



STOLL
KEENON
OGDEN
PLLC

300 WEST VINE STREET
SUITE 2100
LEXINGTON, KY 40507-1801
MAIN: (859) 231-3000
FAX: (859) 253-1093

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DEC 23 2013

PUBLIC SERVICE
COMMISSION

ROBERT M. WATT, III
DIRECT DIAL: (859) 231-3043
DIRECT FAX: (859) 246-3643
Robert.Watt@skofirm.com

December 23, 2013

HAND DELIVERED

Hon. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40601

Re: Case No. 2013-00365
Delta Natural Gas Company, Inc.

Dear Mr. Derouen:

We enclose herewith for filing an original and ten copies of the responses of Delta Natural Gas Company, Inc. to the Commission Staff's Initial Request for Information and the Attorney General's Initial Data Requests in the above-captioned case. Thank you in advance for your assistance. Best wishes for the holidays.

Sincerely,

Robert M. Watt, III

rmw:rmw

Enclosures

cc: Mr. John B. Brown (w/o encl.)
Dennis G. Howard, II, Esq. (w/encl.)

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VERIFICATION

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PUBLIC SERVICE COMMISSION

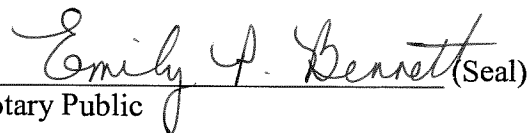
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF CLARK)

The undersigned, **John B. Brown**, being duly sworn, deposes and says that he is Chief Financial Officer, Treasurer and Secretary of Delta Natural Gas Company, Inc. and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



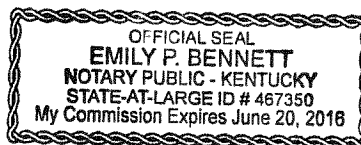
John B. Brown

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 19th day of December 2013.

