

S T O L L | K E E N O N | & | P A R K | L L P

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ROGER R. COWDEN  
859-231-3064  
cowden@skp.com

August 30, 2004

**RECEIVED**

AUG 30 2004

PUBLIC SERVICE  
COMMISSION

**Via Hand Delivery**

Hon. Elizabeth O'Donnell  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
P. O. Box 615  
Frankfort, Kentucky 40601

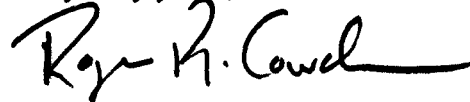
RE: Delta Natural Gas Company, Inc.  
Case No. 2004-00067

Dear Ms. O'Donnell:

We enclose for filing seven (7) copies of Delta Natural Gas Company, Inc.'s Response to Hearing Data Requests of the Commission Staff and the Attorney General in the above-captioned case.

Thank you for your attention to this matter.

Very truly yours,



Roger R. Cowden

/sl

Encs.

cc w/encs.: Counsel of Record  
Glenn Jennings

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**RECEIVED**

AUG 30 2004

PUBLIC SERVICE  
COMMISSION

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 1**

**Responding Witness: Glenn R. Jennings**

- Q1. Provide the August 2004 decision by Delta's Board of Directors as to whether company stock will be issued to the directors as part of this year's compensation.
- A1. Delta's Board of Directors met on August 26, 2004. It was the Board's intent and desire to declare compensation of 100 shares of Delta Common Stock to each Director as has been done in the past. Under new NASDAQ rules changes that occurred after passage of the Sarbanes-Oxley Act of 2002, it was determined that such issuance would now require shareholder approval. After consideration, the Board of Directors approved the following resolution:

RESOLVED, that each member of the Board of Directors shall receive as additional compensation for serving as a Director cash equal to the value of one hundred(100) shares of Delta's common stock as of the stock market close on August 26, 2004.

Delta's common stock closed on August 26, 2004 at a price of \$26.38. Thus this total amount of compensation for Delta's 10 Directors is \$26,380.00.

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 2**

**Responding Witness: John F. Hall**

- Q2. Provide a calculation of the employee taxes and employee benefits associated with Delta's employee who is involved in lobbying activities.
- A2. In conjunction with PSC 1 – 46, Delta computed a benefit to payroll percentage during the test year of 29.77%. In addition to that, the Company pays 7.65% for Social Security, 0.8% for Federal Unemployment and 1.3% for Kentucky Unemployment for a total percentage of 39.52%.

Mr. Hazelrigg's salary reported as lobbying was \$3,260.01 per PSC 1-30.  
 $\$3,260.01 * .3952 = \$1,288.36.$

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 3**

**Responding Witness: John F. Hall**

Q3. Provide the current total rate case expense.

A3. See attached.

DELTA NATURAL GAS COMPANY, INC.  
CASE NO. 2004-00067  
Rate Case Expenses  
for period ended 12/31/03  
(Expenses thru 7/31/04)

Line No.	AC#	Date	Check #	Vendor #	Vendor Name	Total Amount	Description
1	1.186.11	2003-12-31	218676	3640	PRIME GROUP LLC	\$1,200.00	CONSULTING
2	1.186.11	2003-01-31	219529	3640	PRIME GROUP LLC	\$1,350.00	CONSULTING
3	1.186.11	2004-02-29	220130	3640	PRIME GROUP LLC	\$39,550.00	CONSULTING - SEELYE, FELTNER, GARCIA BLAKE & DEPRECIATION STUDY
4	1.186.11	2004-03-31	220948	3640	PRIME GROUP LLC	\$23,887.50	CONSULTING-SEELYE, FELTNER, BLAKE ; DEVELOPING TESTIMONY AND EXHIBITS ; COST OF SERVICE/RATE DESIGN; COST OF CAPITAL TESTIMONY SUPPORT
5	1.186.11	2004-04-30	221442	3640	PRIME GROUP LLC	\$2,400.00	PROVIDE SUPPORT FOR RATE CASE
6	1.186.11	2004-05-31	222037	3640	PRIME GROUP LLC	\$21,276.75	PROVIDE SUPPORT FOR RATE CASE - SEELYE, BLAKE, FELTNER, GARCIA, BLAKE
7	1.186.11	2004-05-31	222301	4186	DELOITTE AND TOUCHE	\$4,000.00	DELTA'S AUDITORS DISCUSSION RATE CASE ISSUES
8	1.186.11	2004-07-00	223062	3640	PRIME GROUP LLC	\$5,775.00	PROVIDE SUPPORT FOR RATE CASE -SEELYE, BLAKE, GARCIA
	1.186.11	2004-08-09	223774	3640	PRIME GROUP LLC	\$10,325.00	PROVIDE SUPPORT FOR RATE CASE -SEELYE, BLAKE, GARCIA, FELTNER
	1.186.11	2004-00-00	AP	3640	PRIME GROUP LLC	\$24,400.00	ESTIMATE OF EXPENSES TO COMPLETE RATE CASE
<b>TOTAL CONSULTANTS</b>						<b>\$136,564.25</b>	
1.186.11	2004-04-27	221143	2334	STOLL, KEENON & PARK	\$6,252.16	ATTORNEY FEES	
1.186.11	2004-03-22	220403	2334	STOLL, KEENON & PARK	\$1,881.00	JOURNAL ENTRY - CORRECT DISTRIBUTION 3/04 - ATTORNEY FEES	
1.186.11	2004-05-31	221825	2334	STOLL, KEENON & PARK	\$1,831.51	ATTORNEY FEES	
1.186.11	2004-06-28	222696	2334	STOLL, KEENON & PARK	\$5,062.84	ATTORNEY FEES	
1.186.11	2004-07-12	223065	2334	STOLL, KEENON & PARK	\$6,003.98	ATTORNEY FEES	
1.186.11	2004-08-31	224211	2334	STOLL, KEENON & PARK	\$6,336.50	ATTORNEY FEES	
1.186.11	2004-09-00	AP	2334	STOLL, KEENON & PARK	\$19,000.00	ATTORNEY FEES - ESTIMATED 8/1 THRU 8/23/04	
1.186.11	2004-09-00	AP	2334	STOLL, KEENON & PARK	\$10,000.00	ATTORNEY FEES - ESTIMATED future expense	
<b>TOTAL LEGAL</b>						<b>\$56,367.99</b>	
1.186.11	2004-04-27	221383	3758	KPS - KENTUCKY PRESS SERVICE	\$28,892.19	25 NEWSPAPERS IN DELTA'S SERVICE AREAS; ADS RUN ON 3/31/04, 4/7/04 AND 4/14/04	
1.186.11	2004-08-30	AP	3758	KPS - KENTUCKY PRESS SERVICE	\$683.06	ADVERTISING IN NEWSPAPERS FOR RATE CASE	
<b>TOTAL NEWSPAPER ADS</b>						<b>\$29,575.25</b>	
1.186.11	2004-02-27	220111	4419	VIKING OFFICE PRODUCTS	\$89.00	SUPPLIES	
1.186.11	2004-03-24	220546	4314	BB&T BANKCARD CORPORATION(VIKING OFFICE PRODUCTS)	\$1,740.86	SUPPLIES TO PREPARE RATE CASE	
1.186.11	2004-04-27	221237	4314	BB&T BANKCARD CORPORATION (VIKING OFFICE PRODUCTS)	\$488.27	OFFICE SUPPLIES TO PREPARE RATE CASE MATERIAL	
1.186.11	2004-05-31	222442	4419	VIKING OFFICE PRODUCTS	\$1,586.84	OFFICE SUPPLIES TO PREPARE RATE CASE MATERIAL	
1.186.11	2004-06-11	222719	4419	VIKING OFFICE PRODUCTS	\$570.26	OFFICE SUPPLIES TO PREPARE RATE CASE MATERIAL	
1.186.11	2004-05-31	NA	NA	REES OFFICE, CHAPMAN PRINTING	\$784.16	JOURNAL ENTRY TO RECLASS PAPER FROM STOCK SUPPLY - ESTIMATED COST OF COPY PAPER USED FOR PRODUCING DATA, RESPONSES AND COPIES FOR RATE CASE	
1.186.11	2004-07-15	223043	4314	BB&T BANKCARD	\$616.46	OFFICE SUPPLIES TO PREPARE RATE CASE MATERIAL	
1.186.11	2004-07-19	223217	316	BLUEGRASS OFFICE SYSTEMS	\$484.25	CHARGE FOR COPIER SERVICE IN EXCESS OF CONTRACT AGREEMENT - DUE TO RATE CASE COPIES	
1.186.11	2004-07-23	223581	4314	BB&T BANKCARD (WALMART)	\$11.74	SHEET PROTECTORS FOR RATE CASE BOOKS	
1.186.11	2004-08-13	NA	NA	OFFICE SUPPLIES AND ASSOCIATED COSTS	\$258.00	JOURNAL ENTRY AUG-2004 - COST TO MAIL NOTICES TO CUSTOMERS DUE TO NEWSPAPERS NOT RUNNING AD RE: RATE CASE	
<b>TOTAL SUPPLIES - OTHER</b>						<b>\$6,629.84</b>	
<b>TOTAL RATE CASE #2004-00067 EXPENSE @ 2004-08-00</b>						<b>\$229,137.33</b>	

