,408,372	$ 44,728,600
OPERATING EXPENSES						
Purchased gas	$ 8,139,116	$ 10,062,400	$ 13,220,280	$ 18,548,472	$ 17,171,297	$ 23,454,358
Operation and maintenance	2,300,903	2,242,846	6,685,219	6,693,607	8,959,825	8,916,730
Depreciation and depletion	974,520	868,254	2,874,795	2,562,812	3,757,366	3,318,856
Taxes other than income taxes	355,669	312,399	989,906	915,251	1,286,713	1,204,072
Income taxes	1,469,425	1,377,325	1,190,675	1,238,100	1,353,575	1,330,200
Total operating expenses	$ 13,239,633	$ 14,863,224	$ 24,960,875	$ 29,958,242	$ 32,528,776	$ 38,224,216
OPERATING INCOME	$ 3,651,078	$ 3,442,234	$ 5,498,045	$ 5,350,308	$ 6,879,596	$ 6,504,384
OTHER INCOME AND DEDUCTIONS, NET	6,131	10,217	21,213	21,148	67,976	34,032
INCOME BEFORE INTEREST CHARGES	$ 3,657,209	$ 3,452,451	$ 5,519,258	$ 5,371,456	$ 6,947,572	$ 6,538,416
INTEREST CHARGES	1,141,873	1,086,122	3,444,924	3,227,297	4,566,125	4,184,165
NET INCOME	$ 2,515,336	$ 2,366,329	$ 2,074,334	$ 2,144,159	$ 2,381,447	$ 2,354,251
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,397,453	2,363,783	2,389,842	2,356,167	2,384,915	2,351,418
BASIC AND DILUTED EARNINGS PER COMMON SHARE	$ 1.05	$ 1.00	$ .87	$ .91	$ 1.00	$ 1.00
DIVIDENDS DECLARED PER COMMON SHARE	$ .285	$ .285	$ .855	$ .855	$ 1.14	$ 1.14

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	March 31, 1999	June 30, 1998	March 31, 1998
UTILITY PLANT	$ 132,540,282	$ 127,028,159	$ 125,182,821
Less-Accumulated provision for depreciation	(37,956,082)	(34,929,481)	(34,099,719)
Net utility plant	$ 94,584,200	$ 92,098,678	$ 91,083,102
CURRENT ASSETS			
Cash and cash equivalents	$ 345,330	$ 118,536	$ 8,940,640
Accounts receivable - net	3,579,493	2,538,800	4,813,515
Gas in storage	1,953,711	2,050,000	443,663
Materials and supplies	554,170	520,362	692,025
Prepayments	315,825	241,731	373,649
Total current assets	$ 6,748,529	$ 5,469,429	$ 15,263,492
OTHER ASSETS			
Cash surrender value of Officers' life insurance	$ 347,789	$ 339,215	$ 329,913
Note receivable from officer	128,000	110,000	116,000
Unamortized debt expense and other	5,119,975	4,849,291	4,629,086
Total other assets	$ 5,595,764	$ 5,298,506	$ 5,074,999
Total assets	$ 106,928,493	$ 102,866,613	$ 111,421,593

LIABILITIES AND SHAREHOLDERS' EQUITY			
CAPITALIZATION			
Common shareholders' equity	$ 30,329,591	$ 29,810,294	$ 30,048,071
Long-term debt	51,729,581	52,612,494	52,614,870
Total capitalization	$ 82,059,172	$ 82,422,788	$ 82,662,941
CURRENT LIABILITIES			
Notes payable	$ 4,910,000	$ 1,875,000	$ -
Current portion of long-term debt	2,450,000	1,790,000	11,766,700
Accounts payable	2,548,357	2,050,628	2,185,433
Accrued taxes	1,461,053	1,085,766	1,550,746
Refunds due customers	49,716	117,123	149,207
Advance recovery of gas costs	246,796	1,148,019	163,693
Customers' deposits	610,003	438,134	509,098
Accrued interest on debt	1,575,051	1,215,265	1,330,529
Accrued vacation	528,952	528,952	516,032
Other current and accrued liabilities	444,758	485,018	441,839
Total current liabilities	$ 14,824,686	$ 10,733,905	$ 18,613,277
DEFERRED CREDITS AND OTHER			
Deferred income taxes	$ 8,436,725	$ 8,023,475	$ 8,393,000
Investment tax credits	602,550	637,300	673,500
Regulatory liability	789,600	831,425	861,300
Advances for construction and other	215,760	217,720	217,575
Total deferred credits and other	$ 10,044,635	$ 9,709,920	$ 10,145,375
Total liabilities and shareholders' equity	$ 106,928,493	$ 102,866,613	$ 111,421,593

DELTA NATURAL GAS COMPANY, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended March 31 1999	Nine Months Ended March 31 1998	Twelve Months Ended March 31 1999	Twelve Months Ended March 31 1998
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 2,074,334	$ 2,144,159	$ 2,381,447	$ 2,354,251
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation, depletion and amortization	3,181,553	2,776,232	4,162,201	3,585,434
Deferred income taxes and Investment tax credits	336,675	406,200	(98,925)	466,900
Other, net	537,897	555,788	696,591	792,836
(Increase) decrease in other assets	(2,437,357)	611,909	(416,574)	2,138,879
Increase (decrease) in other liabilities	1,295,044	175,923	533,191	189,563
Net cash provided by operating activities	$ 4,988,146	$ 6,670,211	$ 7,257,931	$ 9,527,863
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures	$ (5,954,315)	$ (9,138,924)	$ (8,025,855)	$ (13,705,277)
Net cash used in investing activities	$ (5,954,315)	$ (9,138,924)	$ (8,025,855)	$ (13,705,277)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends on common stock	$ (2,043,580)	$ (2,014,795)	$ (2,719,018)	$ (2,680,694)
Issuance of common stock	488,543	444,138	619,091	574,125
Issuance of long-term debt	-	24,147,443	(350,756)	24,147,443
Repayment of long-term debt	(287,000)	(782,856)	(10,286,703)	(906,337)
Issuance of short-term debt	15,665,000	23,675,000	18,190,000	31,815,000
Repayment of short-term debt	(12,630,000)	(34,540,000)	(13,280,000)	(40,825,000)
Net cash provided by financing activities	$ 1,192,963	$ 10,928,930	$ (7,827,386)	$ 12,124,537
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 226,794	$ 8,460,217	$ (8,595,310)	$ 7,947,123
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	118,536	480,423	8,940,640	993,517
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 345,330	$ 8,940,640	$ 345,330	$ 8,940,640
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for				
Interest	$ 3,205,938	$ 3,013,688	$ 4,483,325	$ 4,013,075
Income taxes (net of refunds)	$ 520,923	$ 563,200	$ 1,596,923	$ 351,850

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) 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. Delta adopted SFAS 130 during the quarter ended September 30, 1998. The adoption of this statement had no impact on the financial statements of the Company.

(4) 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 re-hearing of certain tax-related items in this rate case, Delta also received approval from the PSC for an additional revenue increase of $117,000.

(5) 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.

(6) On February 5, 1999, Delta filed proposed alternative regulatory tariffs with the PSC that would provide for annual rate adjustments each July 1, beginning July 1, 1999. The

tariffs would adjust Delta's rates annually to reflect Delta's financial budgets and would provide a return on equity within a band of 11.1% to 12.1%. The tariffs are proposed for an experimental three year period. The PSC is reviewing and considering these tariffs and has established a procedural schedule providing for a public hearing on September 8, 1999.

(7) On April 29, 1999, Delta filed notice with the Kentucky Public Service Commission of its intent to file a general rate case. This notice is required to enable Delta to file a case, if desired, no sooner than four weeks after the notice. Delta's preference is to utilize the alternative regulatory approach in its proposed tariffs that were filed on February 5. However, Delta intends to file a general rate case, if necessary, so that new rates can be implemented as early as possible this coming winter heating season.

(8) 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 approximately $6.8 million, of which approximately $6.0 million was expended during the nine months ended March 31, 1999. 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 $4.9 million was borrowed at March 31, 1999. The line of credit, which is with Bank One, Kentucky, NA, requires renewal during 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 for the nine and twelve month periods ending March 31, 1999 and 1998 are summarized below:

	Nine Months Ended March 31	
	1999	1998
Provided by operating activities	$ 4,988,146	$ 6,670,211
Used in investing activities	(5,954,315)	(9,138,924)
Provided by financing activities	1,192,963	10,928,930
Net increase in cash and cash equivalents	$ 226,794	$ 8,460,217

	Twelve Months Ended March 31	
	1999	1998
Provided by operating activities	$ 7,257,931	$ 9,527,863
Used in investing activities	(8,025,855)	(13,705,277)
Provided by financing activities	(7,827,386)	12,124,537
Net increase in cash and cash equivalents	$ (8,595,310)	$ 7,947,123

RESULTS OF OPERATIONS

Operating Revenues

The decrease in operating revenues for the three months ended March 31, 1999 of $1,415,000 was due primarily to a decrease in the cost of gas purchased that was reflected in rates billed to customers through Delta's gas cost recovery clause. This decrease was offset by an increase in retail sales volumes of 97,000 Mcf, or 5%, resulting from colder weather in 1999. Heating degree days billed were 103% of the thirty-year average ("normal") for the three months ended March 31, 1999, as compared with 93% for the same period in 1998.

