



Delta Natural Gas Company, Inc.

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April 26, 2013

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PUBLIC SERVICE
COMMISSION

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

**RE: AN ADJUSTMENT OF THE PIPE REPLACEMENT PROGRAM RIDER
OF DELTA NATURAL GAS COMPANY, INC.
Case No. 2013-00101**

Dear Mr. Derouen:

Enclosed are the original and 10 (10) copies of the responses to the Commission Staff's Initial Request for Information dated April 12, 2013 in the above-styled case.

Please indicate receipt of this filing by date stamping the enclosed duplicate of this letter.

Sincerely,

Connie King
Manager – Corporate & Employee Services

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00101**

**FIRST PSC DATA REQUEST
DATED APRIL 13, 2013**

1. Refer to Delta's application, Schedule I. Explain the basis for the estimate of \$(51,150) Actual Collections March 2013 and April 2013 on line 16.

Response:

The basis for the estimate is the average monthly PRP billings for the six-months ended February 2013. The label for this line has been revised to read "Estimated Collections March 2013 and April 2013" on the exhibit included with Item 4.a.

Sponsoring Witness:

Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00101**

**FIRST PSC DATA REQUEST
DATED APRIL 13, 2013**

2. Refer to Schedule I Line 8 of the application, labeled "Tax expansion factor, w PSC (per Case No. 2010-00116)."
 - a. Explain how the tax expansion is calculated and provide an example calculation.
 - b. Delta's Pipe Replacement Program ("PRP") Rider tariff, Calculation of Pipe Replacement Rider Revenue Requirement, under subsection c., provides for the weighted average cost of capital to be grossed up for federal and state taxes as well as the Public Service Commission ("PSC") Assessment. Confirm that Delta is grossing up revenues for purposes of providing a revenue requirement for the PSC Assessment. If not, provide an explanation.

Response:

- a. For the purposes of the PRP mechanism, Delta calculated its tax expansion factor as $1 +$ the income tax gross-up factor included in footnote 2 on the attached order from Case 2010-00116.
- b. Delta is grossing up revenues for the purpose of providing a revenue requirement for the PSC Assessment.

Sponsoring Witness:

Matthew D. Wesolosky

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS COMPANY,)	CASE NO.
INC. FOR AN ADJUSTMENT OF RATES)	2010-00116

O R D E R

On October 21, 2010, the Commission issued an Order in this matter approving an increase in base rates designed to permit Delta Natural Gas Company, Inc. ("Delta") to generate additional annual revenues of \$3,291,328. This increase in revenues was based on the finding that Delta's net operating income deficiency for its adjusted historical test year ending December 31, 2009 was \$1,996,461.

The Commission has determined that an error in calculating Delta's adjusted test-year income tax expense¹ caused Delta's net operating income deficiency to be understated by \$134,530 in the October 21, 2010 Order. The corrected net operating income deficiency is \$2,130,991, which, grossed-up for income taxes, results in a required overall increase of \$3,513,112.² The correction in the amount of the required annual revenue results in an increase of \$221,784. The additional increase in revenues

¹ The error occurred by using the \$1,009,395 income tax adjustment related to Delta's proposed increase (Application, Item 27, Schedule 7) rather than the \$915,653 test year tax adjustment (Application, Schedule 2, Item 42), for a difference of \$93,742. Revising the tax adjustment by \$40,788, the tax effect of adjustments revised in Delta's August 24, 2010 update to its application, caused the net operating income deficiency to be understated by \$134,530 (\$93,742 + \$40,788 = \$134,530).

² The net operating income deficiency is divided by the income tax gross-up factor to determine the required increase ($\$2,130,991 / 0.6065821 = \$3,513,112$).

**DELTA NATURAL GAS COMPANY, INC.
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3. Refer to pages 2 and 3 of Schedule II in the application. In 2010 and 2011, Delta had additions to gathering lines in the amount of \$37,514 and \$5,783, respectively. These lines are designated as "Field Lines" recorded in Acct. 332 in Delta's Annual Report filed with the Commission. Explain why Delta has included gathering lines in its PRP recovery. The explanation should include the specific function of these lines in the provision of utility service by Delta as a Local Distribution Company.

