COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUL 31 2007

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL	)	
GAS COMPANY, INC. FOR	)	**CASE NO. 2007-00089**
AN ADJUSTMENT OF RATES	)	

* * * * * * * * * *

CERTIFICATION

The undersigned, Glenn R. Jennings, states that he is Chairman of the Board, President and Chief Executive Officer of Delta Natural Gas Company, Inc., a corporation, ("Delta") and certifies that he supervised the preparation of the responses of Delta to the Third Data Request of Commission Staff to Delta herein and that the responses are true and accurate to the best of the undersigned's knowledge, information and belief formed after a reasonable inquiry.

Dated this 31st day of July, 2007.

Glenn R. Jennings

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

1. Refer to the response to the Commission Staff's Second Data Request dated June 7, 2007 ("Staff's Second Request"), Item 2. Provide the basis for the 6.5 percent discount rate used in the calculations shown on Schedule C of the response.

RESPONSE:

Since the schedules provided in response to KYPSC DR2-1 were illustrative examples a hypothetical discount rate was utilized. However, in the actual mechanism Delta's weighted average cost of capital would be an appropriate index for the discount rate.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

2. Refer to the response to the Staff's Second Request, Item 3.

a. In the response to Item 3(a), Delta states that since 1997 any amount due or over-payments reflected on the July bill as part of its Budget Billing Plan are automatically rolled over into the next year's budget calculation. The current rate case is the third base rate case Delta has filed with the Commission since 1997. Explain in detail why Delta has waited until the present rate case to amend its tariff to reflect its current Budget Billing Plan practices.

b. In the response to Item 3(c), Delta states that it constantly monitors budget customers' accounts and adjustments are made as necessary to minimize significant under-collection balances. A review of Delta's tariff indicates that those customers electing to be billed under the Budget Payment Plan could see an adjustment monthly in order to ensure that the customer is current at the final budget payment. Does Delta adjust budget payment plan bills regardless of the direction of the variance between the amount owed and the budget payment? Explain the response.

RESPONSE:

a. The language used in the tariff related to budget billing from 1997 through current is not inaccurate. The language was expanded to provide greater description related to the settlement process. The current tariff was silent on the method of settlement, so the wording was added in the proposed tariff to define how the budget accounts are settled.

b. The response to Item 3 (c) should have read, "adjustments are made as necessary to minimize significant under/**over** collections." For every billing cycle in January through May a program is run to project the customer's budget needs for the remainder of the budget year. The program takes into consideration the expected usage throughout the remainder of the budget year and the projected gas cost. Delta then compares the current to calculated budget amounts to determine revision needs. Delta will adjust the customer's budget payment regardless of the direction of the variance. Delta will not make an adjustment if the customer's settlement amount is projected to be minimal.

Sponsoring Witness:

Matthew D. Wesolosky

3. Refer to the response to the Staff's Second Request, Item 6(b)(1), Schedule 1. The schedule provided with this response shows that included in the wage normalization are amounts for several part-time/seasonal employees who were both hired and terminated during the test year. Explain why the wages for these individuals should be included in the wage and salary normalization.

RESPONSE:

The wages for these individuals should be included in the wage and salary normalization due to the fact that the company hires such part-time/seasonal employees each year during the summer when the weather is more conducive to outside work and then terminates them each year well in advance of December 31, the end of the test year.

The response to the Attorney General's initial request item 200 demonstrates that pattern, showing approximately $84,000, $97,000 and $76,000 of expenses related to 17, 20 and 16 temporary or seasonal employees hired in each of the three years ending December 31, 2006.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

4. Refer to the response to the Staff's Second Request, Item 6(c). In support of its proposal to recognize $38,793 in depreciation expense associated with construction work in progress, Delta notes the Commission's November 10, 2004 Order in Case No. 2004-00067[1] stated, "In the event a utility proposed to recognize new plant additions occurring after test-year end, it might be appropriate to recognize a level of depreciation expense on the new plant additions."

a. Delta stated in its Application, at Tabs 44 and 45, that it was not proposing pro forma adjustments for plant additions in this case. Is this statement still correct?

b. If it is still correct that Delta is not proposing pro forma adjustments for plant additions in this case, explain in detail why Delta is proposing to include depreciation expense on its construction work in progress balance.

RESPONSE:

a) Yes the statement is still correct. No pro forma adjustments for plant additions are included in this case, but see below for a description of the inclusion of CWIP in rate base.

b) New plant additions occurring after test-year end will include the following:

a. Costs incurred through 12/31/06, so recorded as CWIP on Delta's Balance Sheet and in our rate base calculation in the case. This portion of new plant additions after test-year end are included in the case not by proposing a pro forma adjustment, but by including CWIP in rate base. We believe that for consistency the calculated $38,793 of depreciation expense on the $2,275,552 of CWIP should be included in both pro forma depreciation expense and accumulated depreciation. These CWIP dollars have been incurred during the test year and the $38,793 impact on depreciation expense is both known and measurable.

b. Costs to be incurred subsequent to the test year. These costs, if included in the case, would need to be included by means of a pro forma adjustment, as suggested in this question. Delta has not proposed such pro forma adjustments nor has included any of these costs as the basis for computing pro forma depreciation expense or accumulated depreciation.

Sponsoring Witness:

John B. Brown

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[1]Case No. 2004-00067, Application of Delta Natural Gas Company Inc. for an Adjustment of Rates.

5. Refer to the response to the Staff's Second Request, Item 6(d)(2). Delta was requested to provide a revised Schedule 5 from Application Tab 27 that reflected the effect of the increased Federal Insurance Contribution Act base wage limit effective January 1, 2007. Delta was to include all workpapers, calculations, and assumptions used to prepare the revision. Delta provided a revised Schedule 5, but failed to provide the requested workpapers, calculations, and assumptions used to prepare the revision. In addition, Delta submitted revisions to several of the schedules included in Application Tab 27 and introduced three new expense adjustments.

a. Concerning revised Schedule 5, provide the originally requested workpapers, calculations, and assumptions used to determine the revision. As this is a second request for the information, Delta is reminded of the Commission's discussion and findings in the November 10, 2004 Order in Case No. 2004-00067 concerning future rate applications.

b. Explain line 2 on the revised Schedule 5, labeled "test year deductions."

c. Concerning the new adjustments to property taxes, medical coverage, and legal expense, explain in detail why these items were not originally included in Delta's application and its determination of its revenue requirements.

d. Concerning the property taxes, what is the status of Delta's appeal of its 2006 assessment from the Kentucky Department of Revenue?

e. Provide the calculations and assumptions utilized to determine the tax expansion factor and tax expansion factor including the PSC Assessment, as shown on revised Schedule 7, lines 8 and 10.

RESPONSE:

a) See Item 5 a, attached.

This attachment takes the listing, by employee, of Pro Forma Wages (PSC DR-2 – Item 6b(1) Schedule 1 as previously filed) and shows the portion of each employee's wages that is used as a base for each of the taxes. These amounts total the amounts shown on line 1 of Schedule 5.

Line 2, "test year deductions" represent the deductions from employees paychecks during the test year that are pretax. These include the employee's contribution towards health insurance and any pre tax flexible spending amounts deducted for health care or dependent care. The amounts deducted during the test year for each of these items are shown on the attached item 5a.

The computation for the ratio of salaries and wages charged to expense to total wages on line 9 (77%) is shown at Item 57 of the PSC's 2nd data request.

b) See the explanation of Line 2 in a) above.

c) The adjustment to property taxes could not be accurately calculated until the 2006 assessment was final. The state did not issue its final assessment until after the PSC's first data request so we were unable to include it in our application and in our determination of our revenue requirements. We did suggest in Brown Testimony that this adjustment would be forthcoming.