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 4**

**Responding Witness: John B. Brown**

- Q4. Provide a complete copy of the actuarial report on Delta's pension relating to the pages submitted in Delta's response to AG 1-27 and the updated report submitted on June 29, 2004.
- A4. Please see attached.

HAND BENEFITS & TRUST, INC.



BRYAN WILSON, E.A., M.A.A.A.  
Vice President, Actuarial Consulting  
Hand and Associates, Inc.  
Bwilson@handgroup.com  
Fax: (713) 890-8862

July 31, 2003

***PERSONAL & CONFIDENTIAL***

Mr. John Brown  
Delta Natural Gas Company, Inc.  
3617 Lexington Road  
Winchester, KY 40391-9797

RE: FAS 87 Disclosure for Fiscal Year Ending June 30, 2003 and Net Periodic Pension Expense for Fiscal 2003-2004

Dear John:

Enclosed is the disclosure information required under Statement of Financial Accounting Standards (SFAS) No. 87 and 132 for the Delta Natural Gas Company, Inc. Defined Benefit Retirement Plan for the fiscal year ending June 30, 2003. Liabilities and costs have been determined using discount rates of 6.25% pre-retirement and 5.75% post-retirement. As permitted in SFAS No. 87, Paragraph #52, we have measured liabilities and assets as of March 31, 2003 for June 30, 2003 disclosure.


The minimum liability (unfunded accumulate benefits) to be recorded at June 30, 2003 is (\$716,780), and the prepaid pension cost at June 30, 2003 is \$2,669,656. The unrecognized prior service cost of (\$1,284,482) is not recognized as an intangible asset. Therefore, an additional liability (accumulated other comprehensive income) of \$3,386,436 must be also be recognized at June 30, 2003.

We have also determined the Net Periodic Pension Expense for the 2003-2004 fiscal year to be \$725,434.

If you have any questions concerning these exhibits, please do not hesitate to call me at (800) 444-1311.

Sincerely,

HAND AND ASSOCIATES, INC.

  
Bryan Wilson  
Vice President, Actuarial Consulting

BW

cc: Kevin Joynt, Deloitte & Touche, LLP





Delta Natural Gas Company, Inc. Defined Benefit Retirement Plan  
Statement of Financial Accounting Standards No. 87  
For Fiscal Year Ending 3/31/04

**ASSUMPTIONS**

Discount Rate	03/31/03
Expected Long Term Rate of Return	6.25%
Rate of Increase in Compensation	8.00%
Average Remaining Future Service Measurement Date	4.00%
	15 Years
	03/31/03

	ACTUAL 03/31/03	FOR FISCAL 2003-2004	PROJECTED 03/31/04
<b>FUNDED STATUS</b>			
Projected Benefit Obligation	(9,214,925)		(9,834,877)
Plan Assets at Fair Value	8,310,322		9,131,074
Funded Status	(904,603)		(703,803)
Unrecognized Net Obligation or (Asset) Existing at Transition	0		0
Unrecognized Prior Service Cost	(1,284,482)		(1,198,303)
Unrecognized Net (Gain) or Loss	4,858,741		4,596,258
(Accrued) or Prepaid Pension Cost	2,669,656		2,694,151

**NET PERIODIC PENSION EXPENSE**

Service Cost	662,769	<b>RECONCILIATION</b>	
Interest Cost	557,183		
Expected Return on Assets	(670,823)	(Accrued) / Prepaid Pension Cost at 03/31/03	2,669,656
Amortization of: Unrecognized Net Obligation or (Asset) Existing at Transition	0	Net Periodic Pension Expense (Income)	725,434
Unrecognized Prior Service Cost	(86,179)	Company Contributions	749,929
Unrecognized Net (Gain) or Loss	262,483	(Accrued) / Prepaid Pension Cost at 03/31/04	2,694,151
Net Pension Expense (Income)	725,434		

**DELTA NATURAL GAS COMPANY, INC. DEFINED BENEFIT RETIREMENT PLAN**

**STATEMENT OF FINANCIAL ACCOUNTING STANDARD 87**

	<u>Fiscal Year Ending 3/31/02</u>	<u>Fiscal Year Ending 3/31/03</u>
<b>Change in Benefit Obligation</b>		
Benefit Obligation at beginning of year		
Service Cost	(8,486,103)	(10,681,119)
Interest Cost	(518,496)	(601,607)
Plan Participants' Contributions	(657,125)	(636,649)
Amendments	0	0
Actuarial Gain / (Loss)	(1,514,620)	2,807,300
Acquisition	84,009	(692,436)
Benefits Paid	0	0
Benefit Obligation at end of year	<u>411,216</u>	<u>589,586</u>
	<u>(10,681,119)</u>	<u>(9,214,925)</u>
<b>Change in Plan Assets</b>		
Fair value of assets at beginning of year	9,073,398	9,219,680
Actual return on plan assets	14,243	(1,198,684)
Acquisition	0	0
Employer Contribution	543,255	878,912
Plan Participants' Contributions	0	0
Benefits Paid	(411,216)	(589,586)
Fair value of assets at end of year	<u>9,219,680</u>	<u>8,310,322</u>
<b>Recognized/Unrecognized Amounts</b>		
Funded Status	(1,461,439)	(904,603)
Unrecognized Net Actuarial Loss	2,272,763	4,858,741
Unrecognized Prior Service Cost	1,514,620	(1,284,482)
Net Amount Recognized	<u>2,325,944</u>	<u>2,669,656</u>
<b>Amounts Recognized in Statement of Financial Position:</b>		
Prepaid Benefit Cost	n/a	0
Accrued Benefit Liability	n/a	(716,780)
Intangible Asset	n/a	0
Accumulated other comprehensive income	n/a	3,386,436
Net amount recognized	<u>2,325,944</u>	<u>2,669,656</u>
<b>Weighted-Average Assumptions</b>		
Discount Rate	pre-retirement	7.50%
	post-retirement	6.25%
Expected return on assets		6.50%
Rate of compensation increase		8.00%
		4.00%
<b>Components of Net Periodic Benefit Cost</b>		
Service Cost	518,496	601,607
Interest Cost	657,125	636,649
Expected return on assets	755,307	756,731
Amortization of prior service cost	(29,262)	(8,196)
Recognized actuarial gain/loss	36,528	61,873
Net periodic benefit cost	<u>427,580</u>	<u>535,200</u>

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets were \$9,214,925, \$9,027,102 and \$8,310,322 respectively, as of 3/31/03, and \$10,681,119, \$7,731,459 and \$9,219,680 respectively, as of 3/31/02.