The decreases in operating revenues for the nine and twelve months ended March 31, 1999 of $4,850,000 and $5,320,000 respectively, were due primarily to decreases in retail sales volumes of 313,000 Mcf, or 9%, and 429,000 Mcf, or 10%, respectively, as compared to similar periods of 1998, resulting from warmer winter weather in 1999. Heating degree days billed were 79% and 88%, respectively, of normal for the nine and twelve months ended March 31, 1999, as compared with 85% and 102% for the similar periods of 1998. Operating revenues for the periods also decreased due to decreases in the cost of gas purchased that were reflected in rates billed to customers through Delta's gas cost recovery clause.

Operating Expenses

The decrease in purchased gas expense for the three months ended March 31, 1999 of $1,923,000 was due primarily to the decrease in the cost of gas purchased for retail sales. This decrease was partially offset by increased gas purchases for retail sales resulting from the colder winter weather in the 1999 period.

The decreases in purchased gas expense for the nine and twelve months ended March 31, 1999 of $5,328,000 and $6,283,000 respectively, were due primarily to decreased gas purchases for retail sales resulting from the warmer winter weather in 1999 and decreases in the cost of gas purchased for retail sales.

The increases in depreciation expense for the three, nine and twelve months ended March 31, 1999 of approximately $106,000, $312,000 and $439,000, respectively, were due primarily to additional depreciable plant.

Interest Charges

The increases in interest charges for the three, nine and twelve months ended March 31, 1999 of $56,000, $218,000 and $382,000, 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, which has coordinated 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 and service providers.

The Committee is assessing the likelihood of miscalculations or system failures as a result of these items, systems or service providers. The Company has currently assessed approximately 97% of these inventoried items, systems and service providers. This assessment percentage for the items Delta deems as "critical" stands at 98%. Delta has been diligently working to insure that critical or otherwise important items assessed as certain to fail are either repaired or replaced so as not to cause business interruption or data integrity problems on January 1, 2000.

The costs incurred to date related to its Year 2000 activities have not been material to the Company, and based upon current estimates, the Company does not believe that the total cost of its Year 2000 readiness programs will have a material adverse impact on the Company's results of operations or 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 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 has sent 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 has drafted contingency plans to address alternatives in the event that Year 2000 failures of automatic systems and equipment occur. These plans cover a wide range of possible scenarios and include steps to remediation. Also, included in the contingency plans are mitigating actions designed to lessen the chances of problem scenarios being realized. A final contingency plan is scheduled for completion 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. Exhibit No. 10(M) - Employment agreement dated March 1, 1999 between Delta and John B. Brown, an officer.

(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)

Glenn R. Jennings

DATE: May 13, 1999

Glenn R. Jennings
President and Chief Executive Officer
(Duly Authorized Officer)

John F. Hall

John F. Hall
Vice President - Finance, Secretary
and Treasurer
(Principal Financial Officer)

FORM 8-K
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report April 8, 1997 Commission File No. 0-8788

DELTA NATURAL GAS COMPANY, INC.
(Exact name of registrant as specified in its charter)

KENTUCKY	61-0458329
(State or other jurisdiction of incorporation or organization)	(I.R.S. 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

INFORMATION TO BE INCLUDED IN THE REPORT

ITEM 5. OTHER EVENTS.

On March 14, 1997, the Registrant filed a request for increased rates with the Kentucky Public Service Commission (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 the twelve months ended 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 set for August 11, 1997, for the cross-examination of witnesses.

Although management is of the opinion that its request is reasonable, it is unable to predict the outcome of the proceeding.

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, hereunto duly authorized.

DELTA NATURAL GAS COMPANY, INC.
(Registrant)
By__/s/John F. Hall____________________
John F. Hall
Vice President - Finance,
Secretary and Treasurer
(Signature)

Date: ______April 8, 1997_____

April 8, 1997

Securities & Exchange Commission
450 Fifth Street N.W.
Washington, DC 20549

Gentlemen:

We transmit herewith for filing under the Securities Exchange Act of 1934, Form 8-K for Delta Natural Gas Company, Inc.

Sincerely,

/s/John F. Hall

John F. Hall
Vice President - Finance,
Secretary & Treasurer

FORM 8-K

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report: December 29, 1997 Commission File No.0-8788

DELTA NATURAL GAS COMPANY, INC.
(Exact name of registrant as specified in its charter)

KENTUCKY (State or other jurisdiction of incorporation or organization)	61-0458329 (I.R.S. Employer Identification No.)
3617 Lexington Road Winchester, Kentucky (Address of principal executive offices	40391 (Zip Code)

Registrant's telephone number, including area code (606) 744-6171.

INFORMATION TO BE INCLUDED IN THE REPORT

ITEM 5. OTHER EVENTS.

On March 14, 1997, the Registrant filed a request for increased rates with the Kentucky Public Service Commission (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 the twelve months ended December 31, 1996. The increased rates were requested to become effective on April 13, 1997.

The PSC approved new rates effective November 30, 1997 by their Order dated December 8, 1997. The approved rates provide for additional annual revenues of approximately $1,670,000. Delta has filed for rehearing on approximately $900,000 of additional annual revenues the PSC disallowed.

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, hereunto duly authorized.

DELTA NATURAL GAS COMPANY, INC.
(Registrant)

By___/s/John F. Hall_______________
John F. Hall
Vice President - Finance,
Secretary & Treasurer
(Signature)

Date: December 29, 1997

December 29, 1997

Securities & Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Gentlemen:

We transmit herewith for filing under the Securities Exchange Act of 1934, Form 8-K for Delta Natural Gas Company, Inc.

Sincerely,

/s/John F. Hall

John F. Hall
Vice President - Finance,
Secretary & Treasurer

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Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #7-b

Description of Filing Requirement:

The most recent capital construction budget containing at least the period of time as proposed for any pro forma adjustments for plant additions;

Response:

Not applicable since no pro forma adjustments for plant additions are proposed.

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Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #7-d

Description of Filing Requirement:

The operating budget for each month of the period encompassing the pro forma adjustment.

Response:

See attached.

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

January 01, 1998 - January 31, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
Displacement Revenue	.00
On System Transportation Revenue	287,200.00CR
TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
Purchased Gas	572,900.00
Operation Expense	
Labor	457,700.00
Transportation	41,500.00
General Operations	32,300.00
Customer Billing	17,800.00
Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

January 01, 1998 - January 31, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
Income Tax Non Regulated	1,300.00
Other Net Inc Before Inc Taxes	3,400.00CR
Net Non Regulated Income	53,100.00CR
Income Before Interest Charges	5,700.00
INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

February 01, 1998 - February 28, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
Displacement Revenue	.00
On System Transportation Revenue	287,200.00CR
TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
Purchased Gas	572,900.00
Operation Expense	
Labor	457,700.00
Transportation	41,500.00
General Operations	32,300.00
Customer Billing	17,800.00
Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

February 01, 1998 - February 28, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
Income Tax Non Regulated	1,300.00
Other Net Inc Before Inc Taxes	3,400.00CR
Net Non Regulated Income	53,100.00CR
Income Before Interest Charges	5,700.00
INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

March 01, 1998 - March 31, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
Displacement Revenue	.00
On System Transportation Revenue	287,200.00CR
TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
Purchased Gas	572,900.00
Operation Expense	
Labor	457,700.00
Transportation	41,500.00
General Operations	32,300.00
Customer Billing	17,800.00
Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

March 01, 1998 - March 31, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
Income Tax Non Regulated	1,300.00
Other Net Inc Before Inc Taxes	3,400.00CR
Net Non Regulated Income	53,100.00CR
Income Before Interest Charges	5,700.00
INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

April 01, 1998 - April 30, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
Displacement Revenue	.00
On System Transportation Revenue	287,200.00CR
TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
Purchased Gas	572,900.00
Operation Expense	
Labor	457,700.00
Transportation	41,500.00
General Operations	32,300.00
Customer Billing	17,800.00
Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

April 01, 1998 - April 30, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
Income Tax Non Regulated	1,300.00
Other Net Inc Before Inc Taxes	3,400.00CR
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Income Before Interest Charges	5,700.00
INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

May 01, 1998 - May 31, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
Displacement Revenue	.00
On System Transportation Revenue	287,200.00CR
TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
Purchased Gas	572,900.00
Operation Expense	
Labor	457,700.00
Transportation	41,500.00
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Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES
Operating Budget - Delta Natural
May 01, 1998 - May 31, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
Income Tax Non Regulated	1,300.00
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INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

June 01, 1998 - June 30, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
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Customer Billing	17,800.00
Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

June 01, 1998 - June 30, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
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Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
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NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
Income Tax Non Regulated	1,300.00
Other Net Inc Before Inc Taxes	3,400.00CR
Net Non Regulated Income	53,100.00CR
Income Before Interest Charges	5,700.00
INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