Brown Testimony also listed medical coverage and legal expense as accounts that were likely not representative in the test year. We had not done sufficient research on those two accounts at the time to determine why the accounts seemed low. We subsequently came to understand the impact that the one time adjustment to the medical accrual had on test year expense. Responding to a data request requiring us to detail all legal expenses highlighted the credit that was recorded out of period.

d) The Kentucky Department of Revenue 2006 assessment is now final and our adjustment calculated on Schedule 5.1 of PSC 2 item 6 d (2) using 12/31/06 plant values is based on that final assessment.

e) The calculation of the tax expansion factor on line 8 of 1.6118633 is shown in the response to PSC 2 Item 6 e. (1). The only input to that formula is the tax rate. We computed the tax rate (shown on schedule 7.1 of Tab 27 of the Application) using the statutory rates we assume will be in effect when these base rates will apply. The calculation of the tax expansion factor, including PSC assessment of 1.6163079 is shown in the response to PSC 2 Item 6 e. (2). The only additional input to that formula is the PSC assessment rate. The .001706 PSC assessment rate was taken from Delta's recent PSC assessment invoice.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS CO., INC
PAYROLL TAX CALCULATION

Employee Number	Pro Forma Wages	FICA Taxable	Medicare Taxable	Federal Unemployment	State Unemployment
60	39,195	39,195	39,195	7,000	8,000
70	37,133	37,133	37,133	7,000	8,000
100	73,100	73,100	73,100	7,000	8,000
3378	31,436	31,436	31,436	7,000	8,000
3400	30,324	30,324	30,324	7,000	8,000
3336	34,445	34,445	34,445	7,000	8,000
130	46,019	46,019	46,019	7,000	8,000
3469	4,464	4,464	4,464	4,464	4,464
3331	31,258	31,258	31,258	7,000	8,000
140	0	0	0	0	0
3464	3,492	3,492	3,492	3,492	3,492
200	46,600	46,600	46,600	7,000	8,000
210	45,504	45,504	45,504	7,000	8,000
280	39,964	39,964	39,964	7,000	8,000
290	36,494	36,494	36,494	7,000	8,000
320	37,321	37,321	37,321	7,000	8,000
3461	32,462	32,462	32,462	7,000	8,000
400	37,617	37,617	37,617	7,000	8,000
405	143,000	97,500	143,000	7,000	8,000
3475	26,684	26,684	26,684	7,000	8,000
420	44,415	44,415	44,415	7,000	8,000
440	37,725	37,725	37,725	7,000	8,000
3390	30,806	30,806	30,806	7,000	8,000
3405	24,900	24,900	24,900	7,000	8,000
3367	28,683	28,683	28,683	7,000	8,000
450	42,110	42,110	42,110	7,000	8,000
3428	8,550	8,550	8,550	7,000	8,000
80	41,100	41,100	41,100	7,000	8,000
3412	8,560	8,560	8,560	7,000	8,000
500	72,400	72,400	72,400	7,000	8,000
518	28,682	28,682	28,682	7,000	8,000
520	150,000	97,500	150,000	7,000	8,000
585	30,741	30,741	30,741	7,000	8,000
580	35,100	35,100	35,100	7,000	8,000
590	35,275	35,275	35,275	7,000	8,000
600	52,100	52,100	52,100	7,000	8,000
620	34,700	34,700	34,700	7,000	8,000
625	0	0	0	0	0
3398	47,500	47,500	47,500	7,000	8,000
680	33,100	33,100	33,100	7,000	8,000
700	56,600	56,600	56,600	7,000	8,000

Employee Number	Pro Forma Wages	FICA Taxable	Medicare Taxable	Federal Unemployment	State Unemployment
720	61,500	61,500	61,500	7,000	8,000
3446	28,465	28,465	28,465	7,000	8,000
760	64,200	64,200	64,200	7,000	8,000
3455	30,134	30,134	30,134	7,000	8,000
770	36,832	36,832	36,832	7,000	8,000
800	40,172	40,172	40,172	7,000	8,000
820	42,900	42,900	42,900	7,000	8,000
850	29,400	29,400	29,400	7,000	8,000
855	34,492	34,492	34,492	7,000	8,000
3349	24,217	24,217	24,217	7,000	8,000
880	50,700	50,700	50,700	7,000	8,000
3471	24,500	24,500	24,500	7,000	8,000
3403	0	0	0	0	0
965	33,714	33,714	33,714	7,000	8,000
980	37,500	37,500	37,500	7,000	8,000
1000	37,452	37,452	37,452	7,000	8,000
1020	42,076	42,076	42,076	7,000	8,000
1040	39,489	39,489	39,489	7,000	8,000
3470	5,508	5,508	5,508	5,508	5,508
1060	39,500	39,500	39,500	7,000	8,000
1080	55,500	55,500	55,500	7,000	8,000
3417	0	0	0	0	0
1120	36,133	36,133	36,133	7,000	8,000
1140	32,130	32,130	32,130	7,000	8,000
3399	36,981	36,981	36,981	7,000	8,000
3415	0	0	0	0	0
1220	46,464	46,464	46,464	7,000	8,000
3451	27,041	27,041	27,041	7,000	8,000
1240	154,000	97,500	154,000	7,000	8,000
1260	37,740	37,740	37,740	7,000	8,000
1320	33,800	33,800	33,800	7,000	8,000
3443	27,245	27,245	27,245	7,000	8,000
1340	78,000	78,000	78,000	7,000	8,000
1360	169,000	97,500	169,000	7,000	8,000
1420	0	0	0	0	0
1480	36,386	36,386	36,386	7,000	8,000
1485	30,559	30,559	30,559	7,000	8,000
3463	7,695	7,695	7,695	7,000	7,695
3457	34,054	34,054	34,054	7,000	8,000
3401	25,300	25,300	25,300	7,000	8,000
3324	36,401	36,401	36,401	7,000	8,000

Employee Number	Pro Forma Wages	FICA Taxable	Medicare Taxable	Federal Unemployment	State Unemployment
1540	0	0	0	0	0
1560	337,000	97,500	337,000	7,000	8,000
1580	37,900	37,900	37,900	7,000	8,000
3344	39,137	39,137	39,137	7,000	8,000
3459	35,600	35,600	35,600	7,000	8,000
3382	32,414	32,414	32,414	7,000	8,000
1590	42,080	42,080	42,080	7,000	8,000
1600	67,000	67,000	67,000	7,000	8,000
1620	40,700	40,700	40,700	7,000	8,000
1680	35,200	35,200	35,200	7,000	8,000
3433	6,360	6,360	6,360	6,360	6,360
1750	45,800	45,800	45,800	7,000	8,000
3456	23,600	23,600	23,600	7,000	8,000
1760	38,119	38,119	38,119	7,000	8,000
1780	41,953	41,953	41,953	7,000	8,000
3411	50,200	50,200	50,200	7,000	8,000
3460	0	0	0	0	0
1843	0	0	0	0	0
3397	30,577	30,577	30,577	7,000	8,000
1855	37,426	37,426	37,426	7,000	8,000
1860	30,561	30,561	30,561	7,000	8,000
3434	3,210	3,210	3,210	3,210	3,210
3474	37,900	37,900	37,900	7,000	8,000
1895	38,300	38,300	38,300	7,000	8,000
3462	0	0	0	0	0
1910	61,700	61,700	61,700	7,000	8,000
1925	55,800	55,800	55,800	7,000	8,000
1940	44,900	44,900	44,900	7,000	8,000
1950	36,863	36,863	36,863	7,000	8,000
1970	73,000	73,000	73,000	7,000	8,000
2005	35,957	35,957	35,957	7,000	8,000
2010	45,300	45,300	45,300	7,000	8,000
2013	36,571	36,571	36,571	7,000	8,000
3396	0	0	0	0	0
3472	2,511	2,511	2,511	2,511	2,511
3416	27,662	27,662	27,662	7,000	8,000
3361	30,940	30,940	30,940	7,000	8,000
2030	53,000	53,000	53,000	7,000	8,000
3467	7,263	7,263	7,263	7,000	7,263
3427	30,278	30,278	30,278	7,000	8,000
3477	31,627	31,627	31,627	7,000	8,000