Response:

The replacement of the bare steel gathering lines has been removed from the revised PRP filing included with Item 4a.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00101

FIRST PSC DATA REQUEST
DATED APRIL 13, 2013

4. Refer to Schedule III of the application under the section entitled "Increased Property Tax Expense."
 - a. Explain why Delta is using gross cost instead of net cost for calculating the amount of property taxes.
 - b. Provide a three-year history which shows the ratio of assessed value for property tax purposes to net book value of the operating assets of Delta.

Response:

- a. We agree with the Commission that utilizing net cost would be more accurate. The PRP filing has been revised and is included on the attached exhibit.
- b. See attached exhibit.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
 Pipe Replacement Program Filing
 Program Year Ended: December 31, 2012
 Rates Effective: April 29, 2013

	2010	2011	2012	Total
1 Total annual expenditures under the PRP (Schedule II)	\$ 1,574,788	\$ 1,730,104	\$ 3,796,271	
2 Less:				
3 Accumulated depreciation	(74,107)	(59,655)	(45,414)	
4 Accumulated deferred income taxes	(545,774)	(634,102)	(1,390,882)	
5 Net PRP Rate Base, as of December 31, 2012	954,907	1,036,347	2,359,975	
6 WACOC, per case no 2010-00116	7.97025%	7.97025%	7.97025%	
7 Allowed Return	76,108	82,599	188,096	
8 Tax expansion factor, w PSC (per Case No. 2010-00116)	1.60658	1.60658	1.60658	
9 Return, grossed up for income taxes	\$ 122,274	\$ 132,702	\$ 302,192	\$ 557,167
10 Cost of Service Items (Schedule III)				181,729
12 Current Year PRP Adjustment				\$ 738,896
13 Balancing Adjustment				
14 Prior Year PRP Adjustment				315,013
15 Less: Collections of Prior Year PRP Adjustment May 2012 through February 2012				(199,809)
16 Less: Estimated Collections March 2013 and April 2013				(51,150)
17 Total PRP Adjustment				\$ 802,950

	Calculated Net Revenue @ Approved Rates per Case No. 2010-00116	Class Allocation	Allocated PRP Adjustment	# Customers Per Case No. 2010-00116	Monthly PRP Rate
18 Residential	\$ 14,846,218	54.3%	\$ 436,183	367,914	\$ 1.19
19 Small Non-Residential	3,991,286	14.6%	117,264	50,794	\$ 2.31
18 Large Non-Residential	7,008,122	25.6%	205,899	11,460	\$ 17.97
19 Interruptible	1,484,119	5.4%	43,604	486	\$ 89.72
20	\$ 27,329,745	100.0%	\$ 802,950	430,654	

Calendar Year 2010
PRP Worksheet

	A		Book Depreciation Reserve			Book Net Book Value	COR Rate	COR Depr
	2010	Book Depr Year	Depreciation					
	Investment	3	Beginning	Expense	Ending			
1 Distribution Mains	816,750	3.10%	(37,979)	(25,319)	(63,298)	753,452	0.01%	\$ 82
2 Transmission Mains	23,974	2.33%	(838)	(559)	(1,397)	22,577	0.02%	5
3 Services	118,268	2.69%	(4,772)	(3,181)	(7,953)	110,315	0.42%	497
4 Gathering Lines	-	2.25%	-	-	-	-	0.00%	-
5 Storage Lines	-	2.05%	-	-	-	-	0.00%	-
6 Cost of Removal	615,796	various	(875)	(584)	(1,459)	614,337	0.00%	-
	1,574,788		(44,464)	(29,643)	(74,107)	1,500,681		\$ 584