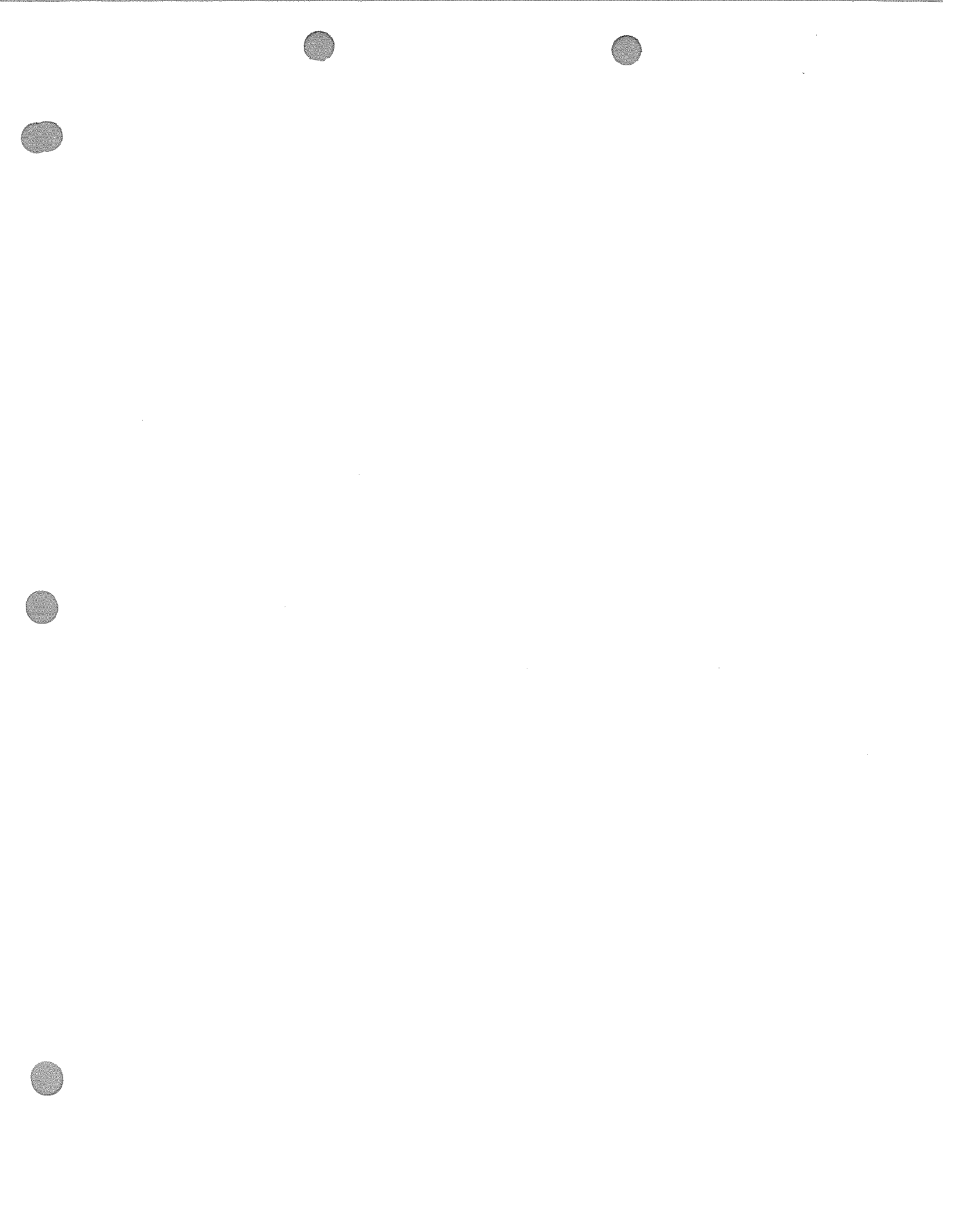


Notary Public

My Commission Expires:



6/20/2016



FIRST PSC DATA REQUEST
DATED DECEMBER 13, 2013

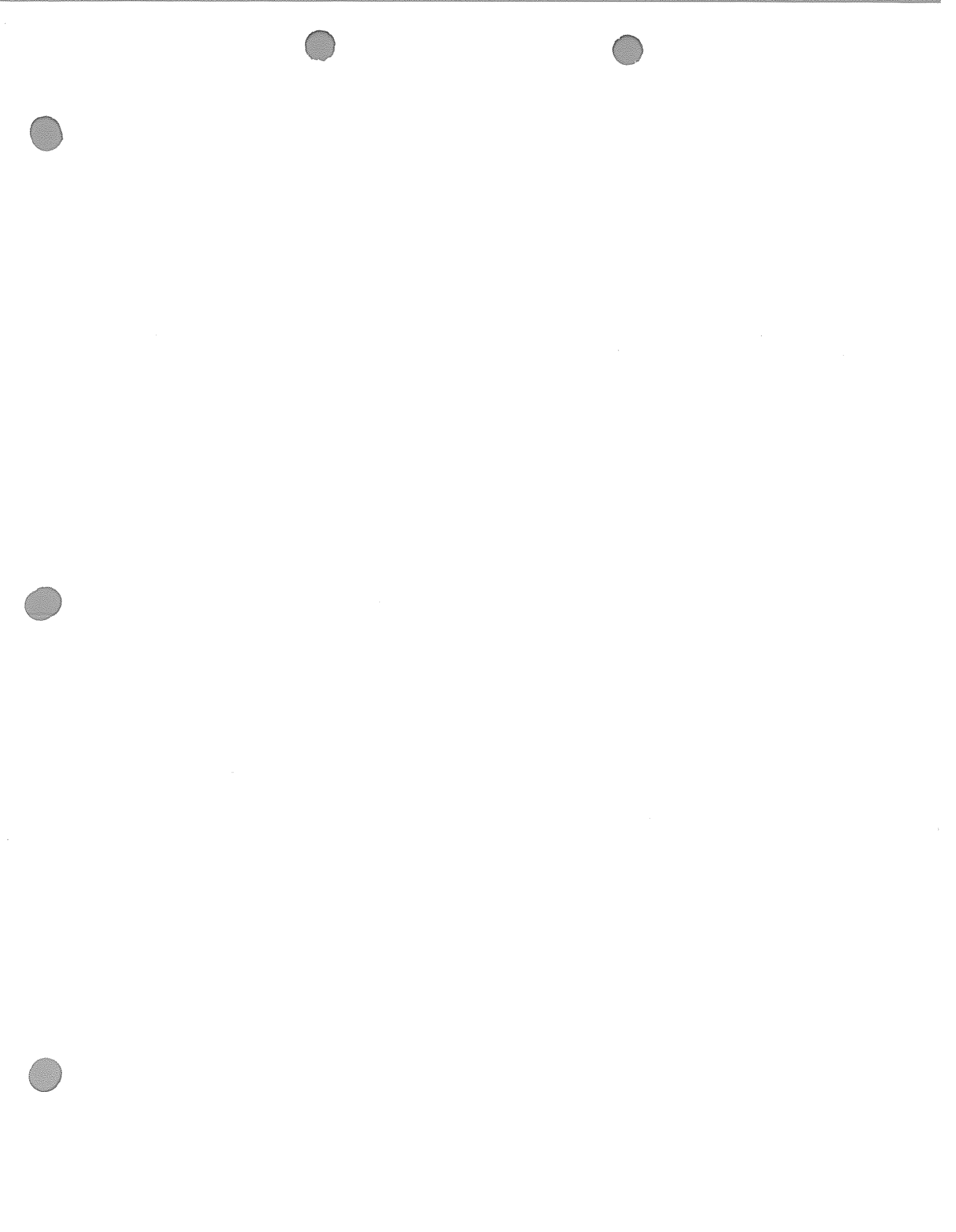
1. Refer to the Direct Testimony of John B. Brown (“Brown Testimony”), page 8, specifically, the first sentence of the answer beginning on line 3. Refer also to page 1 of Brown Exhibit III, specifically to the bullet titled “Non-Rate-based Model.” The testimony states that the Non-Rate-based Model and the Commercial Model are both better suited for companies in competitive markets looking for high rates of return. The descriptions of the models on page 1 of the exhibit, a report on natural gas as a transportation fuel, indicate that the Commercial Model is applicable to competitive markets, but does not indicate the same for the Non-Rate-based Model.
 - a. Explain why Mr. Brown refers to both the Non-Rate-based Model and Commercial Model as “better suited for companies in competitive markets looking for high rates of return.”
 - b. The description of the Non-Rate-based Model states, “Typically, LDC investments under this model are relatively modest.” Given that the estimated cost of \$1.3 million for the Compressed Natural Gas (“CNG”) fueling station it is proposing is equal to 1 percent of the combined equity and long-term debt capitalization shown at year-end on the balance sheet in its 2012 annual report filed with the Commission, explain whether Delta considers this investment “modest.”