July 01, 1998 - July 31, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
Displacement Revenue	.00
On System Transportation Revenue	287,200.00CR
TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
Purchased Gas	572,900.00
Operation Expense	
Labor	457,700.00
Transportation	41,500.00
General Operations	32,300.00
Customer Billing	17,800.00
Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

July 01, 1998 - July 31, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
Income Tax Non Regulated	1,300.00
Other Net Inc Before Inc Taxes	3,400.00CR
Net Non Regulated Income	53,100.00CR
Income Before Interest Charges	5,700.00
INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

August 01, 1998 - August 31, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
Displacement Revenue	.00
On System Transportation Revenue	287,200.00CR
TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
Purchased Gas	572,900.00
Operation Expense	
Labor	457,700.00
Transportation	41,500.00
General Operations	32,300.00
Customer Billing	17,800.00
Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

August 01, 1998 - August 31, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
Income Tax Non Regulated	1,300.00
Other Net Inc Before Inc Taxes	3,400.00CR
Net Non Regulated Income	53,100.00CR
Income Before Interest Charges	5,700.00
INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

September 01, 1998 - September 30, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
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OPERATING EXPENSES	
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Customer Billing	17,800.00
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Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

September 01, 1998 - September 30, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
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TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
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INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

October 01, 1998 - October 31, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
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TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
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Operation Expense	
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Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

October 01, 1998 - October 31, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
Income Tax Non Regulated	1,300.00
Other Net Inc Before Inc Taxes	3,400.00CR
Net Non Regulated Income	53,100.00CR
Income Before Interest Charges	5,700.00
INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

November 01, 1998 - November 30, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
Displacement Revenue	.00
On System Transportation Revenue	287,200.00CR
TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
Purchased Gas	572,900.00
Operation Expense	
Labor	457,700.00
Transportation	41,500.00
General Operations	32,300.00
Customer Billing	17,800.00
Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

November 01, 1998 - November 30, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
Net Income from Subsidiaries	51,000.00CR
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INTEREST CHARGES	
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Interest On Short-Term Debt	41,000.00
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Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

December 01, 1998 - December 31, 1998

	Current Month Budget
OPERATING REVENUES	
General Service Rate Billed	
Residential	651,100.00CR
Commercial	297,200.00CR
Industrial	86,000.00CR
Total General Service Rate	1,034,300.00CR
Interuptible Rate Billed	
Commercial	.00
Industrial	32,200.00CR
Total Interruptible Rate	32,200.00CR
Total Gas Revenue	1,066,500.00CR
Miscellaneous Operating Revenue	9,700.00CR
Transported Gas Cost	.00
Off System Transportation Revenue	31,000.00CR
Displacement Revenue	.00
On System Transportation Revenue	287,200.00CR
TOTAL OPERATING REVENUE	1,394,400.00CR
OPERATING EXPENSES	
Purchased Gas	572,900.00
Operation Expense	
Labor	457,700.00
Transportation	41,500.00
General Operations	32,300.00
Customer Billing	17,800.00
Uncollectible Accounts	23,000.00
Administrative	50,200.00
Outside Services	32,200.00
Insurance	33,200.00
Employee Benefits	122,800.00
General Administration	43,700.00
Expenses Transferred	345,500.00CR
Other	33,200.00
Total Operation Expense	542,100.00

DELTA NATURAL GAS CO., INC. AND SUBSIDIARIES

Operating Budget - Delta Natural

December 01, 1998 - December 31, 1998

	Current Month Budget
Maintenance Expense	
Labor	.00
Transportation	3,600.00
Mains	6,000.00
Meter & Regulators	3,800.00
Other	52,300.00
Total Maintenance Expense	65,700.00
Depreciation Expense	320,400.00
Taxes Other Than Income Taxes	
Property Taxes	61,700.00
Payroll Taxes	40,400.00
Total Other Taxes	102,100.00
Income Taxes	
Current Federal	150,000.00CR
Current State	.00
Deferred Federal & State	.00
Investment Tax Credit-Net	.00
Total Income Taxes	150,000.00CR
TOTAL OPERATING EXPENSES	1,453,200.00
OPERATING INCOME	58,800.00
NON REGULATED INCOME	
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INTEREST CHARGES	
Interest On Long-Term Debt	325,500.00
Interest On Short-Term Debt	41,000.00
Other Interest	2,500.00
Amortization of Debt Expense	13,500.00
Total Interest Charges	382,500.00
NET INCOME	388,200.00

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Delta Natural Gas Company, Inc.
Case No. 99-176
Historical Test Period Filing Requirements
FR #6-r

Description of Filing Requirement:

The monthly managerial reports providing financial results of operations for the twelve (12) months in the test period;

Response:

See attached.

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

JANUARY 31, 1998

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
JANUARY 31, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	118,793,972	$	106,801,997
Less - Reserve for Depreciation		30,375,472		27,462,216
	$	88,418,499	$	79,339,781
CURRENT ASSETS:				
Cash	$	416,548	$	297,800
Receivables		4,968,141		4,091,394
Deferred Gas Cost		2,107,820		6,646,654
Gas in Storage, at Cost		1,353,136		363,266
Materials and Supplies, at Cost		742,030		633,720
Prepayments		317,158		86,753
	$	9,904,833	$	12,119,587
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	329,913	$	312,913
Unamortized Expenses		2,588,000		2,699,600
Receivable/Investment in Subsidiaries		1,880,163		(47,827)
Other		394,120		275,858
	$	5,192,196	$	3,240,544
TOTAL ASSETS	$	**103,515,528**	$	**94,699,913**
LIABILITIES				
CAPITALIZATION:				
Common Stock	$	2,361,922	$	2,327,944
Paid-in Surplus		27,528,243		26,971,495
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		1,339,976		1,795,854
Total Common Equity	$	29,313,121	$	29,178,273
Long-term Debt		37,849,644		38,240,193
Total Capitalization	$	67,162,765	$	67,418,466
CURRENT LIABILITIES:				
Notes Payable	$	19,830,000	$	8,980,000
Current Portion of Long-Term Debt		1,553,777		1,986,300
Accounts Payable		1,587,756		4,428,434
Accrued Taxes		820,203		328,262
Purchased Gas Refund Payable to Customers		355,730		51,159
Customer Deposits		509,564		398,454
Accrued Interest		656,957		576,105
Other		889,150		850,283
	$	26,203,138	$	17,598,996
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,393,000	$	7,801,800
Investment Tax Credit		673,500		743,900
Regulatory Items		865,550		915,200
Advances for Construction		217,575		221,551
	$	10,149,625	$	9,682,451
TOTAL LIABILITIES	$	103,515,528	$	94,699,913

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1997/1996	$	**1,846,055**	$	**2,772,863**
ADD					
Net income applicable to common stock			835,254		344,304
DEDUCT					
Common Dividends			1,341,333		1,321,313
BALANCE	JANUARY 31, 1998/1997	$	**1,339,976**	$	**1,795,854**

PAID-IN SURPLUS

BALANCE	JULY 1,1997/1996	$	**27,203,311**	$	**20,572,132**
ADD					
Excess of sales price over par value of common stock			324,932		6,399,363
DEDUCT					
BALANCE	JANUARY 31, 1998/1997	$	**27,528,243**	$	**26,971,495**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

JANUARY 31, 1998

	7 MONTHS TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 20,187,579	$ 18,372,736	$ 39,080,281	$ 34,262,585
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 9,113,690	$ 9,254,425	$ 18,835,591	$ 16,401,829
Operations	4,625,855	4,163,895	8,427,952	7,797,631
Maintenance	330,546	284,929	589,859	471,619
Depreciation	1,925,902	1,652,753	3,169,201	2,719,114
Property & Other Taxes	700,407	583,339	1,166,150	1,041,361
Income Taxes	344,550	125,100	991,250	907,300
Total	$ 17,040,949	$ 16,064,442	$ 33,180,003	$ 29,338,855
Operating Income	$ 3,146,629	$ 2,308,295	$ 5,900,278	$ 4,923,730
OTHER INCOME/(EXPENSES),NET	241,909	131,051	468,670	435,389
Gross Income	$ 3,388,538	$ 2,439,346	$ 6,368,949	$ 5,359,118
OTHER DEDUCTIONS:				
Interest on Debt	$ 2,488,185	$ 2,026,176	$ 4,042,134	$ 3,196,721
Amortization	65,100	68,866	111,600	169,589
Other	-	-	-	-
Total	$ 2,553,285	$ 2,095,042	$ 4,153,734	$ 3,366,310
NET INCOME APPLICABLE TO COMMON STOCK	$ 835,254	$ 344,304	$ 2,215,215	$ 1,992,808
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ 0.35	$ 0.15	$ 0.94	$ 0.94
CUSTOMERS AT END OF PERIOD			38,052	37,193

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

FEBRUARY 28, 1998

REVISED 4/22/98

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
FEBRUARY 28, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	119,148,757	$	107,238,840
Less - Reserve for Depreciation		30,567,156		27,748,158
	$	88,581,601	$	79,490,682
CURRENT ASSETS:				
Cash	$	302,358	$	250,256
Receivables		4,964,150		4,421,587
Deferred Gas Cost		723,590		5,315,118
Gas in Storage, at Cost		807,340		342,189
Materials and Supplies, at Cost		767,228		613,542
Prepayments		135,039		31,376
	$	7,699,704	$	10,974,068
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	329,913	$	312,913
Unamortized Expenses		2,578,700		2,690,300
Receivable/Investment in Subsidiaries		1,949,683		18,270
Other		385,749		273,858
	$	5,244,045	$	3,295,341
TOTAL ASSETS	$	101,525,350	$	93,760,090