	Book Investment	Qualifying Tax	Tax Expense	Tax Additions	50% Bonus Depreciation	Depreciable Base	MACRS YEAR	Tax Depreciation Reserve					Tax Net Book Value	
		Expense Percentage						Beginning	Tax Expense	Bonus Depr	MACRS Depr	Ending		
		3												3
7 Distribution Mains	816,750	94.5%	(771,829)	44,921	(22,461)	22,461	15	8.550%	(798,557)	-	-	(1,920)	(800,477)	16,273
8 Transmission Mains	23,974	100.0%	(23,974)	-	-	-	15	8.550%	(23,974)	-	-	-	(23,974)	-
9 Services	118,268	0.0%	-	118,268	(59,134)	59,134	20	6.677%	(67,672)	-	-	(3,948)	(71,620)	46,648
10 Gathering Lines	-	0.0%	-	-	-	-	7	17.492%	-	-	-	-	-	-
11 Storage Lines	-	0.0%	-	-	-	-	15	8.550%	-	-	-	-	-	-
12 Cost of Removal	615,796	NA	-	-	-	-	NA	NA	-	-	-	-	-	NA
	1,574,788		(795,803)	163,189	(81,595)	81,595			(890,203)	-	-	(5,868)	(896,071)	62,921

	Net Book Value		Cumulative		
	Book	Tax	Timing Difference	Statutory Rate	Deferred Income Taxes
	Book	Tax	Difference	Rate	Income Taxes
13 Distribution Mains	753,452	16,273	(737,179)	37.96%	(279,833)
14 Transmission Mains	22,577	-	(22,577)	37.96%	(8,570)
15 Services	110,315	46,648	(63,667)	37.96%	(24,168)
16 Gathering Lines	-	-	-	37.96%	-
17 Storage Lines	-	-	-	37.96%	-
18 Cost of Removal	614,337	NA	(614,337)	37.96%	(233,202)
	1,500,681	62,921	(1,437,760)		(545,774)

A Depreciation rate for lines 1-5 exclude cost of removal rate. Provision for cost of removal on PRP assets is reflected on line 6.

Calendar Year 2011
PRP Worksheet

	A		Book Depreciation Reserve			Book Net Book Value	COR Rate	COR Depr
	2011 Investment	Book Depr Year	A					
			Beginning	Expense	Ending			
1 Distribution Mains	828,951	3.10%	(12,849)	(25,697)	(38,546)	790,405	0.01%	\$ (83)
2 Transmission Mains	88,312	2.33%	(1,029)	(2,058)	(3,087)	85,225	0.02%	(18)
3 Services	383,075	2.69%	(5,152)	(10,305)	(15,457)	367,618	0.42%	(1,609)
4 Gathering Lines	-	2.25%	-	-	-	-	0.00%	-
5 Storage Lines	-	2.05%	-	-	-	-	0.00%	-
6 Cost of Removal	429,766	various	(855)	(1,710)	(2,565)	427,201	0.00%	-
	1,730,104		(19,885)	(39,770)	(59,655)	1,670,449		\$ (1,710)

	Book Investment	Qualifying Tax		Tax Expense	Tax Additions	100% Bonus Depreciation	Depreciable Base	MACRS YEAR	Tax Depreciation Reserve					Tax Net Book Value				
		Expense Percentage	Tax Expense						Tax Additions	100% Bonus Depreciation	Tax Life	2	Beginning		Tax Expense	Bonus Depr	MACRS Depr	Ending
7 Distribution Mains	828,951	71.0%	(588,555)	240,396	(240,396)	-	-	15	9.500%	(828,951)	-	-	-	-	(828,951)	-		
8 Transmission Mains	88,312	94.0%	(82,981)	5,331	(5,331)	-	-	15	9.500%	(88,312)	-	-	-	-	(88,312)	-		
9 Services	383,075	100.0%	(383,075)	-	-	-	-	20	7.219%	(383,075)	-	-	-	-	(383,075)	-		
10 Gathering Lines	-	0.0%	-	-	-	-	-	7	24.490%	-	-	-	-	-	-	-		
11 Storage Lines	-	0.0%	-	-	-	-	-	15	9.500%	-	-	-	-	-	-	-		
12 Cost of Removal	429,766	NA	-	-	-	-	-	NA	NA	-	-	-	-	-	-	NA		
	1,730,104		(1,054,611)	245,727	(245,727)	-	-			(1,300,338)	-	-	-	-	(1,300,338)	-		