Response:

- a. Both the Non-Rate-based Model and Commercial Model require the shareholders to totally fund the building of the station. The Company has an obligation to deploy shareholder capital on projects with the promise of acceptable rates of return. Said another way, the Rate-based Model is better suited for companies building stations that would not otherwise be built because the initial demand for CNG would not support a rate of return that would attract the investment.
- b. The Company’s capital projects totaled \$7.2 million during its 2013 fiscal year. A \$1.3 million project, representing 18% of all capital spending, would not be “modest”.

Sponsoring Witness:

John B. Brown



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2. Refer to the Direct Testimony of Matthew D. Wesolosky (“Wesolosky Testimony”), page 3, at lines 2-3, which indicate that Delta contacted other utilities that operate CNG stations in developing the \$1.3 million cost estimate for its proposed CNG station. Provide the names of the utilities contacted and the dates of those contacts.

Response:

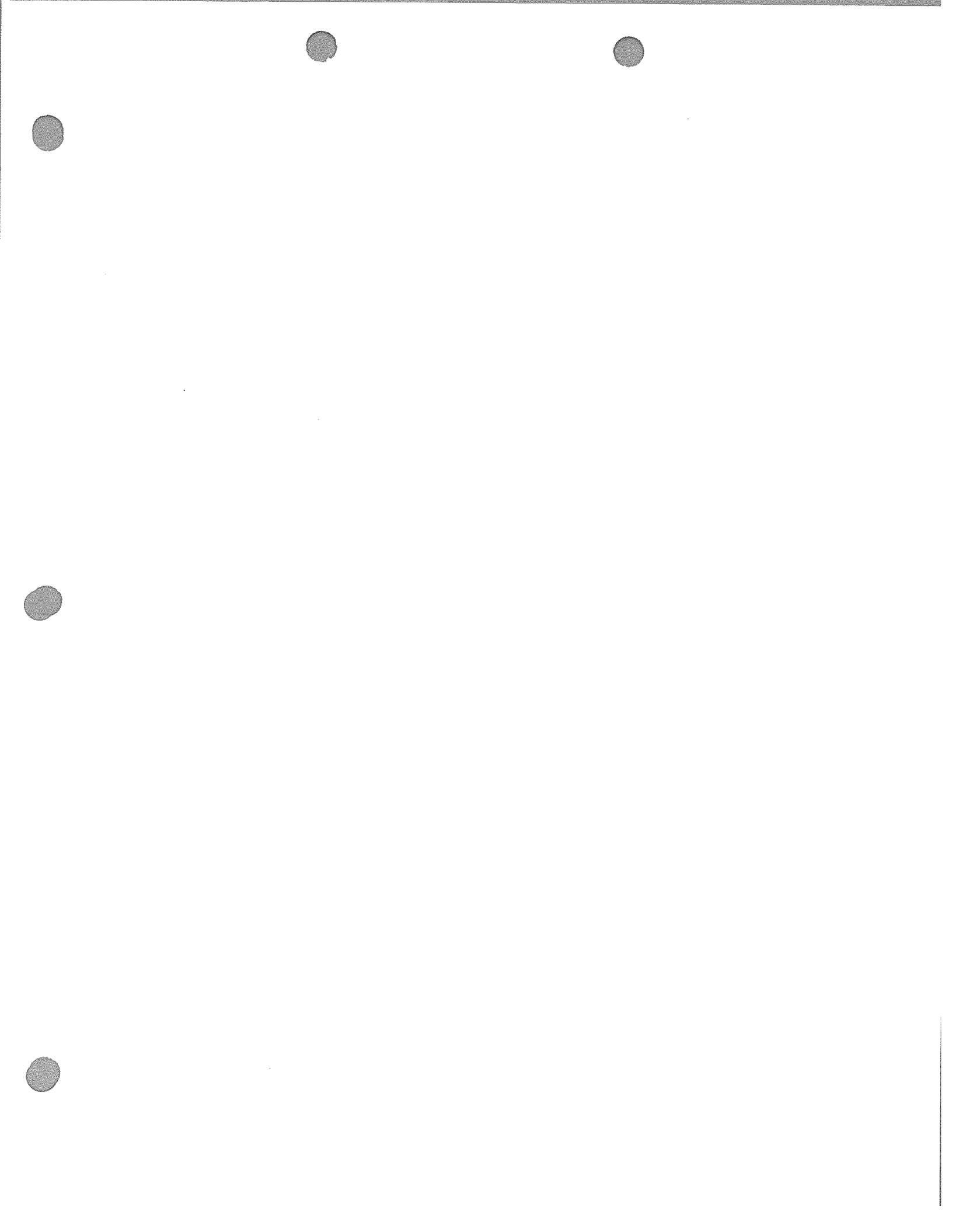
Vectren Energy
Evansville, IN
February 15, 2013

Piedmont Natural Gas
Charlotte, NC
November 26, 2012

See response to PSC-1 Item 14.

Sponsoring Witness:

Jonathan Morpew



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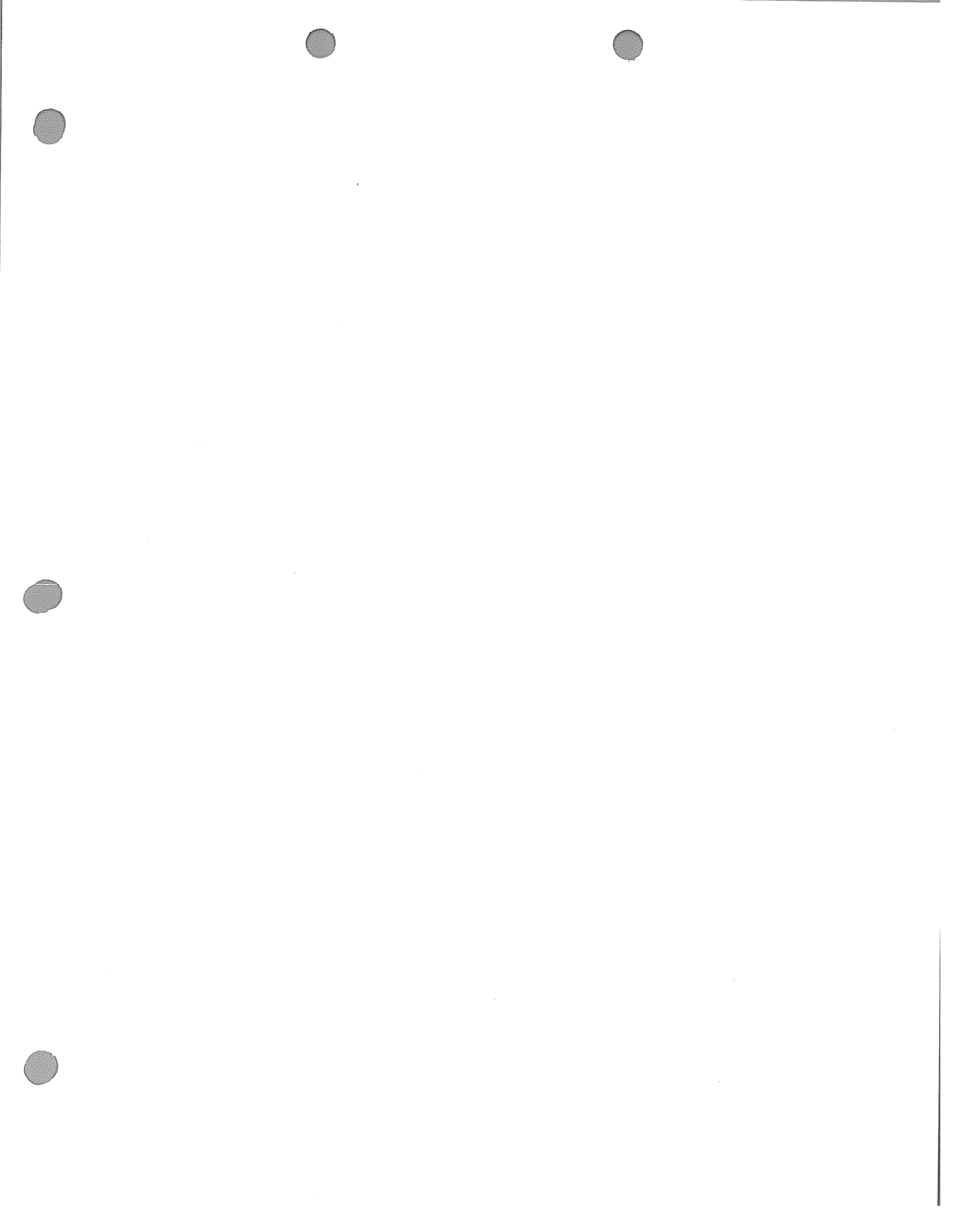
3. Refer to the testimony of Jonathan W. Morpew ("Morpew Testimony"), page 7, line 9, which states that Delta anticipates upgrading up to 11 vehicles as soon as practical, once the CNG station is in operation. Also refer to the Wesolosky Testimony, page 4, line 15, which states that Delta anticipates replacing 11 fleet vehicles in the near term with the potential for an additional 22 vehicles. Does Delta plan to upgrade 11 vehicles with a potential purchase of 11 new vehicles for a total of 22 vehicles, or are the 22 vehicles noted in the Wesolosky Testimony an additional 22 vehicles, for a possible 44 total?

Response:

Initially there will be 11 vehicles replaced with new CNG vehicles. As age and condition dictate, there will potentially be an additional 22 CNG vehicles purchased, resulting in a total of 33 CNG vehicles.

Sponsoring Witness:

Jonathan Morpew



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4. Refer to the Wesolosky Testimony, pages 4-5, specifically the discussion of the reduced costs Delta will experience from using the proposed CNG station to fuel its own vehicles. The first full paragraph on page 5 refers to the savings in fuel costs Delta will realize for 11 CNG-powered vehicles it intends to purchase in the short-term. Provide the expected cost to acquire each individual vehicle and the depreciable lives that will be applied to each vehicle for accounting purposes, and the estimated cost to acquire each individual vehicle, if it were not a CNG-powered vehicle 4.

Response:

See attached for a listing of the 11 CNG-powered vehicles Delta intends to purchase in the near-term, which includes the estimated cost to acquire the vehicle and the cost if it were not a dual fuel vehicle. Delta intends to utilize its Commission approved depreciation rate for autos and trucks of 8.14% for each of the vehicles acquired.