LIABILITIES		1998		1997
CAPITALIZATION:				
Common Stock	$	2,362,724	$	2,327,944
Paid-in Surplus		27,542,502		26,971,495
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		2,004,233		2,588,048
Total Common Equity	$	29,992,439	$	29,970,467
Long-term Debt		37,826,710		38,233,279
Total Capitalization	$	67,819,149	$	68,203,746
CURRENT LIABILITIES:				
Notes Payable	$	17,040,000	$	7,180,000
Current Portion of Long-Term Debt		1,553,777		1,986,300
Accounts Payable		1,047,327		4,399,344
Accrued Taxes		1,231,371		625,540
Purchased Gas Refund Payable to Customers		266,691		30,708
Customer Deposits		515,675		409,852
Accrued Interest		1,002,489		862,888
Other		901,371		379,261
	$	23,558,701	$	15,873,893
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,393,000	$	7,801,800
Investment Tax Credit		673,500		743,900
Regulatory Items		863,425		915,200
Advances for Construction		217,575		221,551
	$	10,147,500	$	9,682,451
TOTAL LIABILITIES	$	101,525,350	$	93,760,090

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1997/1996	$	**1,846,055**	$	**2,772,863**
ADD					
Net income applicable to common stock			1,499,510		1,136,498
DEDUCT					
Common Dividends			1,341,332		1,321,313
BALANCE	FEBRUARY 28, 1998/1997	$	**2,004,233**	$	**2,588,048**

PAID-IN SURPLUS

BALANCE	JULY 1,1997/1996	$	**27,203,311**	$	**20,572,132**
ADD					
Excess of sales price over par value of common stock			339,191		6,399,363
DEDUCT					
BALANCE	FEBRUARY 28, 1998/1997	$	**27,542,502**	$	**26,971,495**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

FEBRUARY 28, 1998

	8 MONTHS TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 25,623,841	$ 24,636,259	$ 38,253,021	$ 35,684,234
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 11,937,714	$ 12,508,702	$ 18,405,339	$ 17,917,537
Operations	5,458,170	5,268,725	8,155,437	7,713,968
Maintenance	372,670	321,817	595,095	474,453
Depreciation	2,208,965	1,898,053	3,206,964	2,763,914
Property & Other Taxes	802,994	672,407	1,179,669	1,040,891
Income Taxes	710,925	577,300	905,425	856,000
Total	$ 21,491,438	$ 21,247,005	$ 32,447,929	$ 30,766,764
Operating Income	$ 4,132,403	$ 3,389,255	$ 5,805,092	$ 4,917,469
OTHER INCOME/(EXPENSES),NET	278,704	153,376	483,140	372,485
Gross Income	$ 4,411,107	$ 3,542,632	$ 6,288,232	$ 5,289,954
OTHER DEDUCTIONS:				
Interest on Debt	$ 2,837,198	$ 2,327,968	$ 4,089,355	$ 3,276,130
Amortization	74,400	78,166	111,600	171,489
Other	-	-	-	-
Total	$ 2,911,598	$ 2,406,134	$ 4,200,955	$ 3,447,618
NET INCOME APPLICABLE TO COMMON STOCK	$ 1,499,510	$ 1,136,498	$ 2,087,277	$ 1,842,336
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ 0.64	$ 0.50	$ 0.89	$ 0.85
CUSTOMERS AT END OF PERIOD			38,228	37,278

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

MARCH 31, 1998

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
MARCH 31, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	119,645,069	$	108,118,424
Less - Reserve for Depreciation		30,896,870		27,951,383
	$	88,748,199	$	80,167,041
CURRENT ASSETS:				
Cash	$	8,940,640	$	993,517
Receivables		4,255,321		3,227,047
Deferred Gas Cost		(163,693)		4,120,929
Gas in Storage, at Cost		443,663		326,088
Materials and Supplies, at Cost		692,025		813,760
Prepayments		373,649		385,377
	$	14,541,605	$	9,866,719
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	329,913	$	312,913
Unamortized Expenses		3,421,957		2,681,000
Receivable/Investment in Subsidiaries		1,614,735		29,110
Other		1,299,129		762,875
	$	6,665,733	$	3,785,898
TOTAL ASSETS	$	109,955,537	$	93,819,658

LIABILITIES				
CAPITALIZATION:				
Common Stock	$	2,367,461	$	2,334,531
Paid-in Surplus		27,622,210		27,081,014
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		1,975,420		2,301,863
Total Common Equity	$	30,048,071	$	29,800,388
Long-term Debt		62,614,870		38,206,645
Total Capitalization	$	92,662,940	$	68,007,032
CURRENT LIABILITIES:				
Notes Payable	$	0	$	9,010,000
Current Portion of Long-Term Debt		1,766,700		1,986,300
Accounts Payable		1,089,179		1,558,145
Accrued Taxes		1,374,637		775,518
Purchased Gas Refund Payable to Customers		149,207		474,102
Customer Deposits		509,098		401,247
Accrued Interest		1,330,529		1,047,839
Other		927,871		880,682
	$	7,147,222	$	16,133,834
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,393,000	$	7,801,800
Investment Tax Credit		673,500		743,900
Regulatory Items		861,300		915,200
Advances for Construction		217,575		217,891
	$	10,145,375	$	9,678,791
TOTAL LIABILITIES	$	109,955,537	$	93,819,658

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1997/1996	$	**1,846,055**	$	**2,772,863**
ADD					
Net income applicable to common stock			2,144,159		1,514,174
DEDUCT					
Common Dividends			2,014,795		1,985,174
BALANCE	MARCH 31, 1998/1997	$	**1,975,420**	$	**2,301,863**

PAID-IN SURPLUS

BALANCE	JULY 1,1997/1996	$	**27,203,311**	$	**20,572,132**
ADD					
Excess of sales price over par value of common stock			418,899		6,508,882
DEDUCT					
BALANCE	MARCH 31, 1998/1997	$	**27,622,210**	$	**27,081,014**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

MARCH 31, 1998

	9 MONTHS TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 30,367,937	$ 28,998,467	$ 38,634,909	$ 36,061,679
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 14,280,330	$ 14,929,624	$ 18,327,033	$ 17,943,967
Operations	6,103,764	5,952,569	8,117,186	8,289,718
Maintenance	435,856	362,692	617,406	478,050
Depreciation	2,493,639	2,149,253	3,240,437	2,814,614
Property & Other Taxes	904,847	760,261	1,193,668	1,039,389
Income Taxes	1,066,900	783,800	1,054,900	722,200
Total	$ 25,285,335	$ 24,938,200	$ 32,550,630	$ 31,287,939
Operating Income	$ 5,082,601	$ 4,060,267	$ 6,084,278	$ 4,773,740
OTHER INCOME/(EXPENSES),NET	313,624	179,429	492,007	319,606
Gross Income	$ 5,396,225	$ 4,239,696	$ 6,576,285	$ 5,093,346
OTHER DEDUCTIONS:				
Interest on Debt	$ 3,168,366	$ 2,638,056	$ 4,110,435	$ 3,358,306
Amortization	83,700	87,466	111,600	173,389
Other	-	-	-	-
Total	$ 3,252,066	$ 2,725,522	$ 4,222,035	$ 3,531,694
NET INCOME APPLICABLE TO COMMON STOCK	$ 2,144,159	$ 1,514,174	$ 2,354,251	$ 1,561,652
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ 0.91	$ 0.66	$ 1.00	$ 0.71
CUSTOMERS AT END OF PERIOD			38,278	37,179

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

APRIL 30, 1998

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
APRIL 30, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	120,297,536	$	109,650,098
Less - Reserve for Depreciation		31,168,128		28,292,250
	$	89,129,407	$	81,357,847
CURRENT ASSETS:				
Cash	$	209,180	$	68,940
Receivables		4,778,586		3,786,494
Deferred Gas Cost		(1,191,498)		2,870,953
Gas in Storage, at Cost		325,925		282,740
Materials and Supplies, at Cost		667,850		708,548
Prepayments		330,005		332,881
	$	5,120,047	$	8,050,555
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	329,913	$	312,913
Unamortized Expenses		3,743,350		2,671,700
Receivable/Investment in Subsidiaries		1,296,121		(108,440)
Other		1,268,195		742,025
	$	6,637,579	$	3,618,198
TOTAL ASSETS	$	100,887,034	$	93,026,601