	Net Book Value		Cumulative		
	Book	Tax	Timing Difference	Statutory Rate	Deferred Income Taxes
13 Distribution Mains	790,405	-	(790,405)	37.96%	(300,038)
14 Transmission Mains	85,225	-	(85,225)	37.96%	(32,352)
15 Services	367,618	-	(367,618)	37.96%	(139,548)
16 Gathering Lines	-	-	-	37.96%	-
17 Storage Lines	-	-	-	37.96%	-
18 Cost of Removal	427,201	NA	(427,201)	37.96%	(162,165)
	1,670,449	-	(1,670,449)		(634,102)

A Depreciation rate for lines 1-5 exclude cost of removal rate. Provision for cost of removal on PRP assets is reflected on line 6.

Calendar Year 2012
PRP Worksheet

	A		Book Depreciation Reserve			Book Net Book Value	COR Rate	COR Depr
	2012 Investment	Book Depr Year 1	A					
			Beginning	Expense	Ending			
1 Distribution Mains	2,164,531	3.10%	-	(33,550)	(33,550)	2,130,981	0.01%	\$ (108)
2 Transmission Mains	31,604	2.33%	-	(368)	(368)	31,236	0.02%	(3)
3 Services	732,128	2.69%	-	(9,847)	(9,847)	722,281	0.42%	(1,537)
4 Gathering Lines	-	2.25%	-	-	-	-	0.00%	-
5 Storage Lines	-	2.05%	-	-	-	-	0.00%	-
6 Cost of Removal	868,008	various	-	(1,648)	(1,648)	866,360	0.00%	-
	3,796,271		-	(45,414)	(45,414)	3,750,857		\$ (1,648)

	Qualifying Tax		50%				MACRS YEAR	Tax Depreciation Reserve					Tax Net Book Value		
	Book Investment	Expense Percentage	Tax Expense	Tax Additions	Bonus Depreciation	Depreciable Base		Tax Life	1	Beginning	Expense	Bonus Depr		MACRS Depr	Ending
7 Distribution Mains	2,164,531	93.0%	(2,013,014)	151,517	(75,759)	75,758	15	5.000%	-	(2,013,014)	(75,759)	(3,788)	(2,092,561)	71,970	
8 Transmission Mains	31,604	1.3%	(416)	31,188	(15,594)	15,594	15	5.000%	-	(416)	(15,594)	(780)	(16,790)	14,814	
9 Services	732,128	100.0%	(732,128)	-	-	-	20	3.750%	-	(732,128)	-	-	(732,128)	-	
10 Gathering Lines	-	0.0%	-	-	-	-	7	14.286%	-	-	-	-	-	-	
11 Storage Lines	-	0.0%	-	-	-	-	15	5.000%	-	-	-	-	-	-	
12 Cost of Removal	868,008	NA	-	-	-	-	NA	NA	-	-	-	-	-	NA	
	3,796,271		(2,745,558)	182,705	(91,353)	91,352			-	(2,745,558)	(91,353)	(4,568)	(2,841,479)	86,784	

	Net Book Value		Cumulative		
	Book	Tax	Timing Difference	Statutory Rate	Deferred Income Taxes
13 Distribution Mains	2,130,981	71,970	(2,059,011)	37.96%	(781,600)
14 Transmission Mains	31,236	14,814	(16,422)	37.96%	(6,234)
15 Services	722,281	-	(722,281)	37.96%	(274,178)
16 Gathering Lines	-	-	-	37.96%	-
17 Storage Lines	-	-	-	37.96%	-
18 Cost of Removal	866,360	NA	(866,360)	37.96%	(328,870)
	3,750,857	86,784	(3,664,073)		(1,390,882)

A Depreciation rate for lines 1-5 exclude cost of removal rate. Provision for cost of removal on PRP assets is reflected on line 6.
B Year 1 for PRP assets assumes a half year of depreciation expense.