Sponsoring Witness:

Matthew D. Wesolosky

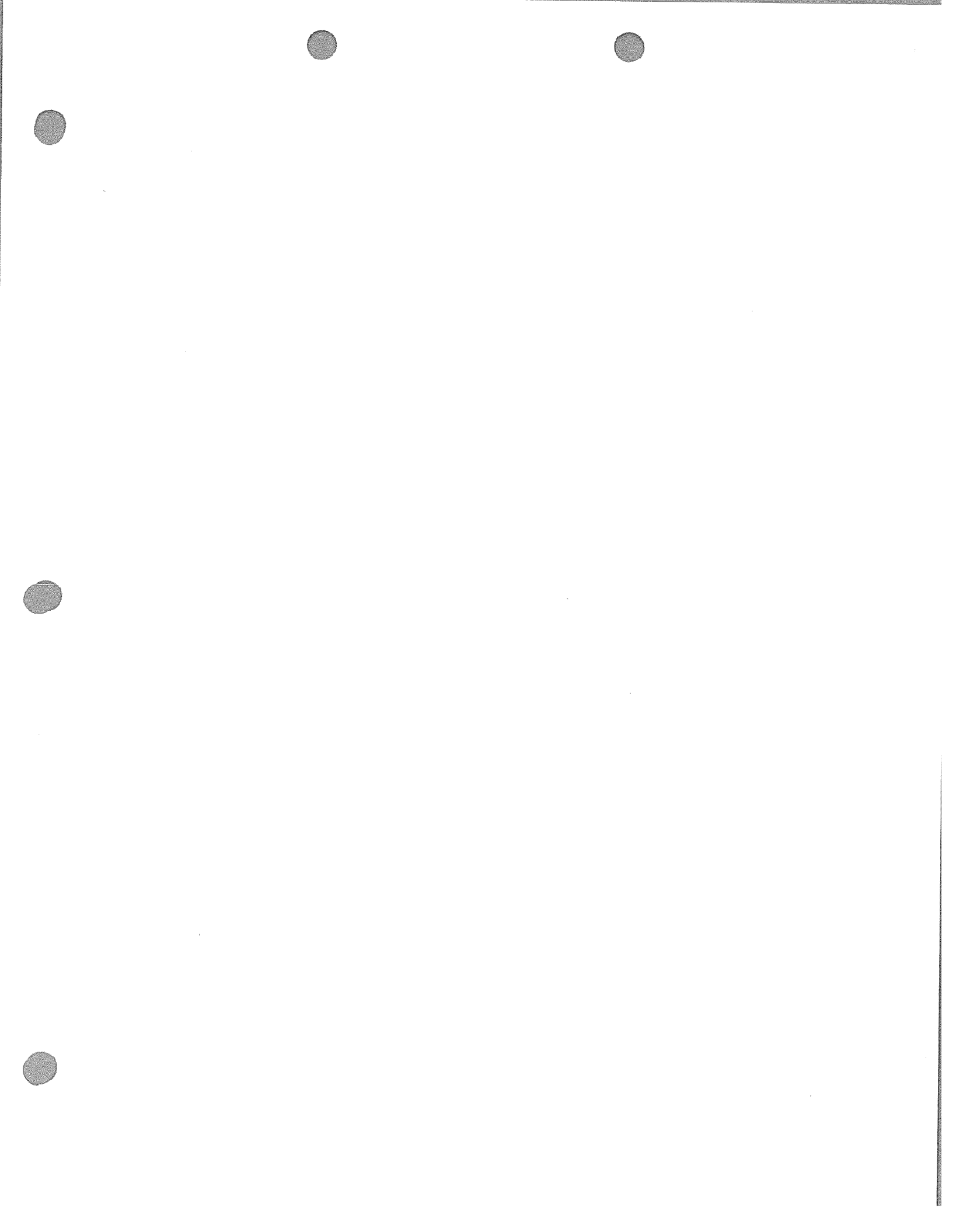
Delta Natural Gas Company

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Initial CNG Vehicle Replacements