**Delta Natural Gas Company, Inc. Defined Benefit Retirement Plan**

**Statement of Financial Accounting Standards Nos. 87 and 132  
Actuarial Valuation  
As Of  
April 1, 2004**

**For March 31, 2004 Disclosure  
and  
2004-2005 Net Period Pension Expense**

**Prepared by:  
Hand & Associates, Inc.**



BRYAN WILSON, E.A., M.A.A.A.  
Vice President, Actuarial Consulting  
Hand and Associates, Inc.  
Bwilson@handgroup.com  
Fax: (713) 939-5880

June 25, 2004

Mr. John Brown  
Delta Natural Gas Company, Inc.  
3617 Lexington Road  
Winchester KY 40391-9797

RE: March 31, 2004 Disclosure and 2004-2005 Pension Expense under SFAS Nos. 87 and 132  
for the Delta Natural Gas Company, Inc. Defined Benefit Retirement Plan

Dear John:

Enclosed is the Accounting Requirements Actuarial Valuation for the Delta Natural Gas Company, Inc. Defined Benefit Retirement Plan as of April 1, 2004. The purpose of this report is to provide the employer and its auditors with the disclosure information required by the Statement of Financial Accounting Standard No. 132 for the employer's June 30, 2004 financial statement as well as the pension cost information required by the Statement of Financial Accounting Standard No. 87 for the employer's 2004-2005 financial statement. The results of this valuation are appropriate for these purposes only.

**Recognition of Plan Liabilities and Assets  
on Employer's Financial Statements**

Net periodic pension cost is an expense/(income) entry on the income statement and is determined separately from the employer contribution. Net periodic pension expense was \$725,434 for fiscal 2003-2004 and is \$555,560 for fiscal 2004-2005.

A liability (accrued pension cost) is recognized on the balance sheet if the sum of all historical net periodic pension costs exceeds cumulative employer contributions. An asset (prepaid pension cost) is recognized on the balance sheet if cumulative net periodic pension costs are less than the cumulative employer contributions.

The accumulated benefit obligation is the present discounted value of benefits deemed to have accrued by the statement date. If the accumulated benefit obligation exceeds the fair value of plan assets, the Company must recognize in the statement of financial position a liability (including accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation.

Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and an asset has been recognized as prepaid pension cost. If an additional

Mr. John Brown  
June 25, 2004  
Page 2

liability required to be recognized exceeds any unrecognized transition obligation and prior service cost, the excess shall be reported as a separate component of equity, i.e. a reduction in equity. Changes in the amount of additional liability recognized from year to year which are not offset by an intangible asset are recorded in "Other Comprehensive Income".

#### Executive Summary

The attached exhibits indicate the Net Pension Expense for fiscal 2003-2004 was \$725,434.

As of March 31, 2004, the accumulated benefit obligation of \$9,932,355 is less than the \$10,450,066 fair value of plan assets. Therefore, there is no Additional Liability or Other Comprehensive Income to be recognized as of March 31, 2004.

Net Pension Expense for fiscal 2004-2005 is \$555,560.

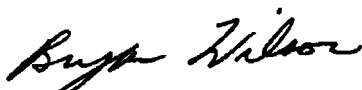
SFAS Nos. 87 and 132 require that the year-end liability amount be calculated using an appropriate discount rate based on March 31, 2004 financial markets. We have used 6.00% as the pre-retirement discount rate and 5.75% for the post-retirement discount for March 31, 2004 year-end disclosure calculations as well as the determination of 2004-2005 net periodic pension expense. If management selects a discount rate other than 6.00%/5.75% for year-end disclosure purposes, the attached exhibits will need to be updated to reflect the chosen discount rate.

As permitted in SFAS No. 87, Paragraph #52, we have measured liabilities and assets as of March 31, 2004 for June 30, 2004 disclosure.

If you have any questions concerning this information, please do not hesitate to call or write.

Respectfully submitted,

**HAND AND ASSOCIATES, INC.**

  
Bryan Wilson  
Vice President, Actuarial Consulting

cc: Kevin Joynt, Deloitte & Touch, LLP

Enclosures

**Delta Natural Gas Company, Inc. Defined Benefit Retirement Plan**

**Certification of SFAS Nos. 87 and 132 Actuarial Valuation  
(As of April 1, 2004)**

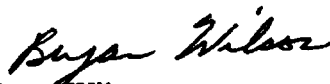
At the request of Delta Natural Gas Company, Inc., we have performed an actuarial valuation of the Plan as of April 1, 2004 pursuant to SFAS Nos. 87 and 132. The purpose of this report is to provide the information necessary to determine financial statement entries consistent with the Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) and the Statement of Financial Accounting Standards No. 132 (Employers' Disclosures about Pensions and Other Post-retirement Benefits) for the fiscal year ending June 30, 2004 and the net periodic pension expense entry for the fiscal year beginning July 1, 2004.

Actuarial computations under SFAS Nos. 87 and 132 are for purposes of fulfilling employer accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of SFAS Nos. 87 and 132. Determination for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein. Accordingly, additional determinations are needed for other purposes, such as judging benefit security at termination or adequacy of funding for an ongoing plan.

We have based our valuation on employee data as of April 1, 2004 as provided by Delta Natural Gas, Inc. and asset information as of March 31, 2004 as provided by the Hand Benefits and Trust Company. To the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. To the extent that any data imperfections exist in the historical compensation database, we have addressed the imperfections by application of the increase assumptions specified in the "Actuarial Assumptions". To the extent any imperfections exist in service records we have relied on best estimates provided by the employer. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information. We have used the actuarial funding methods and assumptions described in the "Actuarial Assumptions" section of this report. The actuarial valuation has been performed on the basis of the plan benefits described in the "Major Plan Provisions."

All current employees eligible to participate in the Plan as of the Valuation Date and all other individuals who have a remaining vested benefit under the Plan have been included in the valuation. Further, all Plan benefits have been considered in the development of plan costs.

In my opinion, each assumption used is reasonably related to the experience of the plan and to reasonable expectations and represents my best estimate of anticipated experience.