Employee Number	Pro Forma Wages	FICA Taxable	Medicare Taxable	Federal Unemployment	State Unemployment
3363	38,300	38,300	38,300	7,000	8,000
2160	38,080	38,080	38,080	7,000	8,000
3372	29,215	29,215	29,215	7,000	8,000
3419	30,150	30,150	30,150	7,000	8,000
2220	63,500	63,500	63,500	7,000	8,000
2240	52,300	52,300	52,300	7,000	8,000
3373	29,344	29,344	29,344	7,000	8,000
2280	44,759	44,759	44,759	7,000	8,000
3468	27,581	27,581	27,581	7,000	8,000
3393	24,900	24,900	24,900	7,000	8,000
2290	34,990	34,990	34,990	7,000	8,000
2340	71,400	71,400	71,400	7,000	8,000
3466	30,622	30,622	30,622	7,000	8,000
3420	33,917	33,917	33,917	7,000	8,000
2360	49,119	49,119	49,119	7,000	8,000
2420	73,100	73,100	73,100	7,000	8,000
3401	0	0	0	0	0
3414	31,391	31,391	31,391	7,000	8,000
3452	0	0	0	0	0
2450	45,800	45,800	45,800	7,000	8,000
2460	91,300	91,300	91,300	7,000	8,000
3448	4,610	4,610	4,610	4,610	4,610
2480	44,500	44,500	44,500	7,000	8,000
3358	31,808	31,808	31,808	7,000	8,000
3458	32,857	32,857	32,857	7,000	8,000
2550	50,917	50,917	50,917	7,000	8,000
2560	0	0	0	0	0
3365	41,180	41,180	41,180	7,000	8,000
3309	36,492	36,492	36,492	7,000	8,000
2615	34,024	34,024	34,024	7,000	8,000
3454	26,806	26,806	26,806	7,000	8,000
2675	28,600	28,600	28,600	7,000	8,000
2720	39,153	39,153	39,153	7,000	8,000
3476	3,640	3,640	3,640	3,640	3,640
2735	49,100	49,100	49,100	7,000	8,000
2782	45,100	45,100	45,100	7,000	8,000
1130	36,800	36,800	36,800	7,000	8,000
2800	36,279	36,279	36,279	7,000	8,000
2820	54,800	54,800	54,800	7,000	8,000
2840	44,400	44,400	44,400	7,000	8,000
2860	35,700	35,700	35,700	7,000	8,000

Employee Number	Pro Forma Wages	FICA Taxable	Medicare Taxable	Federal Unemployment	State Unemployment	
2865	32,183	32,183	32,183	7,000	8,000	
2870	33,072	33,072	33,072	7,000	8,000	
2880	39,108	39,108	39,108	7,000	8,000	
2920	30,900	30,900	30,900	7,000	8,000	
2940	36,200	36,200	36,200	7,000	8,000	
2960	42,135	42,135	42,135	7,000	8,000	
2980	55,300	55,300	55,300	7,000	8,000	
2985	34,981	34,981	34,981	7,000	8,000	
3000	34,500	34,500	34,500	7,000	8,000	
3060	47,641	47,641	47,641	7,000	8,000	
3473	3,492	3,492	3,492	3,492	3,492	
3374	42,000	42,000	42,000	7,000	8,000	
3338	74,700	74,700	74,700	7,000	8,000	
3442	29,528	29,528	29,528	7,000	8,000	
3160	33,100	33,100	33,100	7,000	8,000	
3447	5,710	5,710	5,710	5,710	5,710	
3465	30,600	30,600	30,600	7,000	8,000	
3260	40,475	40,475	40,475	7,000	8,000	
3323	38,000	38,000	38,000	7,000	8,000	
	7,051,309	6,585,809	7,051,309	1,155,997	1,313,955	
Health Care		41,301	41,301			
Dependent Care		2,520	2,520			
Insurance Contribution		133,360	133,360			
		6,408,628	6,874,128	1,155,997	1,313,955	
		6.2%	1.45%	0.80%	1.0%	
		397,335	99,675	9,248	13,140	519,397

6. Refer to the response to the Staff's Second Request, Item 12(b). Delta was requested to explain how the Customer Rate Stabilization ("CRS") review process would work if another party sought and was granted intervention. The response did not address or provide the requested information. Provide the originally requested explanation.

RESPONSE:

The proposed CRS mechanism does not contemplate intervention by third parties other that the Attorney General. The CRS is not intended to be a general rate case where rate design and theory are debated, but rather simply an annual filing to adjust rates on a less expensive basis to the return granted by the Commission in Delta's most recent rate case. Since the intervenors in Delta's last rate case and this current case were the Attorney General and no others, this is what is provided for in the CRS. Delta believes this is a reasonable approach, but the Commission at its discretion could allow intervention by anyone. If the Commission did allow other intervenors, they could also have a review role similar to the Attorney General if the Commission saw reason for that.

Sponsoring Witness:

Glenn R. Jennings

7. Refer to the response to the Staff's Second Request, Item 15.

a. Refer to the response to Item 15(a). Given the test-year changes in the size of the Board of Directors ("Board") and its compensation, explain in detail why Delta did not propose a normalization adjustment to reflect these changes.

b. In Item 15(d), Delta was requested to explain in detail why five of the companies listed in the industry peer group shown in Exhibit GRJ-1, page 13 of the Direct Testimony of Glenn R. Jennings ("Jennings Testimony"), qualified as a peer of Delta, given the information shown on page 13 relating to the industry, number of employees, sales, or September 2006 market value. Delta referenced the response to Item 15(c), which states Delta did not have certain requested information and that it had hired an outside consultant to perform the Board compensation study. The response does not address what was requested. Using the cited data categories, Delta was to explain why it believed five of the companies included in the industry peer group were in fact comparable peers of Delta. Given this clarification, provide the originally requested information.

c. In Item 15(f), Delta was requested to describe how it compared with three companies listed in the industry peer group, using the information provided in the Jennings Testimony, Exhibit GRJ-1, page 14. Delta again referenced the response to Item 15(c). The response does not address what was requested. Provide the originally requested information.

RESPONSE:

a. Delta reviews Board compensation periodically to determine it is at appropriate levels. As the study demonstrates, we are on the low end of compensation. The test year level was felt to reasonably represent the ongoing level of total Director compensation at the time the case was filed, so no adjustment was proposed at that time, as it was to be reviewed later in 2007 by Delta's Board. Delta's Board compensation was considered in May, 2007 and left unchanged from the levels in Delta's response to the PSC Second Request, Item 15. Thus, Delta now believes that the $182,400 reflected it its Response to PSC Second Request, Item e (5) is the appropriate level to use at this time. Delta's Board compensation will be considered further, probably during latter 2007 or early 2008.

b. Semco, Cascade, Chesapeake, Northwest and Energy South are all smaller local gas distribution companies ("LDCs"), just as Delta is. Though larger in some respects than Delta, they are reasonably comparable to Delta for the peer group purposes used herein.