LIABILITIES				
CAPITALIZATION:				
Common Stock	$	2,368,055	$	2,335,750
Paid-in Surplus		27,630,612		27,100,518
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		2,563,171		2,673,866
Total Common Equity	$	30,644,818	$	30,193,115
Long-term Debt		52,615,969		38,209,788
Total Capitalization	$	83,260,787	$	68,402,903
CURRENT LIABILITIES:				
Notes Payable	$	0	$	8,585,000
Current Portion of Long-Term Debt		1,766,700		1,986,300
Accounts Payable		1,970,947		1,269,989
Accrued Taxes		1,641,225		919,898
Refunds Due Customers		115,073		461,621
Customer Deposits		488,575		390,913
Accrued Interest		564,511		437,403
Other		936,765		893,784
	$	7,483,797	$	14,944,907
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,393,000	$	7,801,800
Investment Tax Credit		673,500		743,900
Regulatory Items		859,175		915,200
Advances for Construction		216,775		217,891
	$	10,142,450	$	9,678,791
TOTAL LIABILITIES	$	100,887,034	$	93,026,601

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1997/1996	$	**1,846,055**	$	**2,772,863**
ADD					
Net income applicable to common stock			2,731,910		1,886,178
DEDUCT					
Common Dividends			2,014,795		1,985,175
BALANCE	APRIL 30, 1998/1997	$	**2,563,171**	$	**2,673,866**

PAID-IN SURPLUS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1997/1996	$	**27,203,311**	$	**20,572,132**
ADD					
Excess of sales price over par value of common stock			427,301		6,528,386
DEDUCT					
BALANCE	APRIL 30, 1998/1997	$	**27,630,612**	$	**27,100,518**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

APRIL 30, 1998

	10 MONTHS TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 34,701,108	$ 33,044,487	$ 38,922,060	$ 36,116,327
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 16,415,067	$ 17,148,387	$ 18,243,007	$ 19,103,226
Operations	6,642,500	6,574,746	8,033,746	7,658,460
Maintenance	477,363	427,753	593,852	505,937
Depreciation	2,778,074	2,420,153	3,253,972	2,885,015
Property & Other Taxes	1,005,513	853,939	1,200,656	1,047,800
Income Taxes	1,364,375	954,400	1,181,775	482,100
Total	$ 28,682,891	$ 28,379,378	$ 32,507,009	$ 31,682,538
Operating Income	$ 6,018,217	$ 4,665,108	$ 6,415,051	$ 4,433,789
OTHER INCOME/(EXPENSES),NET	391,208	260,832	488,188	333,673
Gross Income	$ 6,409,426	$ 4,925,940	$ 6,903,240	$ 4,767,463
OTHER DEDUCTIONS:				
Interest on Debt	$ 3,580,203	$ 2,942,997	$ 4,217,332	$ 3,425,184
Amortization	97,312	96,766	115,912	175,289
Other	-	-	-	-
Total	$ 3,677,515	$ 3,039,763	$ 4,333,244	$ 3,600,473
NET INCOME APPLICABLE TO COMMON STOCK	$ 2,731,910	$ 1,886,178	$ 2,569,996	$ 1,166,990
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ 1.16	$ 0.83	$ 1.09	$ 0.52
CUSTOMERS AT END OF PERIOD			38,092	36,513

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

MAY 31, 1998

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
MAY 31, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	120,858,044	$	111,088,072
Less - Reserve for Depreciation		31,480,580		28,580,694
	$	89,377,464	$	82,507,378
CURRENT ASSETS:				
Cash	$	1,013,745	$	(78,899)
Receivables		2,975,142		2,678,437
Deferred Gas Cost		(1,456,258)		2,345,389
Gas in Storage, at Cost		1,387,288		279,386
Materials and Supplies, at Cost		636,589		849,591
Prepayments		285,688		275,497
	$	4,842,194	$	6,349,401
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	329,913	$	312,913
Unamortized Expenses		3,743,849		2,662,400
Receivable/Investment in Subsidiaries		1,207,179		449,591
Other		1,236,295		801,979
	$	6,517,237	$	4,226,884
TOTAL ASSETS	$	100,736,896	$	93,083,662

LIABILITIES				
CAPITALIZATION:				
Common Stock	$	2,369,955	$	2,336,482
Paid-in Surplus		27,660,992		27,111,960
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		2,596,266		2,701,303
Total Common Equity	$	30,710,194	$	30,232,724
Long-term Debt		52,614,086		38,150,959
Total Capitalization	$	83,324,280	$	68,383,683
CURRENT LIABILITIES:				
Notes Payable	$	0	$	7,120,000
Current Portion of Long-Term Debt		1,786,700		1,986,300
Accounts Payable		1,512,105		2,227,123
Accrued Taxes		1,576,175		1,090,078
Refunds Due Customers		86,404		567,765
Customer Deposits		457,618		379,686
Accrued Interest		889,846		732,586
Other		963,442		918,225
	$	7,272,290	$	15,021,763
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,393,000	$	7,801,800
Investment Tax Credit		673,500		743,900
Regulatory Items		857,050		915,200
Advances for Construction		216,775		217,316
	$	10,140,325	$	9,678,216
TOTAL LIABILITIES	$	100,736,895	$	93,083,662

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1997/1996	$	**1,846,055**	$	**2,772,863**
ADD					
Net income applicable to common stock			2,765,006		1,913,614
DEDUCT					
Common Dividends			2,014,795		1,985,174
BALANCE	MAY 31, 1998/1997	$	**2,596,266**	$	**2,701,303**

PAID-IN SURPLUS

BALANCE	JULY 1,1997/1996	$	**27,203,311**	$	**20,572,132**
ADD					
Excess of sales price over par value of common stock			457,681		6,539,828
DEDUCT					
BALANCE	MAY 31, 1998/1997	$	**27,660,992**	$	**27,111,960**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

MAY 31, 1998

	11 MONTHS TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 36,665,139	$ 35,579,112	$ 38,351,467	$ 36,752,521
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 16,971,179	$ 18,336,664	$ 17,610,842	$ 18,736,722
Operations	7,272,663	7,257,370	7,981,285	8,438,527
Maintenance	524,393	475,367	593,268	518,616
Depreciation	3,064,783	2,691,053	3,269,781	2,955,414
Property & Other Taxes	1,104,617	946,176	1,207,523	1,054,170
Income Taxes	1,361,850	930,100	1,203,550	504,800
Total	$ 30,299,485	$ 30,636,730	$ 31,866,249	$ 32,208,249
Operating Income	$ 6,365,654	$ 4,942,381	$ 6,485,217	$ 4,544,272
OTHER INCOME/(EXPENSES),NET	424,896	329,688	453,020	330,886
Gross Income	$ 6,790,551	$ 5,272,069	$ 6,938,237	$ 4,875,159
OTHER DEDUCTIONS:				
Interest on Debt	$ 3,914,422	$ 3,252,390	$ 4,242,158	$ 3,495,061
Amortization	111,122	106,066	120,422	177,189
Other	-	-	-	-
Total	$ 4,025,544	$ 3,358,455	$ 4,362,580	$ 3,672,250
NET INCOME APPLICABLE TO COMMON STOCK	$ 2,765,006	$ 1,913,614	$ 2,575,657	$ 1,202,909
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ 1.17	$ 0.84	$ 1.09	$ 0.53
CUSTOMERS AT END OF PERIOD			37,307	36,360

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

JUNE 30, 1998
AS AUDITED

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
JUNE 30, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	121,392,693	$	111,504,985
Less - Reserve for Depreciation		31,737,068		28,615,546
	$	89,655,626	$	82,889,439
CURRENT ASSETS:				
Cash	$	118,536	$	372,707
Receivables		2,124,501		1,883,398
Deferred Gas Cost		(1,148,019)		2,180,606
Gas in Storage, at Cost		2,050,004		1,209,171
Materials and Supplies, at Cost		520,362		773,108
Prepayments		241,731		716,076
	$	3,907,115	$	7,135,066
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	339,215	$	321,339
Unamortized Expenses		3,730,753		2,653,100
Receivable/Investment in Subsidiaries		1,359,397		2,205,736
Other		1,204,538		376,228
	$	6,633,903	$	5,556,403
TOTAL ASSETS	**$**	**100,196,643**	**$**	**95,580,908**
LIABILITIES				
CAPITALIZATION:				
Common Stock	$	2,375,093	$	2,342,223
Paid-in Surplus		27,745,127		27,203,311
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		1,607,094		1,846,955
Total Common Equity	$	29,810,294	$	29,475,469
Long-term Debt		52,612,494		38,107,860
Total Capitalization	$	82,422,788	$	67,583,329
CURRENT LIABILITIES:				
Notes Payable	$	1,875,000	$	10,865,000
Current Portion of Long-Term Debt		1,790,000		1,987,600
Accounts Payable		828,236		1,499,394
Accrued Taxes		816,205		1,469,381
Refunds Due Customers		117,123		577,874
Customer Deposits		438,134		368,561
Accrued Interest		1,215,265		1,033,220
Other		983,971		978,532
	$	8,063,935	$	18,779,562
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,023,475	$	7,341,600
Investment Tax Credit		637,300		743,900
Regulatory Items		831,425		915,200
Advances for Construction		217,720		217,316
	$	9,709,920	$	9,218,016
TOTAL LIABILITIES	**$**	**100,196,643**	**$**	**95,580,908**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1997/1996	$	**1,846,055**	$	**2,772,863**
ADD					
Net income applicable to common stock			2,451,272		1,724,265
DEDUCT					
Common Dividends			2,690,233		2,650,173
BALANCE	JUNE 30, 1998/1997	$	**1,607,094**	$	**1,846,955**