Bryan Wilson  
Enrolled Actuary Number 02-6279  
Member of American Academy of Actuaries

Delta Natural Gas Company, Defined Benefit Retirement Plan  
 Statement of Financial Accounting Standards No. 87  
 For Fiscal Year Ending 3/31/04

**ASSUMPTIONS**

	3/31/03	3/31/04
Discount Rate - Pre-Retirement	6.25%	6.00%
Discount Rate - Post-Retirement	5.75%	5.75%
Expected Long Term Rate of Return	8.00%	8.00%
Rate of Increase in Compensation	4.00%	4.00%
Average Remaining Future Service Measurement Date	15 Years	15
	3/31/03	3/31/04

**FUNDED STATUS**

	ACTUAL 3/31/03	FOR FISCAL 2003-2004	PROJECTED 3/31/04	ACTUAL 3/31/04
Projected Benefit Obligation	(9,214,925)		(9,834,878)	(10,267,056)
Plan Assets at Fair Value	8,310,322		9,131,074	10,450,066
Funded Status	(904,603)		(703,804)	183,010
Unrecognized Net Obligation or (Asset) Existing at Transition	0		0	0
Unrecognized Prior Service Cost	(1,284,482)		(1,198,303)	(1,198,303)
Unrecognized Net (Gain) or Loss	4,838,741		4,596,238	3,709,444
(Accrued) or Prepaid Pension Cost	2,669,656		2,694,151	2,694,151

**NET PERIODIC PENSION EXPENSE**

Service Cost	662,770	<b>RECONCILIATION</b>	
Interest Cost	557,183		
Expected Return on Assets	670,823	(Accrued) / Prepaid Pension Cost at	3/31/03
			2,669,656
Amortization of:		Net Periodic Pension Expense (Income)	725,434
Unrecognized Net Obligation or (Asset) Existing at Transition	0	Company Contributions	749,929
Unrecognized Prior Service Cost	(86,179)	(Accrued) / Prepaid Pension Cost at	3/31/04
Unrecognized Net (Gain) or Loss	262,483		2,694,151
Net Pension Expense (Income)	725,434		

Accumulated Benefit Obligation as of 3/31/04

Vested	9,792,770
Non-Vested	139,585
Total	9,932,355

**Delta Natural Gas Company, Inc. Defined Benefit Retirement Plan**  
**Statement of Financial Accounting Standards No. 87**  
**For Fiscal Year Ending 3/31/05**

**ASSUMPTIONS**

Discount Rate - Pre-Retirement	<u>3/31/04</u>
Discount Rate - Post-Retirement	6.00%
Expected Long Term Rate of Return	5.75%
Rate of Increase in Compensation	8.00%
Average Remaining Future Service	4.00%
Measurement Date	15 Years
	<u>3/31/04</u>

**FUNDED STATUS**

	<u>ACTUAL</u>	<u>FOR FISCAL</u>	<u>PROJECTED</u>
	<u>3/31/04</u>	<u>2004-2005</u>	<u>3/31/05</u>
Projected Benefit Obligation	(10,267,056)		(11,472,455)
Plan Assets at Fair Value	<u>10,450,066</u>		<u>11,989,517</u>
Funded Status	183,010		517,062
Unrecognized Net Obligation or (Asset)			
Existing at Transition	0		0
Unrecognized Prior Service Cost	(1,198,303)		(1,112,124)
Unrecognized Net (Gain) or Loss	<u>3,709,444</u>		<u>3,531,815</u>
(Accrued) or Prepaid Pension Cost	<u>2,694,151</u>		<u>2,936,753</u>

**NET PERIODIC PENSION EXPENSE**

Service Cost	714,801	<b><u>RECONCILIATION</u></b>	
Interest Cost	612,370		
Expected Return on Assets	863,061	(Accrued) / Prepaid Pension Cost at	3/31/04
Amortization of:			2,694,151
Unrecognized Net Obligation or (Asset)		Net Periodic Pension Expense (Income)	555,560
Existing at Transition	0	Company Contributions	<u>798,162</u>
Unrecognized Prior Service Cost	(86,179)		
Unrecognized Net (Gain) or Loss	<u>177,629</u>	(Accrued) / Prepaid Pension Cost at	3/31/05
Net Pension Expense (Income)	<u>555,560</u>		<u>2,936,753</u>



**DELTA NATURAL GAS COMPANY, INC. DEFINED BENEFIT RETIREMENT PLAN**

**STATEMENT OF FINANCIAL ACCOUNTING STANDARD Nos. 87 & 132**

	<u>Fiscal Year Ending 3/31/03</u>	<u>Fiscal Year Ending 3/31/04</u>
<b>Change in Benefit Obligation</b>		
Benefit Obligation at beginning of year	(10,681,119)	(9,214,925)
Service Cost	(601,607)	(662,770)
Interest Cost	(636,649)	(557,183)
Plan Participants' Contributions	0	0
Amendments	2,807,300	0
Actuarial Gain	(692,436)	57,092
Acquisition	0	0
Benefits Paid	589,586	110,730
Benefit Obligation at end of year	<u>(9,214,925)</u>	<u>(10,267,056)</u>
<b>Change in Plan Assets</b>		
Fair value of assets at beginning of year	9,219,680	8,310,322
Actual return on plan assets	(1,198,684)	1,500,545
Acquisition	0	0
Employer Contribution	878,912	749,929
Plan Participants' Contributions	0	0
Benefits Paid	(589,586)	(110,730)
Fair value of assets at end of year	<u>8,310,322</u>	<u>10,450,066</u>
<b>Recognized/Unrecognized Amounts</b>		
Funded Status	(904,603)	183,010
Unrecognized Net Actuarial Loss	4,858,741	3,709,444
Unrecognized Prior Service Cost	(1,284,482)	(1,198,303)
Net Amount Recognized	<u>2,669,656</u>	<u>2,694,151</u>
<b>Amounts Recognized in Statement of Financial Position:</b>		
Prepaid Pension Cost/(Accrued Benefit Liability)	(716,780)	n/a
Intangible Asset	0	n/a
Accumulated Other Comprehensive Income	3,386,436	n/a
Net Amount Recognized	<u>2,669,656</u>	<u>2,694,151</u>
<b>Weighted-Average Assumptions</b>		
Discount Rate - Pre-Retirement	6.25%	6.00%
Discount Rate - Post-Retirement	5.75%	5.75%
Expected return on assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%
<b>Components of Net Periodic Benefit Cost</b>		
Service Cost	601,607	662,770
Interest Cost	636,649	557,183
Expected return on assets	756,731	670,823
Amortization of prior service cost	(8,198)	(86,179)
Amortization of transition (asset)	0	0
Recognized actuarial gain/loss	61,873	262,483
Net periodic benefit cost	<u>535,200</u>	<u>725,434</u>

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets were \$10,267,056 , \$9,932,355 and \$10,450,066 respectively, as of 3/31/04, and \$9,214,925 , \$9,027,102 and \$8,310,322 respectively, as of 3/31/03.

# DELTA NATURAL GAS COMPANY, INC. DEFINED BENEFIT RETIREMENT PLAN

## DETERMINATION OF MINIMUM LIABILITY, ADDITIONAL LIABILITY AND INTANGIBLE ASSET

	<u>Fiscal Year Ending 3/31/03</u>	<u>Fiscal Year Ending 3/31/04</u>
<b>Minimum Liability; Additional Liability</b>		
1 Accumulated Benefit Obligation	9,027,102	9,932,355
2 Fair Value of Plan Assets	8,310,322	10,450,066
3 Minimum Liability (Unfunded ABO) [(1) - (2)] If zero or less, no additional liability is required	716,780	(517,711)
4 (Accrued)/Prepaid Pension Expense	2,669,656	n/a
5 Additional Liability [(3) + (4)]	3,386,436	n/a
<b>Intangible Asset</b>		
6 Unrecognized Obligation from Transition	0	n/a
7 Unrecognized Prior Service Cost	0	n/a
8 Maximum Intangible Asset [(6) + (7)]	0	n/a
9 Actual Intangible Asset - lesser of (5) or (8)	0	n/a
10 Accumulated Other Comprehensive Income [(5) - (9)]	3,386,436	n/a