Delta discussed this data request number 7 with Mercer Human resource Consulting, the consulting firm that performed the study. Mercer determined that the best way to assess the competitiveness of Delta's Board compensation program was to benchmark current practices against those of a similarly sized industry group. Thus, Mercer developed a peer group representing companies from the same industry as determined by their Global Industry Classification System code, this code being a system of classification under which a company is identified according to its business activity. Mercer reviewed companies within the Gas Utility Industry. In this industry, there were very few companies of the same size of Delta, especially with respect to sales, market value and number of employees. Thus, in order to identify a meaningful number of companies, Mercer considered some organizations larger and some that were smaller. In aggregate, however, the summary data collected from all the peers was determined to represent a reasonable attempt to capture market practices.

Due to a shrinking number of smaller LDC's like Delta over the past several years primarily resulting from mergers and acquisitions, it is harder to find a peer group to compare to in the industry. Mercer performed this study, and their opinion was that these companies reasonably represent a peer group for purposes of their study. None of the companies are exactly like Delta, but that is not the purpose of the group. The study was to consider companies somewhat similar, with similar Board needs. The aggregated and averaged data helps to address the reasonable Board compensation needed to attract and retain Board members to a company like Delta.

c. RGC, Energy West and Corning are smaller LDCs, just as Delta is. Though smaller in some respects than Delta, they are reasonably comparable to Delta for the peer group purposes used herein.

Delta reviewed the Mercer study and believes the study reasonably represents compensation needed for its Board. Delta is an investor-owned LDC like those in the study. Some are somewhat larger than Delta and some are somewhat smaller. All have similar operations, although Delta has a fairly complex operation that includes transmission, distribution, storage operations, local production supply and interconnects with several interstate and intrastate pipelines. Moving beyond the group used by Mercer, much larger companies would have to be considered. The study group had to be of enough of a size to utilize the median data as Mercer did. Delta is comfortable that the study considered the market for Directors for companies reasonably comparable to Delta and provided sound, outside advice to our Board for compensation consideration in order to retain current Directors and attract new ones.

Sponsoring Witness:

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

8. Refer to the Staff's Second Request, Item 16. In the response, Delta states that it limited its test-year operating expense adjustments to known and measurable changes, foregoing any normalization adjustments based on historical experience, in order to simplify its filing. Delta believes that "based on historical experience, the net effect to making normalization adjustments to test year operating expenses would be to increase such expenses, it has characterized its adjusted test year as a conservative representation of the cost of operations during the period for which rates are being set."

a. Based on Delta's responses to Item 16, would it agree the result is that Delta's adjusted test-year operating expenses will be understated? Explain the response.

b. Would Delta agree that if its revenue requirements are determined using an adjusted test year that understates its operating expenses, it will have difficulty in subsequent years in achieving its authorized rate of return? Explain the response.

RESPONSE:

a) O&M expenses, as adjusted, on Schedule 3 of PSC 2 Item 6 d (2) Schedule 3 total $11,613,161. Actual O&M expenses for the 12 months ending May 31, 2007 were $11,958,541 and the total O&M budgeted for fiscal 08 is $12,435,900. Given this information, it is fair to say that Delta believes that our adjusted test-year operating expenses will be understated. At the same time, we understand that we have filed a case based on a historical test year, not a projected test year and as such in a period of rising costs, historical test years will always be understated. Pro forma adjustments to the historical test year based on known and measurable changes certainly go a long way towards making a historical test year more representative of future costs.

b) Yes. We agree. The only way that we could expect to achieve our authorized rate of return when actual expenses exceed adjusted test year expenses would be if actual revenues exceeded adjusted test year revenues. In this period of customer conservation and declining number of customers, it is not realistic to think that increasing prices will be offset by increasing revenues. The CRS mechanism is designed to overcome this difficulty and allow Delta to earn the return the Commission has allowed.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

9. Refer to the response to the Staff's Second Request, Item 17(b).

a. In what year did Delta begin utilizing a self-funded health plan?

b. Provide Delta's medical coverage expense for calendar years 2002 through 2006.

c. Provide the cost of the stop-loss insurance policy for calendar years 2002 through 2006.

d. Explain how the stop-loss insurance policy affects the medical coverage expense Delta would book in a given year.

RESPONSE:

a. April 1, 1982

b.

b.	2002	$1,055,908.17
	2003	$1,058,005.46
	2004	$1,066,297.08
	2005	$1,282,966.85
	2006	$1,035,809.76

c.	2002	$137,793.61
	2003	$169,068.96
	2004	$160,852.99
	2005	$180,812.80
	2006	$193,308.53

d. The stop-loss insurance policy limits the medical coverage expense that Delta would book in a given year to the annual specific deductible per covered individual.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

10. Refer to the response to the Staff's Second Request, Item 18. Would Delta agree that, while the wage and salary rate changes are known and measurable, it has proposed a normalization adjustment of its payroll expenses? Explain the response.

RESPONSE:

Yes, we have proposed a normalization adjustment to adjust salary rates to their known and measurable levels at 12/31/06, the end of the test year, consistent with our previous cases. Delta adjusted salaries on 7/1/07 and since these adjusted pay rates are now known and measurable, one could make the argument that it would be appropriate to normalize the test year salaries to the 7/1/07 level rather than the 12/31/06 level, but we did not propose this further adjustment since in previous cases we only adjusted to the test year end level.

Sponsoring Witness:

John B. Brown

11. Refer to the response to the Staff's Second Request, Item 19(b) and the response to the Attorney General's First Data Request dated June 7, 2007 ("AG's First Request"), Item 213(b).

a. In the response to Item 19(b)(1) Delta states the test-year pension expense was $700,262. However, in the response to Item 213(b), Delta states the periodic pension cost for calendar year 2006 is $642,203. Explain the difference(s) between these amounts and indicate which reflects the actual test-year expense for Delta's pension plan.

b. Provide the actual pension plan expense for calendar years 2003 through 2005.

c. The response to Item 213(b) shows significant fluctuations in the actuary report periodic pension cost for the last four fiscal years. Explain the reason(s) for these fluctuations.

RESPONSE:

a) The actual test-year expense for Delta's pension plan ($700,262) includes the $642,203 disclosed in AG 1 Item 213b plus $32,169 of actuary fees plus $25,890 paid to the Pension Benefit Guarantee Corp.

b)

2003	497,034
2004	652,264
2005	639,849

c) See the attached Item 11c for a breakdown of periodic pension cost for the last four fiscal years into its components and a discussion of the fluctuations by component.

Sponsoring Witness:

John B. Brown

DELTA NATURAL ɔAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

Breakdown of Pension Cost Fluctuations

	Fiscal 2004	**Fiscal 2005**	Change	**Fiscal 2006**	Change	**Fiscal 2007**	Change
Service cost	**662,770**	**714,801**	52,031	**779,702**	64,901	**715,766**	(63,936)
Interest cost	**557,183**	**612,370**	55,187	**697,556**	85,186	**699,807**	2,251
Expected return on assets	**(670,823)**	**(863,061)**	(192,238)	**(931,313)**	(68,252)	**(995,235)**	(63,922)
Amortization of							
Unrecognized prior service cost	**(86,179)**	**(86,179)**	-	**(86,179)**	-	**(86,179)**	-
Unrecognized net (gain) or loss	**262,483**	**177,629**	(84,854)	**257,340**	79,711	**233,176**	(24,164)
Net Pension Expense	**725,434**	**555,560**	(169,874)	**717,106**	161,546	**567,335**	(149,771)

Fluctuation Notes

Service cost -- Increases expected based on aging work force. Decrease in 2007 a result of 9 employees leaving the plan with a total salary of $352,953, replaced with 6 employees joining the plan with total salaries of $91,008.

