



Delta Natural Gas Company, Inc.

3617 Lexington Road
Winchester, Kentucky 40391-9797



www.deltagas.com

PHONE: 859-744-6171

FAX: 859-744-3623

March 30, 2012

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
P O Box 615
Frankfort, KY 40602-0615

RECEIVED
APR - 2 2012
PUBLIC SERVICE
COMMISSION

RE: Application of Delta Natural Gas Company, Inc.
To Extend Its Natural Gas Supply Hedging Plan
To March 31, 2015
Case No. 2012-00025

Dear Mr. Derouen:

Enclosed are the original and five copies of Delta response to the data request of the Commission Staff in the above-styled case.

Please acknowledge receipt of this filing by stamping the extra copy of the cover letter and returning to Delta in the envelope provided.

Sincerely,

Connie King

Connie King
Manager – Corporate & Employee Services

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00025**

**FIRST PSC DATA REQUEST
DATED MARCH 16, 2012**

1. Describe Delta's existing hedging plan. The explanation should include, but not be limited to, Delta's decision to not use specific parameters in implementing its hedging plan, and the decision-making process employed to determine when to hedge, what percentage of supply to hedge, and at what price to hedge.

Response:

Delta has no formal plan that contains quantitative thresholds that determine hedging actions. Thus Delta does not use any specific parameters.

Delta monitors futures prices. When in Delta's judgment prices are, or are expected to be, advantageous for Delta's system supply, then Delta considers locking in supply purchases. This can be for storage injections as well as non-storage purchases. Delta generally considers locking in as forward purchases a range of 25 to 50% of both non-storage and storage purchases.

Sponsoring Witness:

Brian S. Ramsey

**DELTA NATURAL GAS COMPANY, INC.
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2. Explain what changes to its hedging plan, if any, Delta has contemplated or is currently contemplating, along with pros and cons of each possible change.

Response:

Delta plans to continue to operate its hedging plan as it has the past several years. It will forward purchase storage and non-storage gas for portions or all of the winter season and the storage injection season when in its judgment forward prices are advantageous for its customers.

Delta will consider the use of no fee collars around purchase commitments to lock in a band around the upper and lower price commitments it might make. This might help to mitigate further the impacts of price volatility on Delta's customers. The pricing may not be as favorable as forward purchases without collars.

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3. Explain why Delta believes gas cost hedging is favorable to its customers considering the current low gas prices and volatility.

Response:

The presence of a gas cost hedging plan provides Delta with the opportunity to help mitigate gas price volatility, especially during periods of significant price fluctuations when, in Delta's judgment, conditions warrant hedging. Although gas prices and volatility are currently relatively low, this could change. Hedging provides a way to perhaps help lessen impacts of future volatility on customers.

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**FIRST PSC DATA REQUEST
DATED MARCH 16, 2012**

4. Describe what fees, if any, Delta incurs in implementing its existing hedging plan.

Response:

Delta has incurred no fees in using its hedging plan.

Sponsoring Witness:

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CASE NO. 2012-00025**

**FIRST PSC DATA REQUEST
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5. Explain Delta's plan to hedge supply volumes for the upcoming injection and winter heating season.

Response:

Delta plans to consider locking a portion of its purchases for storage injection this summer injection season and for non-storage purchases for the next winter heating season. This is contemplated to be in the range of 25-50% of both non-storage and storage volumetric supply needs.

Sponsoring Witness:

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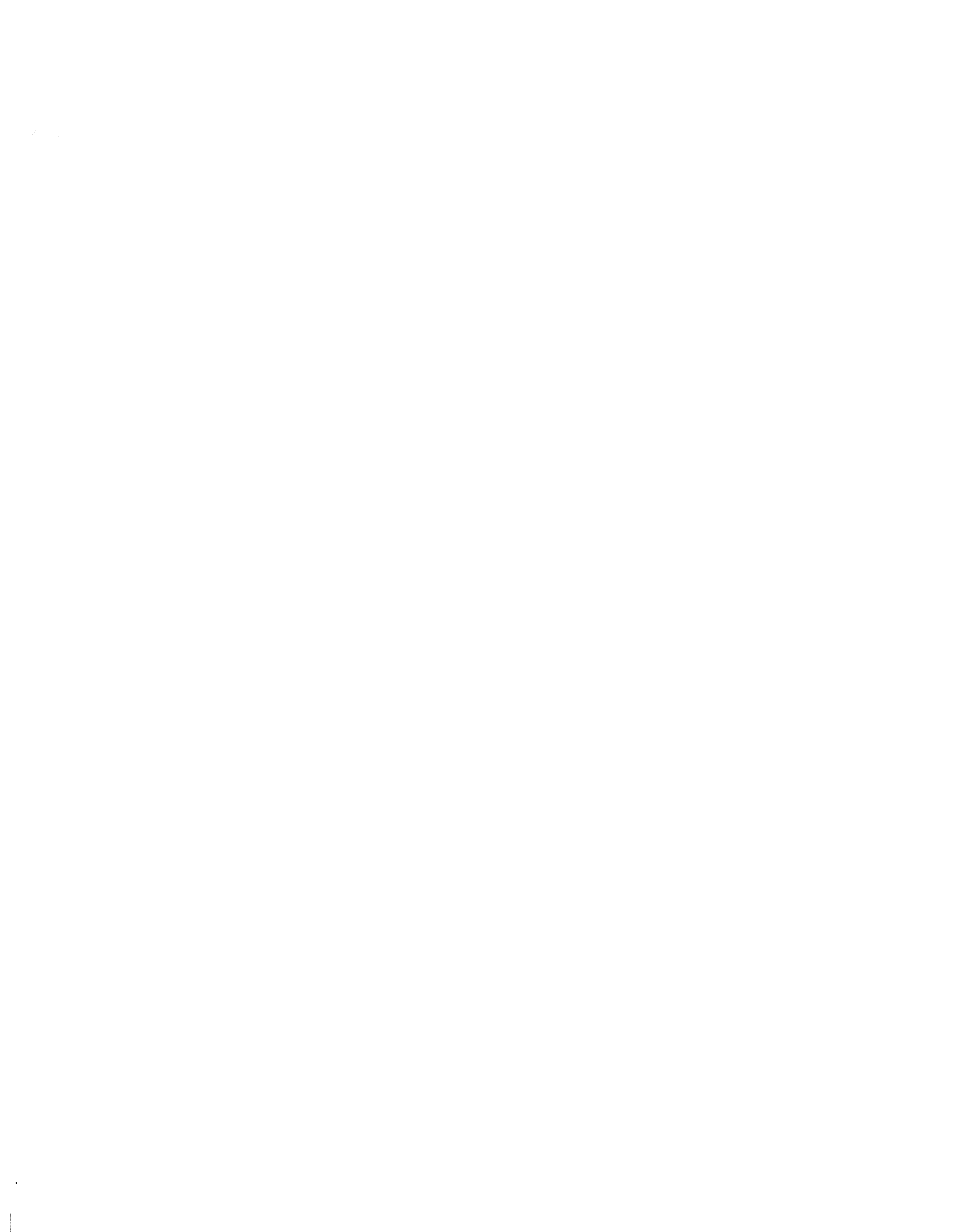
6. Explain the role that natural gas storage plays in Delta's hedging plan.

Response:

Delta injects gas in its underground storage field for withdrawal to meet its customers' heating season needs. This gas is purchased either on a monthly basis or some portion may be forward priced to lock in pricing in advance for some months when it is deemed to be to our customers' advantage to stabilize prices and to mitigate potential price volatility.

Sponsoring Witness:

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7. Explain why Delta did not enter into any forward contracts for the 2011 storage injection season.

Response:

Delta considers locking in forward pricing for storage injections when it deems that it is positive for its customers. Coming out of the 2010-2011 winter heating season, a winter that was colder than normal, NYMEX futures were trading in the \$3.75 to \$4.25 range for the 2011 injection season with projections of decreasing prices throughout the remainder of the season. There was a risk that actual prices would decrease below the prices available in the forward contracts. As a result, Delta did not enter any forward contracts for the 2011 injection season.

Sponsoring Witness:

Brian S. Ramsey

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**FIRST PSC DATA REQUEST
DATED MARCH 16, 2012**

8. Provide the monthly prices Delta paid for flowing gas, by supplier, during its currently approved hedging plan which expires March 31, 2012.

Response:

See attached response.