**Delta Natural Gas Company Defined Benefit Retirement Plan**

**Assets Considered in Valuation**

**April 1, 2004**

**Assets At Current Value Per Trustee's  
Statement, March 31, 2004**

Cash and Cash Equivalents	\$751,221	
Fixed Income	2,479,440	
Equities	7,218,732	
Accrued Income	<u>673</u>	\$10,450,066
Accounts Receivable:		
Employer Contributions		<u>0</u>
Market Value of Assets as of March 31, 2004		\$10,450,066

**Delta Natural Gas Company Defined Benefit Retirement Plan**

**Reconciliation of Market Value of Assets**

April 1, 2003 - March 31, 2004

Market Value Of Assets At April 1, 2003		\$8,310,322
Employer Contributions		749,929
Less:		
Severances	(\$218,412)	
Retiree Payments	(37,346)	
Insurance Proceeds from Death Claim	<u>145,028</u>	(110,730)
Investment Fund Allocated At March 31, 2004		\$8,949,521
Gains And Adjustments By Reason Of:		
Net Investment Return:		
Investment Earnings	\$6,195	
Capital Appreciation/(Depreciation)	1,767,519	
Actuarial Fees	(24,805)	
Trust Fees	(19,561)	
Insurance Premiums	<u>(228,803)</u>	<u>1,500,545</u>
Market Value Of Assets At March 31, 2004		<u>\$10,450,066</u>
Rate Of Return On Plan Assets		17.39%

**Delta Natural Gas Company, Inc. Defined Benefit Retirement Plan**

**Major Plan Provisions**

- Eligibility:** All employees who are employed on a basis to work 1,000 hours or more per year, and who, as of April 1 or October 1, have been employed for 12 months or longer.
- Considered Compensation:** Total basic monthly salary earned in the twelve month period ending January 31 preceding the valuation date including deferrals under IRC § 401(k) and 125.
- Normal Retirement Date:** First of the month coincident with or following the attainment of Age 65.
- Monthly Retirement Benefit:** The basic monthly retirement benefit is payable at Normal Retirement Date for 120 months certain and life thereafter based on a formula of 1.6% of high-five average monthly salary per year of service for service after November 1, 2002.
- Prior to November 1, 2002, the basic monthly retirement benefit was based on a formula of 1.8% of high-five average monthly salary per year of service at Normal Retirement Date, plus .55% of high-five average monthly salary in excess of Social Security Covered Compensation Table II for each year of service not to exceed 35 years.
- Early Retirement Benefit:** Any participant who has attained age 55 and has completed 15 or more years of service may retire and receive an immediate monthly retirement benefit equal to his accrued benefit reduced 5% (.4167% per month) for each year by which early retirement precedes normal retirement.
- Pre-Retirement Death Benefit:** The death benefit is the greater of the present value of the vested accrued benefit or \$1,000 for each \$10 of projected monthly retirement benefit. However, the death benefit for a participant employed beyond his Normal Retirement Date is the present value of the accrued benefit. (Accrued Benefits provided

under the prior Plan Metropolitan Group Annuity Contract are not considered).

**Disability Benefit:**

In the event a participant becomes totally and permanently disabled, as determined by the Plan Committee, he is entitled to receive the benefit provided by the present value of the accrued pension.

**Vesting:**

Participants become vested in their accrued benefits in accordance with the following schedule:

<u>Years of Credited Service</u>	<u>Vested Percentage</u>
0-3	0%
3	20%
4	40%
5	60%
6	80%
7 & thereafter	100%

**Single Sum Distribution Availability:**

Upon termination of employment, single sum distributions are available up to \$5,000. If the event of death, disability, Normal Retirement Age or Early Retirement Age, single sums are available regardless of the amount, for benefits accrued prior to December 1, 2002.

The \$5,000 restriction will apply to all accruals after December 1, 2002.

**Assumptions for Determining Actuarially Equivalent Benefits:**

**Benefits Payable in the Form of a Monthly Annuity:**

**Mortality:**

**Interest:**

1994 Group Annuity Reserving Mortality Table.  
8% per year, compounded annually.

**Benefits Payable in the Form of a Single Sum Distribution:**

GATT interest rate in effect as of March 1 preceding the Plan Year. GATT lump sums are calculated utilizing the 1994 Group Annuity Reserving Mortality Table.

March 1, 2004 rate = 4.74%



**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 5**

**Responding Witness: John B. Brown**

Q5. Provide the actual hours worked by the part-time employee who replaced Ms. Lethgo for the 12 month period July 1, 2003 through June 30, 2004.

A5. 748 Hours.



**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 6**

**Responding Witness: John B. Brown**

- Q6. Provide copies of the determination by the SEC concerning the reporting of cost of removal that does not constitute a legal obligation as a regulatory liability.
- A6. In the fall of 2003, the SEC sent comment letters to certain utility companies indicating the belief of the Corporation Finance section of the SEC that this regulatory liability must be reclassified out of accumulated depreciation and reported as a separate liability on the balance sheet. Refer to point 6 in the attached letter issued by the SEC on December 8, 2003 to PG&E Corp.

The SEC reiterated this position for the industry in a call with representatives of Deloitte Touche which took place on February 23, 2004. The following is the text of an email written by Jan Umbaugh, Deloitte's National Utility Industry Professional Practice Director, documenting the call. This information was also shared with the other accounting firms having utility clients:

- > We have just completed a call with the SEC Staff (Jack Albert,
- > Joel Levine, and Jim Allegretto) concerning the reporting of cost of
- > removal and asset retirement obligations. What they agreed to is the
- > following:
- >
- > All 2002 accruals for cost of removal, nuclear decommissioning,
- > and similar pre-143 accruals should be reclassified from accumulated
- > depreciation to a GAAP liability line item(s) (Pre-143 ARO's). Some
- > companies had previously classified nuclear decommissioning and some
- > other portions of these amounts as GAAP liabilities separate from
- > accumulated depreciation. This addresses the SEC Staff's concerns
- > about comparability and previous classification concerns as to whether
- > any of the previous accruals were appropriately included in
- > accumulated depreciation for GAAP reporting purposes or should have
- > been recorded on the liability side of the balance sheet in 2002 (and
- > prior) financial statements. The 2002 reclassification would be made
- > with out recharacterizing the 2002 amounts as regulatory liabilities.
- > As a result, those companies that have previously discontinued FAS 71
- > and did not reclassify or remove those items from their balance
- > sheets, would not now change their accounting for discontinuing FASB
- > 71 .
- >

> Upon application of FAS 143, all of those previously accrued  
> GAAP liability amounts would have been written off in accordance with  
> FAS 143 paragraph 26. The cumulative effect of adopting FAS 143 would  
> be "the difference between the amounts, if any, recognized in the  
> statement of financial position prior to the application of this  
> Statement" and new ARO liabilities recorded in accordance with FAS  
> 143. Any amounts that would otherwise have been recorded as part of  
> this cumulative effect difference but that were still subject to  
> regulatory treatment would be recorded as separate regulatory  
> liabilities in the 2003 balance sheet. In summary, the application of  
> FAS 143 would have resulted in the recording of new FAS 143 ARO's and  
> new FAS 143 Asset Retirement Costs with the difference between those  
> amounts and the write off of any previously recorded amounts reflected  
> in income as the cumulative effect of the application of FAS 143  
> unless the provisions of FAS 71 were met in order to record all or a  
> portion of that cumulative effect as a regulatory asset or liability.  
> This is consistent with our previous views with respect to 2003,  
> except that the non-legal costs of removal, which are regulatory  
> liabilities, must be recorded as a regulatory liability outside of  
> accumulated depreciation.