Interest cost -- Increases as PBO increases between years. 2007 increase smaller than preceding years because it was offset with a subtractive adjustment due to changing the assumption that ultimate payments will be paid largely as lump sums. Previous to 2007, The PBO was calculated assuming retirees would choose to take annuities.

Expected return on assets -- Increases as plan assets increase

Unrecognized net loss -- This component influenced most significantly by the degree to which the actual return compares to expected return.

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

12. Refer to the response to the Staff's Second Request, Item 22. Explain how the discount rate of 8.867 percent was determined. Include all applicable calculations and assumptions.

RESPONSE:

The 8.867% rate used in determining the discounted cash flows for the purposes of the "California Tests" is the weighted average cost of capital used in determining the revenue requirement. Please refer to the filing requirements tab 27, Schedule 8 for the derivation of the rate.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

13. Refer to the response to the Staff's Second Request, Item 25. Delta has referenced and provided copies of the Energy Information Administration Household Energy Consumption and Expenditures Study, performed in 2001 using 1997 data. Is this the most currently available data on household energy consumption and expenditures? Explain the response.

RESPONSE:

The table provided in response to KYPSC DR2-25 illustrates the average household savings if a thermostat is lowered by 1° Fahrenheit. The table is based on the 1997 Residential Energy Consumption Survey ("RECS") and is the most recent analysis publicly released by the Energy Information Administration ("EIA") on the topic. Since 1997, the EIA has performed a RECS in 2001 and 2005. The 2001 survey did not publish information on the effects on consumption of lowering a thermostat and per discussion with the EIA the 2005 survey, when released, will not include this analysis.

Sponsoring Witness:

Matthew D. Wesolosky

14. Refer to the response to the Staff's Second Request, Item 27.

a. Describe the "dynamic risk based process" and the "risk based approach" envisioned by Delta.

b. Delta's proposed CRS tariff envisions the Evaluation Period filing would be made no later than September 15 and that Delta could adjust its rates effective November 1 if the Commission had not completed the review of the filing. Using the proposed time table provided in the response to Item 27(d) and September 15, 2007 as a starting date, provide the following:

(1) The actual calendar dates for each event in the proposed time table.

(2) The number of actual working days available to accomplish each event in the proposed time table.

c. Refer to the response to Item 27(f). What is the basis for Delta's assumption that annual CRS filing costs would not exceed $10,000 per year?

RESPONSE:

a. We recognize that the Commission ultimately has the decision on how the review process would work; therefore the following is only a suggested approach.

At the conclusion of the current case the Commission and the Attorney General will have both extensively reviewed the financial results of Delta for the test year and several preceding years. Additionally, the Commission will issue a decision on the following variables which impact Delta's revenue requirement:

- Return on equity
- Capital structure
- Depreciation rates
- Rate design
- Composition of rate base
- Recoverability of expenses

The CRS does not seek to modify the assumptions underlying the preceding variables, but adjusts rates so Delta can earn the return authorized by the Commission. The CRS mechanism adjusts rates based on changes in rate base, capital structure, revenues and expenses. Therefore, the review would focus specifically on these items.

The term "risk based" is intended to introduce a concept of materiality into the review process and create dollar and percentage thresholds to focus the review on only those items that if allowed or disallowed would have an impact to a customer's bill. For illustrative purposes, assume that based on the current case residential customers comprise 50% of the overall revenue requirement and there are approximately 385,000 residential bills per year. A $10,000 CRS adjustment would impact a residential customer's bill by $0.01 ($10,000 x 50% / 385,000). Therefore, from a cost-benefit perspective there would be little benefit reviewing items less than $10,000 as there would be no impact to a customer's bill. So a threshold of $10,000 could be set to focus the review on only items in excess of the threshold.

While the review process would look at changes to capital structure, rate base, income and expenses, we would anticipate that a majority of the review would focus on ensuring that 1) previously disallowed expenses have been properly excluded from the CRS adjustment and 2) any increase in expenses are reasonable. The filing requirements and review process would be created with this in mind.

For disallowed expenses, Delta would identify the same types of expenses disallowed in the most recent case and segregate them into separate general ledger accounts. These account balances would be excluded from the determination of the CRS adjustment. This would reduce the time the Commission must spend looking for such charges. Delta would be making a good-faith effort to identify these expenses. However, there is the risk that such an expense the Commission deems unrecoverable is not properly excluded. For those accounts which have given rise to disallowed expenses in the past, Delta could provide account analysis (similar to those provided in response to KYPSC DR1-27) which details all material charges in a given account.

To ensure that any increased expenses being passed on to the customer are reasonable, Delta would provide a set of comparative financial statements which the Commission could review to understand the changes in the level of expenses over the prior year. The purpose of the review is not intended to challenge every account balance but to understand the primary drivers which caused expenses to increase or decrease over the prior year. Therefore, for those financial statement captions which fluctuated by a certain dollar and percentage threshold as compared to the prior year, the Commission could request additional analysis in their data requests to understand the drivers for such change.

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

b. The following schedule shows the actual calendar dates for the proposed CRS timetable and the working days to accomplish each event:

Day	# Days	Date	
		30-Jun	End of Evaluation period
1		17-Sep	Delta files CRS
8	7	24-Sep	First round of data requests
18	10	4-Oct	Responses to data requests
25	7	11-Oct	Second data request
35	10	21-Oct	Responses to second data request
45	10	31-Oct	Order issued by the Kentucky Public Service Commission

The above schedule was modified from the schedule presented in KYPSC DR2-27 to accommodate September 15th falling on a weekend.

c. The $10,000 represents an approximation of the expenses for outside counsel to review and file the mechanism. Since the CRS filing does not allow for changes to rate design or theory utilized in setting the rates, Delta does not anticipate utilizing outside consultants for preparing the filing.

Delta does recognize that the first year of the CRS will require a significant amount of internal time to develop the filing requirements and reporting necessary to satisfy the data requests. However, after the first year we expect the internal hours to decrease dramatically as the filing becomes routine and is integrated into our year-end financial reporting process. Therefore, we do not foresee the need to hire additional staff which would result in an incremental cost to be charged to the CRS.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

15. Refer to the response to the Staff's Second Request, Item 28. Explain why the sample calculations did not include the determination of the rate of return on common equity actually achieved in each year.

RESPONSE:

The rate of return actually achieved in each year was not presented in response to KYPSC DR2-28, as the return on equity achieved is not required to calculate the adjustment under the CRS mechanism. The CRS adjusts the actual return in dollars to the allowed return. The allowed return is based on the return on equity approved in the most recent rate case. Please refer to the attached schedule for the calculations of return on equity both before and after the CRS adjustment.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company
Case 2007-00089
Item 15

	KYPSC DR2-28 Schedule	2004	2005	2006
Return on equity, pre-CRS adjustment				
Net income, per books	2	1,967,332	2,845,313	2,050,351
Adjustments required under CRS	2	89,033	518,050	80,813
Equity portion of achieved return		2,056,365	3,363,363	2,131,164
Regulated common equity	4	46,376,806	48,958,684	50,633,040
Return on equity, pre-CRS adjustment		***4.43%***	***6.87%***	***4.21%***
Return on equity allowed, per case 2004-00067		10.50%	10.50%	10.50%
Difference		-6.07%	-3.63%	-6.29%
Return on equity, post-CRS Adjustment				
Net income allowed	2	4,226,814	3,708,440	4,496,645
Regulated common equity	4	46,376,806	48,958,684	50,633,040
Return on equity, post-CRS adjustment		***9.11%***	***7.57%***	***8.88%***
Return on equity allowed, per case 2004-00067		10.50%	10.50%	10.50%
Difference[1]		-1.39%	-2.93%	-1.62%

[1] Note that the allowed return cannot be achieved so long as it is applied to rate base to determine the revenue requirement. For Delta Natural Gas rate base has been consistently less than regulated equity.