Sponsoring Witness:

Brian S. Ramsey

DELTA NATURAL GAS COMPANY, INC.
MONTHLY PRICES FOR FLOWING GAS
PRICES SHOWN IN DTH

Supplier:	<u>Atmos</u>					<u>M&B</u>					<u>Chesapeake/Vinland</u>	
Pipeline:	TGP	TCO	TETCO	Gulf	TCO	TGP	TCO	Gulf	TCO	TCO	Gulf	CHK
<u>Price Type:</u>	<u>Index</u>	<u>Index</u>	<u>Index</u>	<u>Index</u>	<u>Fixed</u>	<u>Fixed</u>	<u>Index</u>	<u>Index</u>	<u>Fixed</u>	<u>Fixed</u>	<u>Fixed</u>	<u>Index</u>
April-09	\$3.530	\$3.510	\$4.011									\$4.620
May-09	\$3.220	\$3.220	\$3.701				\$3.670		\$4.350	\$3.990		\$4.330
June-09	\$3.440	\$3.430	\$3.918				\$3.750		\$4.350	\$3.990		\$4.410
July-09	\$3.820	\$3.850	\$4.329				\$4.195	\$3.860	\$4.350	\$3.990		\$4.850
August-09	\$3.250	\$3.260	\$3.759				\$3.595		\$3.510			\$4.230
September-09	\$2.670	\$2.700	\$3.223									\$3.660
October-09	\$3.590	\$3.580	\$4.109					\$4.010				\$4.520
November-09	\$4.210	\$4.190	\$4.669				\$4.565	\$4.620				\$5.220
December-09	\$4.430	\$4.400	\$4.866					\$4.840				\$5.410
January-10	\$5.780	\$5.740	\$6.194					\$6.220				\$6.800
February-10	\$5.230	\$5.190	\$5.654									\$6.280
March-10	\$4.670	\$4.710	\$5.196				\$5.090	\$5.150			\$5.000	\$5.750
April-10	\$3.740	\$3.730	\$4.222				\$4.085	\$4.160				\$4.740
May-10	\$4.150	\$4.130	\$4.651				\$4.490	\$4.580				\$5.150
June-10	\$4.090	\$4.060	\$4.535				\$4.400	\$4.480				\$5.060
July-10	\$4.620	\$4.600	\$5.097					\$5.020				\$5.600
August-10	\$4.680	\$4.660	\$5.154					\$5.090				\$5.660
September-10	\$3.530	\$3.530	\$4.031					\$3.940				\$4.450
October-10	\$3.720	\$3.710	\$4.217					\$4.100			\$3.790	\$4.660
November-10	\$3.190	\$3.170	\$3.672									\$4.110
December-10	\$4.180	\$4.170	\$4.647		\$3.960	\$3.970						\$5.160
January-11	\$4.160	\$4.120	\$4.596		\$3.960	\$3.970						\$5.130
February-11	\$4.260	\$4.210	\$4.696		\$3.960	\$3.970		\$4.630				\$5.220
March-11	\$3.680	\$3.680	\$4.173		\$3.960	\$3.970		\$4.060				\$4.650
April-11	\$4.130	\$4.140	\$4.620				\$4.400	\$4.520				\$5.110
May-11	\$4.280	\$4.270	\$4.757				\$4.545	\$4.630				\$5.250
June-11	\$4.270	\$4.220	\$4.706					\$4.550				\$5.210
July-11	\$4.300	\$4.260	\$4.737					\$4.580				\$5.230
August-11	\$4.280	\$4.280	\$4.750					\$4.580				\$5.200
September-11	\$3.780	\$3.760	\$4.237					\$4.040				\$4.650
October-11	\$3.640	\$3.650	\$4.139					\$3.900				\$4.520
November-11	\$3.430	\$3.390	\$3.904					\$3.690				\$4.310
December-11	\$3.300	\$3.230	\$3.744		\$3.920	\$3.930						\$4.160
January-12	\$3.030	\$2.940	\$3.464		\$3.920	\$3.930						\$3.860
February-12	\$2.630	\$2.560	\$3.058	\$2.5079	\$3.920	\$3.930	\$2.705					\$3.410
March-12	\$2.380	\$2.330	\$2.826		\$3.920	\$3.930	\$2.495					\$3.200

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9. Refer to paragraph 5 of Delta's Application. Provide the 2012 NYMEX prices for the summer injection season referenced in this paragraph.

Response:

NYMEX prices as of 3/23/12 are as follows:

April	\$2.27
May	\$2.369
June	\$2.477
July	\$2.583
August	\$2.642
September	\$2.668
October	\$2.732

Sponsoring Witness:

Brian S. Ramsey