>  
> For those companies that have already filed 2003 reports and did  
> not reclassify 2002 and 2003 amounts in the manner described above,  
> the SEC Staff indicated that those companies should file an Item 5  
> Form 8-K to reflect the reclassifications rather than amend their Form  
> 10-K; they should not wait to describe the change in their next  
> subsequent Form 10-Q or other regular filing. The SEC Staff also  
> indicated that all historical data presented (e.g., total assets or  
> net plant in service) should also be revised to reflect the  
> reclassification of all prior cost of removal and similar accruals out  
> of accumulated depreciation for all periods. We indicated that we  
> would communicate this conversation to each of the large accounting  
> firms and to the Edison Electric Institute. The SEC staff does not  
> expect to issue any further guidance on this matter.



**PGECORP** (PCG)

ONE MARKET SPEAR TOWER  
SUITE 2400  
SAN FRANCISCO, CA 94105  
415. 267.7000  
<http://www.pge.com>

## SEC STAFF COMMENTS

Periodic Reports  
Filed on 12/08/2003  
File Number 001-12609





Mail Stop 3-8

December 8, 2003

By US Mail and Facsimile

Mr. Kent M. Harvey  
Senior VP, CFO and Treasurer  
PG&E Corporation  
77 Beale Street  
San Francisco, California 94177

RE: Form 10-K/A for the year ended December 31, 2002  
Filed June 30, 2003  
Form 10-Q for the period ended September 30, 2003  
File No. 1-12609

Dear Mr. Harvey:

We have reviewed these filings and have the following comments. We have limited our review to only your financial statements and related disclosures and will make no further review of your documents. Where indicated, we think you should revise your documents in future filings in response to these comments. If you disagree, we will consider your explanation as to why our comment is inapplicable or a revision is unnecessary. Please be as detailed as necessary in your explanation. In some of our comments, we may ask you to provide us with supplemental information so we may better understand your disclosure. After reviewing this information, we may or may not raise additional comments.

Please understand that the purpose of our review process is to assist you in your compliance with the applicable disclosure requirements and to enhance the overall disclosure in your filing. We look forward to working with you in these respects. We welcome any questions you may have about our comments or on any other aspect of our review. Feel free to call us at the telephone numbers listed at the end of this letter.

Form 10K/A for the year ended December 31, 2002

Consolidated Statements of Common Stockholders' Equity, page 77

1. Unless the change in the number of shares outstanding is readily calculable from the financial statements, you should include a column that reconciles the changes in the number of shares of common stock outstanding between years. You may do this in a footnote. See paragraph 10 of APB 12 and Rules 3-04 and 5-02 of Regulation S-X.

2. Please disclose for all periods presented the amounts of the income tax provisions for each classification of other comprehensive income. See paragraph 25 of SFAS No. 130.

Note 14. Employee Benefit Plans, page 147

3. Please explain to us how you calculate the market related value of plan assets as that term is defined in paragraph 30 of Statement no. 87. Since there is an alternative to how you can calculate this item, and it has a direct effect on pension expense, we believe you should disclose how you determine this amount.

Form 10-Q for the period ended September 30, 2003

Note 1. General

Organization and Basis of Presentation

4. We note as of July 8, 2003 you deconsolidated the operations of NEGT and reflect your ownership using the cost method of accounting. Please explain to us your basis for use of the cost method as opposed to the equity method since, even during the bankruptcy period, we would assume you have some amount of influence. In this regard, please explain the extent of your influence in bankruptcy including why you do not believe it is significant as defined in APBO no. 18. Please additionally tell us the carrying amount of the investment and what effect use of the equity method would have versus the cost method on the financial statements. If there is no difference, please explain in detail.

Accounting for Asset Retirement Obligations

5. You disclose that the Utility recorded a regulatory liability of

\$387 million to reflect the cumulative effect of adoption for its nuclear facilities, representing the timing difference between recognition of nuclear decommissioning obligations in accordance with GAAP and ratemaking purposes. Supplementally please tell us whether the Utility follows SFAS No. 71 in accounting for its generation facilities including what effect deregulation had on your accounting for generation assets retained. If your generating activities do not meet the requirements of Statement no. 71, please explain to us in detail why the \$387 million represents a regulatory liability and whether you are partially applying SFAS no. 71.

6. You disclose that you adopted SFAS No. 143, Accounting for Asset Retirement Obligations (ARO) effective January 1, 2003. Further you disclose that "The Utility collects estimated removal costs in rates through depreciation in accordance with regulatory treatment" and "These amounts do not represent SFAS No. 143 asset retirement obligations and will continue to be recorded in accumulated depreciation." We concur that these costs do not represent SFAS No. 143 obligations but we believe that they should be reclassified apart from accumulated depreciation as a regulatory liability account in accordance with paragraph B73 of SFAS No. 143. If you believe that such recovered costs do not meet the requirements of paragraph B73 of SFAS No. 143, please explain to us in detail.

As appropriate, please respond to these comments within 10 business days, or tell us when you will provide us with a response. Please provide us with a supplemental response letter that keys your responses to our comments and provides any requested supplemental information. Detailed letters greatly facilitate our review. Please file your letter to us on EDGAR as a correspondence file. Please understand that we may have additional comments after reviewing your responses to our comments.

If you have any questions regarding these comments, please direct them to Vassilios Karapanos at (202) 942-1920 or, in his absence, to the undersigned at (202) 942-1885. Any other questions regarding disclosure issues may be directed to H. Christopher Owings, Assistant Director, at (202) 942-1900.

Sincerely,

Jim Allegretto  
Senior Assistant Chief Accountant

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 7**

**Responding Witness: John B. Brown**

- Q7. In conjunction with recognizing the cost of removal for SEC purposes, provide copies of Delta's analysis and accounting entries made to comply with the SEC requirement.
- A7. In accordance with the interpretation described in response to Item 6 above, Delta recorded \$770,000 of such costs as regulatory liabilities at March 30, 2004. The entry made was a topside reclassification debiting the accumulated depreciation financial statement caption and crediting the regulatory liabilities financial statement caption. The supporting analysis is attached.

**Delta Natural Gas Company, Inc.**

3/31/04

Account Number	Description	Accum.Depr	Salvage Percentage	Rate to Apply to Salvage	Salvage Amount	Removal Percentage	Rate to Apply to A/D	Removal Amount	Net Salvage Percentage	Net Salvage Amount
<u>Gas Plant</u>										
<u>Production and Gathering Plant</u>										
305	Structures and Improvements	-	0	-	-	0	-	-	0	-
319	Gas Mixing Equipment	-	0	-	-	0	-	-	0	-
325	Rights of Way	46,002	0	-	-	0	-	-	0	-
327	Compressor Station Structures	20,876	0	-	-	0	-	-	0	-
331	Producing Gas Wells	7,795	0	-	-	0	-	-	0	-
332	Field Lines	1,099,026	0	-	-	0	-	-	0	-
333	Field Compressor Station Equipment	579,992	0	-	-	0	-	-	0	-
334	Field Measuring & Regulating Station Equipment	59,886	0	-	-	0	-	-	0	-
350.5	Gas Rights Wells	-	0	-	-	0	-	-	0	-
350.6	Gas Rights Storage	-	0	-	-	0	-	-	0	-
<u>Transmission Plant</u>										
3651	Land and Land Rights	-	0	-	-	0	-	-	0	-
3652	Rights of Way	-	0	-	-	0	-	-	0	-
3653	Land Rights CVPL	163,626	0	-	-	0	-	-	0	-
366	Structures and Improvements	68,630	0	-	-	0	-	-	0	-
367	Transmission Mains	11,336,133	0	-	-	0	-	-	0	-
368	Compressor Station Equipment	1,171,813	0	-	-	0	9.09%	-	0	-
369	Measuring & Regulating Station Equipment	576,925	0	-	-	10%	9.09%	52,448	-10%	(57,692)
371	Other Equipment	479,576	0	-	-	0	-	-	0	-
<u>Distribution Plant</u>										
375	Structures and Improvements	61,719	0	-	-	0	-	-	0	-
376	Distribution Mains	17,781,545	0	-	-	0	-	-	0	-
378	Measuring & Regulating Station Equipment - General	337,243	10%	-	-	10%	9.09%	30,658	-10%	(33,724)
379	Measuring & Regulating Station Equipment - City Gate	184,607	10%	-	-	10%	9.09%	16,782	-10%	(18,461)
380	Services	2,027,903	20%	-	-	20%	16.67%	337,984	-20%	(405,581)