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

16. Refer to the response to the Staff's Second Request, Item 29(b). Explain why Delta has assumed that any invoices submitted by the AG would be approved by the Commission prior to payment by Delta.

RESPONSE:

Since the CRS is an experimental mechanism and the costs of the review are passed on to our customers and collected through rates, we wanted to allow the Commission the opportunity to act as a control in the process and review the invoice before Delta made payment. It was not Delta's intention to make any presumptions, but to mirror the current regulatory process which the Commission approves rate case expenses.

Sponsoring Witness:

Matthew D. Wesolosky

17. Refer to the Direct Testimony of Martin J. Blake ("Blake Testimony"), pages 10 through 15 and the response to Staff's Second Request, Items 32(a) and 32(b).

a. Even though there is no set capital structure goal, has there been any deliberation by Delta's Board indicating a desire to gradually increase the equity component of the capital structure? If so, provide the minutes of the Board meetings where such deliberation or action took place.

b. Provide any Board minutes that demonstrate that the Board has been concerned about Delta's low level of equity in the capital structure and that there needed to be realignment to industry averages.

c. When deciding on the method to raise additional capital, explain how the Board decides between equity and debt.

d. Explain whether the large jump in equity from 2002 to 2003 is the result of deliberate Board action to help equalize the capital structure. Provide the minutes of the Board's deliberations on this issue.

RESPONSE:

a. Nothing specific. Delta's management has continued to consider appropriate financing over the years to meet Delta's needs and to move toward an increased equity component more in line with the industry. Delta's management brings specific financing proposals to Delta's Board for their specific approval when needed, such as to issue new common stock or long-term debt. The over-riding concern is to maintain a capital structure that will minimize Delta's cost of capital, recognizing the trade-offs between the impact on rates (equity) and the impact on borrowing rates and bank lines of credit (debt).

b. Nothing specific. Delta's management has in the past brought financing needs to Delta's Board for specific financing approvals when stock and debt have been issued. Delta's management has kept as a goal to move toward industry averages. Delta's Board approved this in approving Delta's strategic plan for 2007, which has a stated goal of "issuances of equity and long-term debt to maintain Delta's capital structure at reasonable levels".

c. Delta's management proposes financing as needed to refinance debt (either short- or long-term) and to meet the Company's needs. Financing proposals are presented to Delta's Board for approval as needed, particularly to issue new equity and debt securities. An effort is made in these recommendations to move toward industry averages of about 50/50 equity/debt ratio. Of course, timing and financial market conditions factor into this strongly. Sometimes it is better to do more or less equity, or debt, depending on factors such as interest rates in the market, Delta's debt maturities and the magnitude of borrowings under Delta's bank line-of-credit.

d. No specific deliberations. Delta's management recommended financing in 2003 and Delta's Board approved it, based upon Delta's needs and market conditions. Specifically, during February, 2003, Delta completed the sale of $20,000,000 of 7% Debentures due 2023. The net proceeds were used to redeem Delta's 8.3% Debentures outstanding in the amount of $14,806,000 and to pay down Delta's short-tem notes payable. Also, during May, 2003, Delta issued and sold through underwriters 600,000 shares of common stock. The net proceeds of $12,493,000 were used to pay down short-term notes payable.

Sponsoring Witness:

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

18. Refer to the Blake Testimony, page 11 and the response to Staff's Second Request, Item 32(f). Delta stated that customer conservation is one of four reasons why it has been unable to earn its allowed rate of return on equity. Has Delta performed any studies which highlight the problem of reduced revenue streams resulting from customer conservation? Provide any such studies and any company actions taken to help alleviate this problem.

RESPONSE:

I have not performed any studies which highlight the problem of reduced revenue streams resulting from customer conservation. The statements that I made in my testimony were based on the decline in usage per customer that Delta has been experiencing, and the decline in fixed cost and margin recovery that Delta would experience as a result of this decline in customer usage. Delta's current rates recover a significant portion of its fixed cost and margin through a volumetric charge and these fixed costs and margins that are recovered volumetrically would not be recovered by Delta if customer usage declines relative to the usage levels used in calculating Delta's rates.

Sponsoring Witness:

Martin J. Blake

19. Refer to the response to Staff's Second Request, Item 32(g).

a. Provide copies of any Board presentations or minutes which show that Delta's management and the Board have been concerned with the company's inability to earn its allowed rate of return over the last 10 years.

b. Provide a list of specific cost saving measures that have been instituted over the last 10 years which have been implemented to address the company's inability to earn its allowed rate of return and the results of those specific measures.

RESPONSE:

a. Nothing specific. Delta prepares annual budgets and Delta's Board reviews and approves these as well as Delta's strategic plans each year. Delta's management always works toward controlling costs and takes any and all steps to improve Company financial results while providing the best possible service to customers.

b. There has been no specific program implemented. Efforts are made at all times to operate as effectively and efficiently as possible. We constantly strive to implement cost control measures.

Delta reviews all areas of expense each year in its budgeting process to keep costs as low as possible while providing the best possible service to customers. Costs have not spiraled out of control. The recent major impact has been declining usage and loss of customers due to high natural gas prices on a national level over the past few years. Margins declined due to conservation/efficiency impacts. See page 6 of Jennings' Direct testimony.

Nevertheless, some specific efforts come to mind:

- As stated on pages 11 and 12 of Jennings' Direct testimony, Delta has undertaken efforts to save on costs of operation. Whenever an employee leaves the Company, we consider their job and whether or not to replace them and whether we can realign jobs at that point. This was begun in the early 1990's and reduced over work force significantly over time. Then in the early 2000's, we decided in addition to further reduce our work force and eliminated some positions and the related employees. This continuing scrutiny of our work force results in the reduced employee counts on page 11 of Jennings' Direct testimony to the current level of 156.

- We review our healthcare costs annually and continue to look for ways to control costs there. Over the past several years, we have asked our employees to bear more of the costs, with increased deductibles and increased co-pays, as well as managed health care efforts to try to help manage claims costs.

- We have reduced our number of Board of Director members and have over the years reduced our number of officers as we have continued to re-align duties wherever feasible.

- We consolidated our 12 branch offices down to 5 District offices over the past 15 years or so. This helped to consolidate our work force and operate with fewer district operations employees. This resulted in the combination of branch offices to accomplish this, and helped to control operation costs.

Also, although not a specific cost control, Delta has made significant efforts to utilize its system for transportation of gas. Our system throughput has been increased significantly as we have transported increased volumes of gas off-system to other pipeline systems. Our total annual throughput for fiscal 2006 was 17,419 million cubic feet and 8,789 million cubic feet, or 50.4% of that total throughput, was for off-system transportation. By comparison, ten years ago in fiscal 1996, total annual throughput was 8,409 million cubic feet and off-system transportation was 1,134 million cubic feet, which was 13.4% of that year's total annual throughput. Thus, comparing fiscal 2006 to 10 years before, total annual throughput has increased by 9,010 million cubic feet, or 107%, and annual off-system transportation has increased by 7,655 million cubic feet, or 675%. This growth has been a significant factor in helping Delta's earnings and to offset the impacts of increasing costs and declining residential customer usage. The test year in this current rate case contains almost $2.5 million of revenues earned from off-system transportation, and this helped Delta's returns to be as good as they were, while also providing revenues that meet part of Delta's revenue requirements in this current rate case, thus keeping rates to other customer classes lower. These off-system transportation efforts, and Delta management's continuing efforts over the years to maximize the use of its system in this way, are part of Delta's strategy to improve earnings and keep rates as low as possible.