PAID-IN SURPLUS

BALANCE	JULY 1,1997/1996	$	**27,203,311**	$	**20,572,132**
ADD					
Excess of sales price over par value of common stock			541,816		6,631,179
DEDUCT					
BALANCE	JUNE 30, 1998/1997	$	**27,745,127**	$	**27,203,311**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

JUNE 30, 1998

	12 MONTHS TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 37,922,284	$ 37,265,439	$ 37,922,284	$ 37,265,439
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 17,122,353	$ 18,976,326	$ 17,122,353	$ 18,976,326
Operations	8,188,080	7,965,992	8,188,080	7,965,992
Maintenance	585,678	544,242	585,678	544,242
Depreciation	3,355,242	2,896,052	3,355,242	2,896,052
Property & Other Taxes	1,201,654	1,049,082	1,201,654	1,049,082
Income Taxes	1,133,300	771,800	1,133,300	771,800
Total	$ 31,586,307	$ 32,203,494	$ 31,586,307	$ 32,203,494
Operating Income	$ 6,335,977	$ 5,061,944	$ 6,335,977	$ 5,061,944
OTHER INCOME/(EXPENSES),NET	493,462	357,812	493,462	357,812
Gross Income	$ 6,829,439	$ 5,419,756	$ 6,829,439	$ 5,419,756
OTHER DEDUCTIONS:				
Interest on Debt	$ 4,253,615	$ 3,580,125	$ 4,253,615	$ 3,580,125
Amortization	124,552	115,366	124,552	115,366
Other	-	-	-	-
Total	$ 4,378,167	$ 3,695,491	$ 4,378,167	$ 3,695,491
NET INCOME APPLICABLE TO COMMON STOCK	$ 2,451,272	$ 1,724,265	$ 2,451,272	$ 1,724,265
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ 1.04	$ 0.75	$ 1.04	$ 0.75
CUSTOMERS AT END OF PERIOD			36,419	36,215

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

JULY 31, 1998

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
JULY 31, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	121,985,249	$	112,685,750
Less - Reserve for Depreciation		32,073,437		28,951,535
	$	89,911,813	$	83,734,215
CURRENT ASSETS:				
Cash	$	78,771	$	15,095
Receivables		1,870,592		1,566,003
Deferred Gas Cost		(571,327)		2,365,080
Gas in Storage, at Cost		2,775,248		1,478,022
Materials and Supplies, at Cost		519,219		823,084
Prepayments		267,298		726,513
	$	4,939,801	$	6,973,798
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	339,215	$	321,339
Unamortized Expenses		3,717,323		2,643,800
Receivable/Investment in Subsidiaries		1,150,049		2,249,408
Other		1,172,638		377,680
	$	6,379,225	$	5,592,227
TOTAL ASSETS	$	101,230,839	$	96,300,240
LIABILITIES				
CAPITALIZATION:				
Common Stock	$	2,382,084	$	2,348,710
Paid-in Surplus		27,861,160		27,311,032
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		1,379,294		1,558,063
Total Common Equity	$	29,705,518	$	29,300,786
Long-term Debt		52,579,450		38,111,090
Total Capitalization	$	82,284,969	$	67,411,876
CURRENT LIABILITIES:				
Notes Payable	$	3,305,000	$	11,670,000
Current Portion of Long-Term Debt		1,790,000		1,987,600
Accounts Payable		1,059,585		1,705,622
Accrued Taxes		713,018		734,447
Refunds Due Customers		104,038		576,812
Customer Deposits		429,917		360,102
Accrued Interest		929,201		1,220,420
Other		907,036		895,320
	$	9,237,795	$	19,150,323
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,023,475	$	7,921,100
Investment Tax Credit		637,300		708,400
Regulatory Items		829,300		892,100
Advances for Construction		218,000		216,441
	$	9,708,075	$	9,738,041
TOTAL LIABILITIES	$	101,230,839	$	96,300,240

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1998/1997	$	1,607,094	$	1,846,955
ADD					
Net income applicable to common stock			(227,800)		(287,992)
DEDUCT					
Common Dividends			(0)		900
BALANCE	JULY 31, 1998/1997	$	1,379,294	$	1,558,063

PAID-IN SURPLUS

BALANCE	JULY 1,1998/1997	$	27,745,127	$	27,203,311
ADD					
Excess of sales price over par value of common stock			116,033		107,721
DEDUCT					
BALANCE	JULY 31, 1998/1997	$	27,861,160	$	27,311,032

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

JULY 31, 1998

	1 MONTH TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 1,254,840	$ 1,405,285	$ 37,771,839	$ 37,567,223
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 156,554	$ 425,868	$ 16,853,039	$ 19,099,761
Operations	675,049	681,591	8,181,537	7,998,492
Maintenance	59,938	68,352	577,265	554,648
Depreciation	307,316	272,939	3,389,619	2,929,791
Property & Other Taxes	103,617	101,787	1,203,484	1,068,795
Income Taxes	(151,625)	(177,000)	1,158,675	772,300
Total	$ 1,150,849	$ 1,373,537	$ 31,363,618	$ 32,423,788
Operating Income	$ 103,991	$ 31,748	$ 6,408,220	$ 5,143,436
OTHER INCOME/(EXPENSES),NET	26,849	13,500	506,811	310,010
Gross Income	$ 130,840	$ 45,247	$ 6,915,031	$ 5,453,445
OTHER DEDUCTIONS:				
Interest on Debt	$ 345,210	$ 323,939	$ 4,274,886	$ 3,656,260
Amortization	13,430	9,300	128,682	117,266
Other	-	-	-	-
Total	$ 358,640	$ 333,239	$ 4,403,568	$ 3,773,526
NET INCOME APPLICABLE TO COMMON STOCK	$ (227,800)	$ (287,992)	$ 2,511,463	$ 1,679,920
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ (0.10)	$ (0.12)	$ 1.06	$ 0.72
CUSTOMERS AT END OF PERIOD			36,058	35,637

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

AUGUST 31, 1998

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
AUGUST 31, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	122,692,776	$	114,438,311
Less - Reserve for Depreciation		32,374,233		29,266,849
	$	90,318,543	$	85,171,462
CURRENT ASSETS:				
Cash	$	(407,436)	$	170,479
Receivables		1,496,291		1,831,935
Deferred Gas Cost		(10,603)		2,349,688
Gas in Storage, at Cost		3,452,293		1,923,345
Materials and Supplies, at Cost		500,848		714,653
Prepayments		292,657		671,102
	$	5,324,052	$	7,661,202
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	347,789	$	329,913
Unamortized Expenses		3,703,893		2,634,500
Receivable/Investment in Subsidiaries		914,662		2,179,900
Other		1,140,738		386,931
	$	6,107,082	$	5,531,244
TOTAL ASSETS	$	101,749,676	$	98,363,908
LIABILITIES				
CAPITALIZATION:				
Common Stock	$	2,383,118	$	2,355,582
Paid-in Surplus		27,877,730		27,311,420
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		1,183,627		1,431,136
Total Common Equity	$	29,527,455	$	29,181,118
Long-term Debt		52,566,447		38,114,349
Total Capitalization	$	82,093,902	$	67,295,467
CURRENT LIABILITIES:				
Notes Payable	$	4,140,000	$	13,880,000
Current Portion of Long-Term Debt		1,790,000		1,987,600
Accounts Payable		730,032		2,577,532
Accrued Taxes		558,242		158,404
Refunds Due Customers		102,153		571,994
Customer Deposits		436,689		370,557
Accrued Interest		1,275,804		909,854
Other		914,244		874,458
	$	9,947,164	$	21,330,399
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,023,475	$	7,921,100
Investment Tax Credit		637,300		708,400
Regulatory Items		827,175		892,100
Advances for Construction		220,660		216,441
	$	9,708,610	$	9,738,041
TOTAL LIABILITIES	$	101,749,676	$	98,363,908

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1998/1997	$	**1,607,094**	$	**1,846,955**
ADD					
Net income applicable to common stock			(423,468)		(414,919)
DEDUCT					
Common Dividends			(0)		900
BALANCE	AUGUST 31, 1998/1997	$	**1,183,627**	$	**1,431,136**

PAID-IN SURPLUS

BALANCE	JULY 1,1998/1997	$	**27,745,127**	$	**27,203,311**
ADD					
Excess of sales price over par value of common stock			132,603		108,109
DEDUCT					
BALANCE	AUGUST 31, 1998/1997	$	**27,877,730**	$	**27,311,420**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