**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 8**

**Responding Witness: John B. Brown**

- Q8. Provide documents relating to the Big Four accounting firms' opposition to the proposed SEC treatment of SFAS No. 143 and non-legal AROs for utilities.
- A8. While accounting firms assisted their clients in responding to the SEC comment letters described in Question No. 6, the accounting firms did not issue position statements for external distribution.

The best source for articulation of the arguments opposing the SEC's view would be the individual company responses to the SEC comment letters. While these letters and responses should be available to the public under the Freedom of Information Act, the limited time allowed for responding to this request prevents us from providing copies of these letters via that service.

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 9**

**Responding Witness: John B. Brown**

- Q9. Provide an analysis of the \$111,618 spent in the first 6 months of 2004 relating to compliance with Sarbanes/Oxley. Analysis should use a format similar to the response to PSC 2-25(u), with a complete description of what services were being provided. The analysis is to also include an indication of what expenses are one-time, set-up, or non-recurring items.
- A9. See attached.

PSC DATA REQUEST  
DATED MAY 11, 2004

Date Service Rendered	Check #	Professional Services	Meals and Lodging	Total	Category				Total
					Project Planning	Process Documenting	Test Plans/Testing	SarboX Portal Install	
<b>Profiviti -- Vendor # 4325</b>									
Jan 1-15, 2004	219199	26,488	3,551	30,039			30,039		30,039
Jan 16-31, 2004	219813	28,953	4,176	33,129			33,129		33,129
Feb 1-15, 2004	220131	22,793	4,478	27,271			27,271		27,271
Feb 16-Mar 15, 2004	220734	17,902	1,701	19,603			19,603		19,603
Mar 16-31, 2004	221590	1,425	150	1,575			1,575		1,575

**Deloitte -- Vendor # 4186**

		97,561	14,056	111,617	0	0	111,617	0	<b>111,617</b>
Percent of total annual recurring					30%	0%	100%	0%	
Annual recurring Sarbanes/Oxley					-	-	111,617	-	111,617
Non-recurring Sarbanes/Oxley Consulting					-	-	-	-	-

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 10**

**Responding Witness: W. Steven Seelye**

Q10. Provide a revised version of Seelye Exhibit 7 - Depreciation Study - Appendix A, the Summary of Current and Proposed Accrual Rates, with the storage plant account depreciation rates reflecting the use of the remaining life approach instead of the whole life approach.

.

A10. See attached.

Delta Natural Gas Company  
Depreciation Study

Depreciation Rates for Storage Plant Accounts  
Based on Stated Remaining Life

Account	Plant Balance	Dispersion	ASL	Estimated Salvage %	Net Salvage Amount	Depreciation Book Reserve	Balance To Be Recovered	Estimated Life Remaining	Annual Depreciation Amount	Accrual Rate
351	\$ 275,274			\$	-	\$ 31,314	\$ 243,960	40.0	\$ 6,099	2.22%
352	\$ 380,553			\$	-	\$ 60,404	\$ 320,149	36.0	\$ 8,893	2.34%
3521	\$ 850,395			\$	-	\$ 243,324	\$ 607,071	36.0	\$ 16,863	1.98%
3522	\$ 1,861,730			\$	-	\$ 578,675	\$ 1,283,055	36.0	\$ 35,640	1.91%
3523	\$ 294,307			\$	-	\$ 92,707	\$ 201,600	36.0	\$ 5,600	1.90%
353	\$ 5,024,283			\$	-	\$ 1,099,896	\$ 3,924,387	36.0	\$ 109,011	2.17%
354	\$ 1,767,800			\$	-	\$ 745,637	\$ 1,022,163	36.0	\$ 28,393	1.61%
355	\$ 361,994			\$	-	\$ 68,548	\$ 293,446	36.0	\$ 8,151	2.25%
356	\$ 342,123			\$	-	\$ 75,953	\$ 266,170	36.0	\$ 7,394	2.16%
357	\$ 47,208			\$	-	\$ 30,856	\$ 16,352	30.0	\$ 545	1.15%

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Commission Staff  
Dated August 18, 2004**

**Question No. 11**

**Responding Witness: W. Steven Seelye**

- Q11. Provide a calculation of how much a customer's average monthly bill would increase if the special contract customers by-passed Delta and those fixed costs had to be recovered from the remaining customers.
- A11. Attached is the revised summary of proposed rates assuming that Delta lost its four special contract customers to bypass. If Delta were to lose its four special contracts, the utility would see a reduction in test-year revenue of \$631,225, which would have to be offset through increased charges to other customers. Since the increase to the residential class would have been larger had Delta not mitigated the proposed rate increase, it logically follows that any revenue shortfall resulting from the loss of Delta's special contract customers would likely be offset by increased charges to the residential class. The proposed residential increase filed by Delta is \$3,050,462 or 10.00%. If Delta lost its special contract customers the increase would be \$3,681,669 or 12.07%.

**Delta Natural Gas Company, Inc.**

Summary of Proposed Rate Increase by Rate Class  
Based on Adjusted Sales and Transportation for the 12 months Ended December 31, 2003