Sponsoring Witness:

Glenn R. Jennings

20. Refer to the Blake Testimony, pages 10 through 15 and the response to Staff's Second Request, Item 33. Would placing more of Delta's fixed costs in the demand charge help to alleviate the variability of Delta's revenue and return streams? Explain the response.

RESPONSE:

On page 11 of my Direct Testimony I state that:

> With a portion of Delta's fixed costs and margins currently collected using a volumetric charge, both customer conservation and appliance efficiency gains have lead to under recovery as these factors have reduced the per customer usage of natural gas.

I cannot find either in my testimony or in my responses to Commission data requests where I refer to a demand charge or suggest that Delta has a demand charge. Placing fixed costs and margin in either a demand charge or a customer charge would help to assure cost recovery and would help to alleviate the variability of Delta's revenue and return streams. However, there are no demand charges in Delta's existing rates or in its proposed rates in this proceeding. Increasing the customer charge to include these fixed costs and margins would also help to alleviate the variability of Delta's revenue and return streams, and this is what Delta is proposing in this proceeding.

Sponsoring Witness:

Martin J. Blake

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

21. Refer to the response to the Staff's Second Request, Item 48.

a. Explain how the neighboring gas utilities were selected.

b. If available, indicate when each of the neighboring gas utilities' last depreciation study was performed.

c. Explain why Atmos Energy – Kentucky operations and Columbia Gas of Kentucky were not included in the group of neighboring gas utilities.

RESPONSE:

a. The utilities listed in the response to Item 48 are neighboring utilities for which The Prime Group had retained copies of their most recent depreciation studies.

b. LG&E - 2001
Vectren – 1991
CG&E - 2000

The Prime Group did not have copies of the Atmos and Columbia depreciation studies.

Sponsoring Witness:

William Steven Seelye

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

22. Refer to the response to the Staff's Second Request, Item 50(f). The printout and electronic file provided for this response appears to have missing data which resulted in the "#NAME?" response. Provide corrections to this response that eliminate the "#NAME?" response.

RESPONSE:

The "#NAME?" field can be filled in by executing the VBA models labeled "2PSC-50(f)Module1.bas" and "2PSC-50(f)Module2.bas" included on the accompanying CD labeled "PSC2 CD 1"

Printed versions of the individual tabs of the spreadsheets are attached.

Sponsoring Witness:

William Steven Seelye

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

23. Refer to the response to the Staff's Second Request, Item 54. For each of the accounts listed below, explain the reason(s) for the change in the balances reported for December 2005 and December 2006.

a. Account No. 1.368.000 – Transmission Compressor Station Equipment, page 6 of 14.

b. Account No. 1.399.020 – Computer Software, page 11 of 14.

RESPONSE:

a. Large increase due to Delta Transmission Work Order Project 525-496. Delta installed an Ajax compressor on the East/West pipeline near Bailey Gap in Bell County, Kentucky. This accounted for over 90% of the increase.

525-496	Transmission Compressor in Bell County	763,000
525-513	Coalescing Filter on Johnson Compressor Station in Whitley Co.	55,543
	Retire Air Compressor from Radar Creek Compressor Station	(2,265)
	Net Increase	816,278

b. Delta has invested in several new software systems and their installation

PowerPlant and PowerTax Software and Installation	355,124
KnowledgeLake Imaging Software	31,217
Flow-Cal Software and Installation	177,930
Talon Telemetry Software	22,372
Exchange Server Software License	16,138
All Other Misc New Software and Enhancements	45,643
Software Retirements	(42,930)
Net Increase	605,494

Sponsoring Witness:

John B. Brown

24. Refer to the response to the Staff's Second Request, Item 58.

a. Explain how the Society of Corporate Secretaries assists Delta in its periodic reporting to the Securities and Exchange Commission.

b. Provide specific examples of the activities sponsored by Bluegrass Tomorrow, Inc. and Commerce Lexington as it relates to regional planning and support of local communities.

c. Refer to Item 58(c)(1), Account No. 1.930.03. Explain the purpose of the following meetings and why the associated expense should be included for rate-making purposes.

(1) 17th Annual Outlook 2006 Conference.

(2) Kentucky Association Education Conference.

d. Refer to Item 58(c)(2), Account No. 1.930.05. Except for the expenses for safety awards, company newsletter, and employee service awards, explain in detail why the listed expenses in Account No. 1.930.05 should be included for rate-making purposes.

e. Refer to Item 58(c)(3), Account No. 930.09. For each item listed below, explain why the expense should be included for rate-making purposes.

(1) Various Continuing Education Meetings and Continuing Education Public Meetings.

(2) Christmas Greeting.

(3) Donations to a fire department and Junior Achievement Program.

(4) Sponsorship of Kentucky Institute – Economic Development.

(5) Myron Corporation – pocket pals for transportation customers.

(6) Tasco Industries – calendars.

f. Refer to Item 58(d)(2). Does Delta's conservation program for builders, developers, and customers who install additional gas appliances promote the selection of gas appliances over the selection of appliances powered by other energy sources? Explain the response.

RESPONSE:

a. By providing access to information about reporting; publications and literature that address reporting issues and new regulatory developments.

b. Meetings with communities and counties in central Kentucky dealing with planning, regional planning and economic development for local communities. Bluegrass Tomorrow is central Kentucky's regional planning organization. Commerce Lexington is the Lexington/Fayette County Chamber of Commerce, and we participate as we have customers there.

c. (1) This is an annual conference held in Lexington to review the annual economic outlook for the upcoming year for Kentucky. This assists Delta in planning for the future and in staying informed about the overall economic and business outlook and its impact on Delta's service area.

(2) This is a meeting of the Kentucky Association for Economic Development, Inc. This is a professional organization that works to improve economic development in the state. It was formerly KIDC. This allows Delta to stay better informed on the outlook for economic development in its service area, and our involvement helps to support the work of the organization.

d. Shirts are provided to employees so that they are visually identified as Delta employees to our customers. Flowers are provided to employees with family death or illness, to provide for good employee relations and morale. Retirement dinners and expenses recognize employees for their years of service when they retire. These are important to maintain good employee relations.

e. (1) Delta has an on-going program of public awareness meetings in its service area. These are advertised and are open to the general public. These meetings discuss safety as one part of the meetings, but also include one-call, recognizing and reporting emergencies, as well as other safety issues. These are done on a routine, continuing basis to comply with DOT Title 49 Part 196.616 and API RP 1162.

(2) This is a notice in the newspaper expressing Delta's Christmas greeting to customers. It helps to maintain good customer relations.

(3) The payment to the Fire Department is to support them and to assist in their work. The payment to Junior Achievement is to support their work, which efforts by them help to improve conditions in our service area. Their purpose is "to educate and improve young people to value business, economic and free enterprise, to improve the quality of their lives and be work force ready". This helps to provide a good workforce for the future, which is vitally important to our operations and service area.

(4) This was to help provide support for a meeting of the Kentucky Institute for Economic Development. This supports this organization's efforts to help assist in economic development in Delta's service area. This organization provides economic development education programs in Kentucky to provide citizens a better understanding of economic development.