AUGUST 31, 1998

	2 MONTH TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 2,416,068	$ 2,663,425	$ 37,674,927	$ 37,815,789
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 259,703	$ 680,574	$ 16,701,481	$ 19,016,746
Operations	1,291,152	1,254,628	8,224,604	8,015,950
Maintenance	102,088	118,748	569,018	561,260
Depreciation	613,004	544,879	3,423,367	2,962,531
Property & Other Taxes	203,129	196,661	1,208,122	1,081,839
Income Taxes	(291,650)	(294,500)	1,136,150	848,900
Total	$ 2,177,425	$ 2,500,989	$ 31,262,742	$ 32,487,226
Operating Income	$ 238,643	$ 162,436	$ 6,412,185	$ 5,328,563
OTHER INCOME/(EXPENSES),NET	65,854	86,614	472,702	330,566
Gross Income	$ 304,497	$ 249,050	$ 6,884,887	$ 5,659,129
OTHER DEDUCTIONS:				
Interest on Debt	$ 701,104	$ 645,369	$ 4,309,350	$ 3,719,439
Amortization	26,860	18,600	132,812	111,600
Other	-	-	-	-
Total	$ 727,964	$ 663,969	$ 4,442,162	$ 3,831,039
NET INCOME APPLICABLE TO COMMON STOCK	$ (423,468)	$ (414,919)	$ 2,442,724	$ 1,828,090
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ (0.18)	$ (0.18)	$ 1.03	$ 0.78
CUSTOMERS AT END OF PERIOD			35,635	35,210

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

SEPTEMBER 30, 1998

10/28/98;12:23 PM

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
SEPTEMBER 30, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	123,363,185	$	115,612,290
Less - Reserve for Depreciation		32,706,147		29,531,405
	$	90,657,038	$	86,080,885
CURRENT ASSETS:				
Cash	$	194,422	$	169,731
Receivables		1,095,628		920,321
Deferred Gas Cost		(1,894)		2,631,094
Gas in Storage, at Cost		4,106,886		2,368,774
Materials and Supplies, at Cost		547,122		688,607
Prepayments		246,809		591,012
	$	6,188,972	$	7,369,541
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	347,789	$	329,913
Unamortized Expenses		3,690,463		2,625,200
Receivable/Investment in Subsidiaries		1,534,914		1,970,571
Other		1,108,838		395,749
	$	6,682,004	$	5,321,432
TOTAL ASSETS	$	103,528,014	$	98,771,858

LIABILITIES		1998		1997
CAPITALIZATION:				
Common Stock	$	2,387,989	$	2,353,781
Paid-in Surplus		27,955,666		27,392,660
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		234,127		362,579
Total Common Equity	$	28,660,763	$	28,192,000
Long-term Debt		52,507,485		38,117,638
Total Capitalization	$	81,168,247	$	66,309,638
CURRENT LIABILITIES:				
Notes Payable	$	7,050,000	$	15,485,000
Current Portion of Long-Term Debt		1,790,000		1,987,600
Accounts Payable		873,526		2,134,833
Accrued Taxes		(93,666)		25,397
Refunds Due Customers		89,604		566,142
Customer Deposits		449,093		392,158
Accrued Interest		1,591,563		1,241,222
Other		903,762		891,827
	$	12,653,882	$	22,724,179
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,023,475	$	7,921,100
Investment Tax Credit		637,300		708,400
Regulatory Items		825,050		892,100
Advances for Construction		220,060		216,441
	$	9,705,885	$	9,738,041
TOTAL LIABILITIES	$	103,528,014	$	98,771,858

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1998/1997	$	1,607,094	$	1,846,955
ADD					
Net income applicable to common stock			(693,777)		(813,982)
DEDUCT					
Common Dividends			679,190		670,394
BALANCE	SEPTEMBER 30, 1998/1997	$	234,127	$	362,579

PAID-IN SURPLUS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1998/1997	$	27,745,127	$	27,203,311
ADD					
Excess of sales price over par value of common stock			210,539		189,349
DEDUCT					
BALANCE	SEPTEMBER 30, 1998/1997	$	27,955,666	$	27,392,660

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

SEPTEMBER 30, 1998

	3 MONTH TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 3,593,003	$ 3,763,586	$ 37,751,701	$ 37,889,928
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 420,232	$ 884,985	$ 16,657,600	$ 18,848,387
Operations	1,960,051	1,982,082	8,166,048	8,264,636
Maintenance	149,647	180,455	554,871	583,760
Depreciation	921,631	816,690	3,460,183	2,995,142
Property & Other Taxes	307,326	330,454	1,178,526	1,133,413
Income Taxes	(486,675)	(536,000)	1,182,625	775,600
Total	$ 3,272,212	$ 3,658,665	$ 31,199,853	$ 32,600,938
Operating Income	$ 320,790	$ 104,921	$ 6,551,848	$ 5,288,990
OTHER INCOME/(EXPENSES),NET	123,898	98,697	518,663	271,932
Gross Income	$ 444,689	$ 203,618	$ 7,070,511	$ 5,560,922
OTHER DEDUCTIONS:				
Interest on Debt	$ 1,098,175	$ 989,700	$ 4,362,090	$ 3,804,743
Amortization	40,290	27,900	136,942	111,600
Other	-	-	-	-
Total	$ 1,138,465	$ 1,017,600	$ 4,499,032	$ 3,916,343
NET INCOME APPLICABLE TO COMMON STOCK	$ (693,777)	$ (813,982)	$ 2,571,478	$ 1,644,580
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ (0.29)	$ (0.35)	$ 1.09	$ 0.70
CUSTOMERS AT END OF PERIOD			35,637	35,061

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

OCTOBER 31, 1998

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DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
OCTOBER 31, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	124,184,216	$	116,751,554
Less - Reserve for Depreciation		33,035,522		29,672,175
	$	91,148,694	$	87,079,379
CURRENT ASSETS:				
Cash	$	26,240	$	11,105
Receivables		1,309,773		1,400,100
Deferred Gas Cost		(24,791)		3,212,626
Gas in Storage, at Cost		4,383,052		2,819,392
Materials and Supplies, at Cost		507,107		668,850
Prepayments		199,493		531,673
	$	6,400,874	$	8,643,746
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	347,789	$	329,913
Unamortized Expenses		3,677,033		2,615,900
Receivable/Investment in Subsidiaries		2,070,049		1,942,309
Other		1,076,938		402,583
	$	7,171,809	$	5,290,705
TOTAL ASSETS	$	104,721,378	$	101,013,831
LIABILITIES				
CAPITALIZATION:				
Common Stock	$	2,389,835	$	2,355,402
Paid-in Surplus		27,985,313		27,419,531
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		78,500		186,282
Total Common Equity	$	28,536,628	$	28,044,195
Long-term Debt		52,428,563		37,940,956
Total Capitalization	$	80,965,192	$	65,985,151
CURRENT LIABILITIES:				
Notes Payable	$	9,290,000	$	18,570,000
Current Portion of Long-Term Debt		1,790,000		1,987,600
Accounts Payable		1,077,597		2,456,523
Accrued Taxes		(164,791)		(39,230)
Refunds Due Customers		86,523		550,276
Customer Deposits		521,204		443,688
Accrued Interest		617,891		501,625
Other		834,002		819,330
	$	14,052,426	$	25,289,812
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,023,475	$	7,921,100
Investment Tax Credit		637,300		708,400
Regulatory Items		822,925		892,100
Advances for Construction		220,060		217,267
	$	9,703,760	$	9,738,867
TOTAL LIABILITIES	$	104,721,378	$	101,013,831

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1998/1997	$	**1,607,094**	$	**1,846,955**
ADD					
Net income applicable to common stock			(849,404)		(990,278)
DEDUCT					
Common Dividends			679,190		670,395
BALANCE	OCTOBER 31, 1998/1997	$	**78,500**	$	**186,282**

PAID-IN SURPLUS

BALANCE	JULY 1,1998/1997	$	**27,745,127**	$	**27,203,311**
ADD					
Excess of sales price over par value of common stock			240,186		216,220
DEDUCT					
BALANCE	OCTOBER 31, 1998/1997	$	**27,985,313**	$	**27,419,531**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

OCTOBER 31, 1998

	4 MONTH TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 5,130,700	$ 5,316,094	$ 37,736,890	$ 37,781,780
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 739,994	$ 1,355,240	$ 16,507,107	$ 18,620,231
Operations	2,628,706	2,610,498	8,206,287	8,259,089
Maintenance	189,863	227,338	548,203	581,012
Depreciation	1,232,794	1,090,620	3,497,416	3,029,872
Property & Other Taxes	411,223	427,331	1,185,547	1,147,712
Income Taxes	(598,900)	(668,700)	1,203,100	763,400
Total	$ 4,603,680	$ 5,042,327	$ 31,147,660	$ 32,401,316
Operating Income	$ 527,020	$ 273,767	$ 6,589,230	$ 5,380,464
OTHER INCOME/(EXPENSES),NET	155,787	148,251	500,997	270,559
Gross Income	$ 682,806	$ 422,018	$ 7,090,227	$ 5,651,023
OTHER DEDUCTIONS:				
Interest on Debt	$ 1,478,490	$ 1,375,097	$ 4,357,008	$ 3,916,917
Amortization	53,720	37,200	141,072	111,600
Other	-	-	-	-
Total	$ 1,532,210	$ 1,412,297	$ 4,498,080	$ 4,028,517
NET INCOME APPLICABLE TO COMMON STOCK	$ (849,404)	$ (990,279)	$ 2,592,147	$ 1,622,506
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ (0.36)	$ (0.42)	$ 1.09	$ 0.69
CUSTOMERS AT END OF PERIOD			35,867	35,677