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Actual Billed Revenue	Elimination of Gas Cost Adjustment	Net Revenue Before Temperature Adjustment	Temperature Adjustment	GCR at Current Rates	Adjusted Billings at Current Rates	Increase in Revenue	Percentage Increase
		( See Gas Cost Exhibit )	( Column (1) + (2) )	( See Temperature Normalization Exhibit )	8.2193	( Column (3) + (4) + (5) )		
<b>REVENUE</b>								
Residential \$	27,137,870.94	(15,765,190.84)	11,372,680.10	85,434.30	19,053,175.77	30,511,290.17	\$ 3,681,669.49	12.07%
Small Non-Residential GS	8,106,678.09	(4,770,813.07)	3,335,865.02	19,666.01	5,775,718.55	9,131,249.58	494,989.19	5.42%
Large Non-Residential GS								
Large Non-Residential GS - Retail	10,522,330.70	(6,956,478.74)	3,565,851.96	6,734.04	8,113,188.84	11,685,774.84		
Large Non-Residential GS - Transportation	1,609,046.00	-	1,609,046.00	3,767.30	-	1,612,813.30		
<b>Total Large Non-Residential GS</b>	<b>12,131,376.70</b>	<b>(6,956,478.74)</b>	<b>5,174,897.96</b>	<b>10,501.34</b>	<b>8,113,188.84</b>	<b>13,298,588.14</b>	<b>716,613.30</b>	<b>5.39%</b>
Interruptible								
Interruptible - Retail	465,699.74	(363,552.26)	102,147.48	145.60	422,800.79	525,093.87		
Interruptible - Transportation	1,601,526.00	-	1,601,526.00	-	-	1,601,526.00		
<b>Total Interruptible</b>	<b>2,067,225.74</b>	<b>(363,552.26)</b>	<b>1,703,673.48</b>	<b>145.60</b>	<b>422,800.79</b>	<b>2,126,619.87</b>	<b>-</b>	<b>0.00%</b>
<b>Total Retail</b>	<b>\$ 49,443,151.47</b>	<b>(27,856,034.91)</b>	<b>\$ 21,587,116.56</b>	<b>\$ 115,747.25</b>	<b>\$ 33,364,883.95</b>	<b>\$ 55,067,747.76</b>	<b>\$ 4,893,271.98</b>	<b>8.89%</b>
Special Contract On-System Transportation	\$ 631,225.03	-	\$ 631,225.03	-	-	\$ 631,225.03	\$ (631,225.03)	-100.00%
Off System Transportation	1,808,801.02	-	1,808,801.02	-	-	1,808,801.02	-	0.00%
<b>Total Transportation</b>	<b>\$ 2,440,026.05</b>	<b>-</b>	<b>\$ 2,440,026.05</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,440,026.05</b>	<b>\$ (631,225.03)</b>	<b>-25.87%</b>
Miscellaneous Revenue	\$ 202,175.00	-	\$ 202,175.00	-	-	\$ 202,175.00	\$ 15,392.00	7.61%
<b>Total Operating Revenue</b>	<b>\$ 52,085,352.52</b>	<b>(27,856,034.91)</b>	<b>\$ 24,229,317.61</b>	<b>\$ 115,747.25</b>	<b>\$ 33,364,883.95</b>	<b>\$ 57,709,948.81</b>	<b>\$ 4,277,438.95</b>	<b>7.41%</b>



# Delta Natural Gas Company, Inc.

Calculated Increase in Revenue under Proposed Revision of Rates  
Based on the adjusted sales for the 12 months Ended December 31, 2003

## Residential (01)

	Customers	Present Rate	Calculated Net Revenue@ Present Rates	Proposed Rate	Calculated Net Revenue@ Proposed Rates
Customer Charge	404,394	\$ 8.00	\$ 3,235,152.00	\$ 12.50	\$ 5,054,925.00
Commodity Charge					
All Mcf	2,294,517	\$ 3.6224	8,311,658.38	4.4420	10,192,244.51
<b>Calculated Billings at Base Rates</b>			\$ 11,546,810.38		\$ 15,247,169.51
Correction Factor -(Calculated / Actual)		0.99873		0.9987	
<b>Total After Application of Correction Factor</b>			\$ 11,561,444.10		\$ 15,266,492.84
Temperature Normalization					
WNA Revenues			(188,764.00)		(231,473.52)
Temperature Normalization Adj (non-WNA months)	23,585	\$ 3.6224	85,434.30	4.4420	104,764.57
Adjusted Billings at Base Rates			\$ 11,458,114.40		\$ 15,139,783.89
GCR at Current Rates	2,318,102	8.2193	19,053,175.77	8.2193	19,053,175.77
<b>Total Adjusted Billings at Base Rates</b>			\$ 30,511,290.17		\$ 34,192,959.66
Proposed Increase in Revenue					\$ 3,681,669.49
					12.07%

## Delta Natural Gas Company, Inc.

Calculated Increase in Revenue under Proposed Revision of Rates  
Based on the adjusted sales for the 12 months Ended December 31, 2003

### Small Non-Residential General Service (02CS)

	Customers	Present Rate	Calculated Net Revenue@ Present Rates	Proposed Rate	Calculated Net Revenue@ Proposed Rates
<b>Customer Charge</b>	53,716	\$ 17.00	\$ 913,172.00	\$ 22.00	\$ 1,181,752.00
<b>Commodity Charge</b>	<i>Mcf</i>				
First 200 Mcf	667,290	\$ 3.6224	2,417,191.30	\$ 3.8984	2,601,363.34
Next 800 Mcf	27,194	\$ 2.4000	65,265.60	\$ 3.8984	106,013.09
Over 1,000 Mcf	2,789	\$ 2.0495	5,716.06	\$ 3.8984	10,872.64
<b>Calculated Billings at Base Rates</b>	697,273		\$ 3,401,344.96		\$ 3,900,001.07
<i>Correction Factor -(Calculated / Actual)</i>		100.074%		100.074%	
<b>Total After Application of Correction Factor</b>			\$ 3,398,842.02		\$ 3,897,131.19
<b>Temperature Normalization</b>					
WNA Revenues					(67,775.38)
Temperature Normalization Adj (non-WNA months)	5,429	\$ 3.6224	\$ 19,666.01	\$ 3.8984	21,164.41
Adjusted Billings at Base Rates	<i>Mcf</i>				
GCR at Current Rates	702,702		\$ 3,355,531.03		\$ 3,850,520.22
<b>Total Adjusted Billings at Base Rates</b>	702,702	8.2193	\$ 5,775,718.55	8.2193	\$ 5,775,718.55
Proposed Increase in Revenue			\$ 9,131,249.58		\$ 9,626,238.77
					\$ 494,989.19
					5.42%

## Delta Natural Gas Company, Inc.

Calculated Increase in Revenue under Proposed Revision of Rates  
Based on the adjusted sales for the 12 months Ended December 31, 2003

### Large Non-Residential General Service

	Customers	Present Rate	Calculated Net Revenue@ Present Rates	Proposed Rate	Calculated Net Revenue@ Proposed Rates
Customer Charge	11,081	\$ 50.00	\$ 554,050.00	\$ 80.00	\$ 886,480.00
<b>Commodity Charge</b>	<b>Mcf Present Rate</b>				
First 200 Mcf	735,592	\$ 3.6224	2,664,608.46	3.8984	2,867,631.85
Next 800 Mcf	461,113	\$ 2.0063	925,131.01	2.3334	1,075,961.07
Next 4,000 Mcf	557,501	\$ 1.3190	735,343.82	1.3500	752,626.35
Next 5,000 Mcf	210,286	\$ 0.9190	193,252.83	0.9500	199,771.70
Over 10,000 Mcf	123,461	\$ 0.7190	88,768.46	0.7500	92,595.75
<b>Calculated Billings at Base Rates</b>	<b>2,087,953</b>		<b>\$ 5,161,154.58</b>		<b>\$ 5,875,066.72</b>
Correction Factor -(Calculated / Actual)		0.9973		0.9973	
<b>Total After Application of Correction Factor</b>			<b>\$ 5,174,897.95</b>		<b>\$ 5,890,711.13</b>
<b>Temperature Normalization</b>					
First 200 Mcf	2899	\$ 3.6224	10,501.34	3.8984	11,301.46
Adjusted Billings at Base Rates	<b>Mcf</b>				
GCR at Current Rates	2,087,953		\$ 5,185,399.29		\$ 5,902,012.59
	987,090.00	8.2193	8,113,188.84	8.2193	8,113,188.84
			<b>\$ 13,298,588.13</b>		<b>\$ 14,015,201.43</b>
Proposed Increase in Revenue					\$ 716,613.30
					5.39%

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2004-00067**

**Response to Hearing Data Request of the Attorney General  
Dated August 18, 2004**

**Question No. 1**

**Responding Witness: W. Steven Seelye**

- Q1. Provide a copy of Seelye's SPR results for Account No. 376 in paper format.
- Q1. As indicated in the Depreciation Study Report included in Seelye Exhibit 7, the R3 curve provided the best overall results for all four metrics examined (SSD, CI, IV, and REI). The SPR results for Account 376 – Distribution Mains are attached.