Delta Natural Gas Company, Inc.
Cost of Service Impact from PRP

							Total Cost of Service Impact
1 Increased depreciation expense (schedule II)							
		<u>2010</u>		<u>2011</u>		<u>2012</u>	
		\$ 29,643		\$ 39,770		\$ 45,414	\$ 114,827
Operating expense reductions							
		<u>2010-0116 Calendar 2009 Test Year</u>	<u>2010 Actual Expense</u>	<u>Decrease in Operating Expense</u>	<u>2011 Decrease in Operating Expense</u>	<u>2012 Decrease in Operating Expense</u>	
2	Maintenance of Transmission and Distribution Mains	76,450	84,618		62,961	79,664	
		\$ 76,450	\$ 84,618	\$ -	\$ 62,961	\$ 79,664	\$ -
				\$ (13,489)		\$ -	\$ -
Increased property tax expense							
			<u>2010 Increased Ad Valorem Taxes</u>	<u>2011 Increased Ad Valorem Taxes</u>		<u>2012 Increased Ad Valorem Taxes</u>	
3	PRP Additions		\$ 1,500,681	\$ 1,670,449		\$ 3,750,857	
4	Ad valorem tax rate		0.9665%	0.9665%		0.9665%	
			\$ 14,504	\$ 16,145		\$ 36,253	\$ 66,902
<i>Per Case 2010-00116, FR10(6)(h) Tab 27, Schedule 5.1</i>							
5	Total taxable value	144,250,000					
6	Property tax expense	1,394,198					
7	Average ad valorem tax rate	0.9665%					
8 Total Cost of Service Impact							\$ 181,729

Delta Natural Gas Company, Inc.
Case No. 2013-00101
Item 4b.

Property Tax Return for year-ending Dec 31,	Net Book Value, per Schedule J of Property Tax Return	Net Book Value Per PSC Report Page 110, Line 10	Ratio of Assessed Value to Net Book Value	Total Property Tax Assessed	Tax Rate Computed Using Net Book Value
2011	\$ 134,156,279	\$ 129,780,898	103%	\$ 1,558,897	1.20%
2010	132,852,855	127,985,792	104%	1,445,302	1.13%
2009	130,594,207	124,705,460	105%	1,346,732	1.08%

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00101**

**FIRST PSC DATA REQUEST
DATED APRIL 13, 2013**

5. Refer to the operating expense reductions in Maintenance of Transmission and Distribution Mains listed on Schedule III of the application.
 - a. Explain why those expenses increased to \$79,664 in 2012 from \$62,961 in the preceding year.
 - b. Explain why Delta is proposing to decrease its current year revenue requirement for operating expenses reductions in Maintenance of Transmission and Distribution Mains incurred in the prior year.

Response:

- a. The increase is due to the increases in rock, sand and asphalt used in leak repair projects during calendar 2012, as compared to 2011. Additionally, we experienced an increase in cost associated with fees incurred from Kentucky Underground Protection.
- b. The revised PRP filing included with Item 4 a. of this data request has been revised to remove this decrease.

Sponsoring Witness:

Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00101**

**FIRST PSC DATA REQUEST
DATED APRIL 13, 2013**

6. Identify generally the locations of the major main replacements that occurred in 2012 and describe how those specific projects were selected and prioritized.

Response:

See attached for general locations of replacements that occurred in 2012. As in prior years, with an emphasis on public safety, our distribution personnel consider leak history, age and type of pipe in selecting and prioritizing each replacement.

Sponsoring Witness:

John B. Brown

Delta Natural Gas
Main Replacement Projects over 1,000 FT
Item 6.

System	Footage Installed	Cost
Corbin	16,410	\$ 474,179
Barbourville	13,844	369,723
Nicholasville	10,086	219,681
Middlesboro	6,292	149,857
Frenchburg	3,375	201,780
Berea	2,657	37,195
Wilmore	1,740	28,088
Pineville	1,327	45,718
	55,731	\$ 1,526,221
Replacements less than 1,000 feet		\$ 669,914
		\$ 2,196,135
 Per Schedule II of PRP Filing		
Distribution Mains		\$ 2,164,531
Transmission Mains		31,604
		\$ 2,196,135