(5) These are pocket calendars and pens provided to Delta's industrial transportation customers to help maintain good customer relations.

(6) These calendars are distributed from Delta's District distribution offices to our customers. They include information about contacting the Company, phone numbers, etc. and are provided as a customer service and to enhance public awareness.

f. This program provides incentives to builders and developers to install more natural gas appliances. If they install higher efficiency equipment it does result in some conservation of gas, but our program sets no specific efficiency levels. It does, however, promote conservation of electricity by using gas appliances rather than electric, the other primary energy source. This helps the environment by reducing electric usage and reducing the need for building more coal-fired generating plants.

Sponsoring Witness:

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

25. Refer to the response to the Staff's Second Request, Item 59. Is the recording of donations in Account No. 930.10 consistent with the requirements of the Uniform System of Accounts? Explain the response.

RESPONSE:

No, the Uniform System of Accounts dictate that donations be recorded in 426.1. As suggested in the response to PSC 2 Item 59, our only justification for having recorded donations in 930.10 is to be consistent with prior practice. We speculate that since the company's donations are relatively small, the accountants who originally set up Delta's chart of accounts decided to group them in with 930.10, another account that is excluded from the test year for ratemaking purposes, rather than create the separate account 426.1.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

26. Refer to the response to the Staff's Second Request, Item 60. Describe the nature and purpose of the consulting services provided by Marjorie Sidwell.

RESPONSE:

Marjorie Sidwell is a retired Delta employee. She provided administrative support services to our construction department during the test year.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

27. Refer to the response to the Staff's Second Request, Item 61.

a. Refer to Item 61(b). Did Delta give any consideration to amortizing the cost of the compensation study over a 3-year period? Explain the response.

b. Refer to Item 61(c). Provide an expanded description of the legal services provided to Delta in employee-related areas of human resources.

RESPONSE:

a. No. It was included since it is a valid business expense incurred to meet the Commission's directive in its Order in Case No. 2004-00667. It cold be amortized if the Commission so desires.

b. Sometimes specific questions arise relating to employee issues (employment, discharge, benefits, reporting to federal agencies, etc.) where Delta believes legal advice is needed.

Sponsoring Witness:

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

28. Refer to the response to the Staff's Second Request, Item 65. Provide an expanded description of the activities Delta classifies as employee recreation and social benefit.

RESPONSE:

Delta has a meeting each year with all employees invited. This includes a meal as it is at night and comments are made at the dinner by the Chairman and President. It is a time for employees to interact and also to be kept up-to-date on the Company.

Delta has two meetings each year with all supervisors, conducted by its Chairman and President. At these meetings, company operations are reviewed and changes in procedures, etc. are discussed. Training also takes place at those meetings by Delta's Manager – Employee Services and Director – Safety and Training. These include a meal as the meetings usually go through lunch.

Sponsoring Witness:

Glenn R. Jennings

29. Refer to the response to the AG's First Request, Item 205. Provide the actual annual expense for Delta's Defined Benefit Retirement Plan for calendar years 2003 through 2005 and for the test year.

RESPONSE:

Delta's Pension Plan discussed in Item 11 of this request is the Company's only Defined Benefit Retirement Plan. The test year expense is shown in 11a and expense for 2003-2005 is shown in 11b.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

30. Refer to the response to the AG's First Request, Item 250. For each of the transactions listed below, explain why it should be included for rate-making purposes.

a. Line 10 – Meals for attorney at "AGA Small Council Meeting," page 1 of 4.

b. Lines 46, 63, and 83 – Golf Outings or Golf Scrambles, pages 2 and 3 of 4.

c. Lines 32, 76, and 77 – Entertainment, pages 2 and 3 of 4.

RESPONSE:

a. This was for tickets to Keeneland. The AGA Council met there. Stoll. Keenon & Ogden obtained the tickets for Delta, but did not participate in the meeting. This reimbursed them for the tickets. Glenn Jennings, as Chairman of the AGA Smaller Member Council, hosted the meeting there. It provided an opportunity to network and share practices with others in the industry.

b. Line 46 – This was registration fees for attendance at Kentucky Gas Association meetings, which included golf. It provides an opportunity to network with others in the industry. Of this total, $37.04 was a separate meeting with a developer to discuss natural gas.

Line 63 & 83 – These are for participation in meetings, which included golf, with Home Builder Associations. These meetings provide an opportunity to network with builders, providing opportunity to discuss natural gas issues with them and answer any questions or concerns they have.

c. Line 32 – This was rental car expenses incurred attending a NARUC Staff Subcommittee on Accounting and Finance meeting. This was attended to stay current on accounting/finance topics and their regulatory impacts.

Lines 76 & 77 – Registration fees for attendance at the Kentucky Gas Association Annual meeting. This provides an opportunity to network with other in the industry.

Sponsoring Witness:

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2007-00089

THIRD DATA REQUEST OF COMMISSION STAFF
DATED JULY 17, 2007

31. Refer to the response to the AG's First Request, Item 350.

a. Explain why Delta wants to continue offering a rate for usage over 5,000 Mcf if there are no customers taking this amount of gas.

b. Provide the number of customers that Delta has had with usage over 5,000 Mcf in the last 10 years.

RESPONSE:

a. Under its on-system transportation service schedule (Sheet Nos. 7-9 of the proposed tariff), Delta charges the same distribution delivery charge (Base Rate) as the Large Non-Residential rate schedule. Although there were no customers with monthly usage over 5,000 MCF per month during the test year taking ***sales service*** under the Large Non-Residential rate schedule (as shown on Seelye Exhibit 4, page 4 of 16), there were customers with monthly usage over 5,000 MCF per month taking ***transportation service*** under the Large Non-Residential rate. See Seelye Exhibit 4, page 12 of 16.

During the 12 month period ended December 31, 2006, there were 235,080 MCF billed at the "5,000 – 10,000 MCF" block and 207,560 MCF billed at the "Over 10,000 MCF" block of the rate. Consequently, it is not appropriate to eliminate the "5,000 – 10,000 MCF" block or the "Over 10,000 MCF" block of the Large Non-Residential schedule as suggested by Item 350 of the AG's First Date Request.

b. During the 12 month period ended December 31, 2006, (the test year of the current rate case) there were 235,080 MCF billed at the "5,000 – 10,000 MCF" block and 207,560 MCF billed at the "Over 10,000 MCF" block of the rate.

During the 12 month period ended December 31, 2003, (the test year of the preceding rate case) there were 210,286 MCF billed at the "5,000 – 10,000 MCF" block and 123,461 MCF billed at the "Over 10,000 MCF" block of the rate.

During the 12 month period ended December 31, 1999, (the test year of the second preceding rate case) there were 130,445 MCF billed at the "5,000 – 10,000 MCF" block and 146,358 MCF billed at the "Over 10,000 MCF" block of the rate.

See item 31, attached, sponsored by John B. Brown, which provides the number of customers that Delta has had with usage over 5,000 Mcf in the last 10 years.

Sponsoring Witness:

William Steven Seelye

Item 31

Number of customers whose annual use exceeds 50,000 ccf

Year	Account Number
1,997	
COUNT 98	
1,998	
COUNT 92	
1,999	
COUNT 93	
2,000	
COUNT 86	
2,001	
COUNT 97	
2,002	
COUNT 88	
2,003	
COUNT 92	
2,004	
COUNT 84	
2,005	
COUNT 88	
2,006	
COUNT 84	
FINAL TOTALS	
COUNT 902	

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