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

NOVEMBER 30, 1998

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
NOVEMBER 30, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	124,690,467	$	117,534,155
Less - Reserve for Depreciation		33,174,231		29,855,743
	$	91,516,236	$	87,678,412
CURRENT ASSETS:				
Cash	$	(146,507)	$	143,061
Receivables		1,854,810		2,684,392
Deferred Gas Cost		468,209		4,194,095
Gas in Storage, at Cost		4,038,662		2,537,966
Materials and Supplies, at Cost		489,157		874,502
Prepayments		142,359		464,395
	$	6,846,691	$	10,898,410
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	347,789	$	329,913
Unamortized Expenses		3,663,603		2,606,600
Receivable/Investment in Subsidiaries		1,576,594		1,849,024
Other		1,081,038		406,543
	$	6,669,024	$	5,192,080
TOTAL ASSETS	$	105,031,951	$	103,768,902

LIABILITIES				
CAPITALIZATION:				
Common Stock	$	2,390,490	$	2,355,402
Paid-in Surplus		27,996,500		27,419,531
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		211,370		389,970
Total Common Equity	$	28,681,341	$	28,247,883
Long-term Debt		52,435,683		37,541,971
Total Capitalization	$	81,117,024	$	65,789,854
CURRENT LIABILITIES:				
Notes Payable	$	8,775,000	$	1,987,600
Current Portion of Long-Term Debt		1,790,000		20,160,000
Accounts Payable		1,318,299		3,177,735
Accrued Taxes		(94,435)		221,912
Refunds Due Customers		83,740		501,103
Customer Deposits		567,366		485,200
Accrued Interest		914,645		862,290
Other		858,677		844,032
	$	14,213,292	$	28,239,873
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,023,475	$	7,921,100
Investment Tax Credit		637,300		708,400
Regulatory Items		820,800		892,100
Advances for Construction		220,060		217,575
	$	9,701,635	$	9,739,175
TOTAL LIABILITIES	$	105,031,951	$	103,768,902

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

NOVEMBER 30, 1998

	5 MONTH TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 7,479,468	$ 8,596,736	$ 36,805,016	$ 38,448,208
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 1,439,774	$ 2,926,843	$ 15,635,284	$ 18,898,893
Operations	3,272,113	3,269,433	8,190,760	8,375,131
Maintenance	215,991	258,242	543,427	585,458
Depreciation	1,546,622	1,368,569	3,533,294	3,068,621
Property & Other Taxes	514,304	522,330	1,193,628	1,159,999
Income Taxes	(534,825)	(570,000)	1,168,475	810,400
Total	$ 6,453,978	$ 7,775,417	$ 30,264,868	$ 32,898,502
Operating Income	$ 1,025,490	$ 821,319	$ 6,540,148	$ 5,549,707
OTHER INCOME/(EXPENSES),NET	175,942	183,933	485,471	342,198
Gross Income	$ 1,201,432	$ 1,005,252	$ 7,025,619	$ 5,891,905
OTHER DEDUCTIONS:				
Interest on Debt	$ 1,850,816	$ 1,745,343	$ 4,359,087	$ 4,006,228
Amortization	67,150	46,500	145,202	111,600
Other	-	-	-	-
Total	$ 1,917,966	$ 1,791,843	$ 4,504,290	$ 4,117,828
NET INCOME APPLICABLE TO COMMON STOCK	$ (716,534)	$ (786,591)	$ 2,521,329	$ 1,774,077
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ (0.30)	$ (0.33)	$ 1.06	$ 0.76
CUSTOMERS AT END OF PERIOD			37,181	37,009

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1998/1997	$	**1,607,094**	$	**1,846,955**
ADD					
Net income applicable to common stock			(716,534)		(786,591)
DEDUCT					
Common Dividends			679,190		670,394
BALANCE	NOVEMBER 30, 1998/1997	$	**211,370**	$	**389,970**

PAID-IN SURPLUS

BALANCE	JULY 1,1998/1997	$	**27,745,127**	$	**27,203,311**
ADD					
Excess of sales price over par value of common stock			251,373		216,220
DEDUCT					
BALANCE	NOVEMBER 30, 1998/1997	$	**27,996,500**	$	**27,419,531**

DELTA NATURAL GAS COMPANY, INC.

FINANCIAL STATEMENT

AS OF

DECEMBER 31, 1998

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DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEET
DECEMBER 31, 1998

ASSETS		1998		1997
GAS UTILITY PLANT, AT COST	$	125,206,004	$	118,443,727
Less - Reserve for Depreciation		33,478,352		30,084,982
	$	91,727,652	$	88,358,745
CURRENT ASSETS:				
Cash	$	422,379	$	444,404
Receivables		1,781,108		3,360,552
Deferred Gas Cost		1,354,892		3,796,666
Gas in Storage, at Cost		3,364,903		1,855,202
Materials and Supplies, at Cost		451,812		710,358
Prepayments		106,884		388,449
	$	7,481,978	$	10,555,631
OTHER ASSETS:				
Cash Surrender Value of Life Insurance	$	347,789	$	329,913
Unamortized Expenses		3,650,173		2,597,300
Receivable/Investment in Subsidiaries		1,466,060		2,168,055
Other		1,049,138		397,730
	$	6,513,160	$	5,492,998
TOTAL ASSETS	$	**105,722,790**	$	**104,407,374**

LIABILITIES		1998		1997
CAPITALIZATION:				
Common Stock	$	2,394,633	$	2,361,922
Paid-in Surplus		28,068,588		27,528,243
Capital Stock Expense		(1,917,020)		(1,917,020)
Retained Earnings		(194,389)		282,553
Total Common Equity	$	28,351,812	$	28,255,698
Long-term Debt		51,757,845		37,976,596
Total Capitalization	$	80,109,657	$	66,232,294
CURRENT LIABILITIES:				
Notes Payable	$	9,030,000	$	1,553,777
Current Portion of Long-Term Debt		2,450,000		19,395,000
Accounts Payable		1,749,573		3,660,494
Accrued Taxes		(441,509)		501,518
Refunds Due Customers		72,839		461,147
Customer Deposits		594,863		498,566
Accrued Interest		1,220,198		1,081,096
Other		881,858		871,733
	$	15,557,823	$	28,023,331
DEFERRED CREDITS AND OTHER:				
Deferred Income Taxes	$	8,436,725	$	8,393,000
Investment Tax Credit		602,550		673,500
Regulatory Items		795,975		867,675
Advances for Construction		220,060		217,575
	$	10,055,310	$	10,151,750
TOTAL LIABILITIES	$	**105,722,790**	$	**104,407,374**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF RETAINED EARNINGS AND PAID IN SURPLUS

RETAINED EARNINGS

			THIS YEAR		LAST YEAR
BALANCE	JULY 1,1998/1997	$	**1,607,094**	$	**1,846,955**
ADD					
Net income applicable to common stock			(441,002)		(222,170)
DEDUCT					
Common Dividends			1,360,481		1,342,232
BALANCE	DECEMBER 31, 1998/1997	$	**(194,389)**	$	**282,553**

PAID-IN SURPLUS

BALANCE	JULY 1,1998/1997	$	**27,745,127**	$	**27,203,311**
ADD					
Excess of sales price over par value of common stock			323,461		324,932
DEDUCT					
BALANCE	DECEMBER 31, 1998/1997	$	**28,068,588**	$	**27,528,243**

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME

DECEMBER 31, 1998

	6 MONTH TO DATE		12 MONTHS ENDED	
	1998	1997	1998	1997
OPERATING REVENUES	$ 10,622,811	$ 13,687,353	$ 34,857,742	$ 39,185,262
OPERATING EXPENSES & TAXES:				
Gas Purchased	$ 2,600,764	$ 5,575,941	$ 14,147,176	$ 19,515,435
Operations	4,046,030	4,048,374	8,185,735	8,137,504
Maintenance	251,132	294,628	542,183	590,629
Depreciation	1,861,901	1,646,789	3,570,354	3,135,388
Property & Other Taxes	617,590	595,396	1,223,848	1,151,828
Income Taxes	(399,250)	(239,725)	973,775	906,475
Total	$ 8,978,167	$ 11,921,403	$ 28,643,070	$ 33,437,259
Operating Income	$ 1,644,644	$ 1,765,951	$ 6,214,672	$ 5,748,003
OTHER INCOME/(EXPENSES),NET	216,704	182,923	527,243	439,652
Gross Income	$ 1,861,349	$ 1,948,874	$ 6,741,915	$ 6,187,655
OTHER DEDUCTIONS:				
Interest on Debt	$ 2,221,771	$ 2,115,244	$ 4,360,142	$ 4,037,818
Amortization	80,580	55,800	149,332	111,600
Other	-	-	-	-
Total	$ 2,302,351	$ 2,171,044	$ 4,509,474	$ 4,149,418
NET INCOME APPLICABLE TO COMMON STOCK	$ (441,002)	$ (222,170)	$ 2,232,441	$ 2,038,237
EARNINGS PER AVERAGE SHARES OUTSTANDING	$ (0.18)	$ (0.09)	$ 0.94	$ 0.87
CUSTOMERS AT END OF PERIOD			38,132	37,789