Make	Model	Dual Fuel	Quantity	Estimated Year of Replacement	Per Vehicle Cost		
					Gasoline Price	CNG Price	per Vehicle Cost for CNG
Chevrolet	Silverado 1500 4x4	CNG/Gasoline	1	2014	26,345	35,695	9,350
Chevrolet	Silverado 2500 4x4	CNG/Diesel	2	2014	40,718	50,068	9,350
Chevrolet	Silverado 2500 4x4	CNG/Gasoline	1	2014	29,718	39,068	9,350
Ford	F-150 4x2	CNG/Gasoline	2	2014	23,345	32,695	9,350
Ford	F-150 4x4	CNG/Gasoline	2	2014	25,845	35,195	9,350
Chevrolet	Silverado 1500 4x4	CNG/Gasoline	1	2015	26,345	35,695	9,350
Ford	F-250 4x4	CNG/Gasoline	1	2015	28,860	38,210	9,350
Ford	F-150 4x4	CNG/Gasoline	1	2015	25,845	35,195	9,350



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5. Refer to Brown Testimony, page 8, and Exhibit IV, Rate Schedules:

a. Interruptible Service, Special Conditions, proposed language:

In order to provide a fair opportunity to compete with other motor fuels, the customer charge and Pipe Replacement Program charge may be waived by Delta at its sole discretion for compressed natural gas fueling station customers;

b. Transportation of Gas for Others on System Utilization:

For compressed natural gas fueling station customers in order to provide a fair opportunity to compete with other motor fuels, Delta may negotiate at Delta's sole discretion with such customers a fixed base rate that is no more than the maximum Base Rate set forth in Delta's Interruptible Service Rate Schedule, but is no less than the minimum Base Rate set forth in Delta's Interruptible Service Rate Schedule.

c. Transportation of Gas for Others on System Utilization:

In order to provide a fair opportunity to compete with other major fuels, this minimum volume requirement may be waived by Delta at its sole discretion for compressed natural gas fueling station customers.

Other than the discussion on page 8, lines 11-17, of the Brown Testimony, provide any support for why Delta's utility customers not directly using or benefitting from the facilities should subsidize any level of Delta's CNG fueling infrastructure that is not covered within the rates charged the owners of CNG-powered vehicles.

Response:

In addition to the discussion on page 8, lines 11-17 of the Brown Testimony, the reasons that Delta's utility customers not directly using or benefitting from the facilities should subsidize any level of Delta's CNG fueling infrastructure that is not covered within the rates charged the owners of CNG-powered vehicles are (i) the CNG Station will be utilized to fuel Delta service vehicles, a regulated utility activity and (ii) to support energy policy that would enable the benefits discussed in response to the following questions in the Brown Testimony:

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Page 2 line 19

Page 4 line 19

Page 4 line 28

The study included as Exhibit III to Brown Testimony (page 13) also lists additional benefits to all customers:

- Increased pipeline system efficiency
- Reductions in life cycle emissions
- Contribute to the national effort for energy security, increased employment, and balance of payments as a result of switches to a domestic fuel
- Having bi-fuel vehicles will mitigate Delta's exposure to having a single fuel used in its vehicles. This benefits Delta's customers in an emergency situation.

All of these benefits affect all customer classes or provide broad social benefits, justifying the rate-basing of this station.

The Kentucky Cabinet for Economic Development has recently awarded this project a \$250,000 tax credit through its Office of Compliance, Financial and Administrative Services Incentive Assistance Division. If this station is built, the State of Kentucky will reimburse the Company (and thus ultimately Delta's customers) up to \$250,000 of future taxes paid. Much like Delta believes that good energy policy justifies its entire customer base paying for this project, the Commonwealth of Kentucky has determined that good energy policy has justified that its entire tax base should support this project, regardless of whether the taxpayer is in Berea or Paducah.

The Company's hope is that the same energy policy that has justified the Kentucky Cabinet for Economic Development making this project a priority of theirs will be adopted by the Commission.

While there are many unknowns associated with building a facility where there is little commitment for a market, Delta believes that the benefits of having a CNG station on Delta's system, if successful, far outweigh the rate impact of \$2.24 per year (Wesolosky Testimony page 4) per residential customer that is being requested in this proceeding. The \$2.24 will be reduced by the \$250,000 in tax credits recently offered by the Commonwealth of Kentucky and assumes having no customers. To the extent Delta experiences savings from its own fleet converting to CNG and additional customers are attracted, that subsidy will become less than \$2.24 a year. All revenues, both for transportation and sales at the pump, will be included in future rate cases. Thus, if successful, this CNG station would provide a return greater than the present 10.4%

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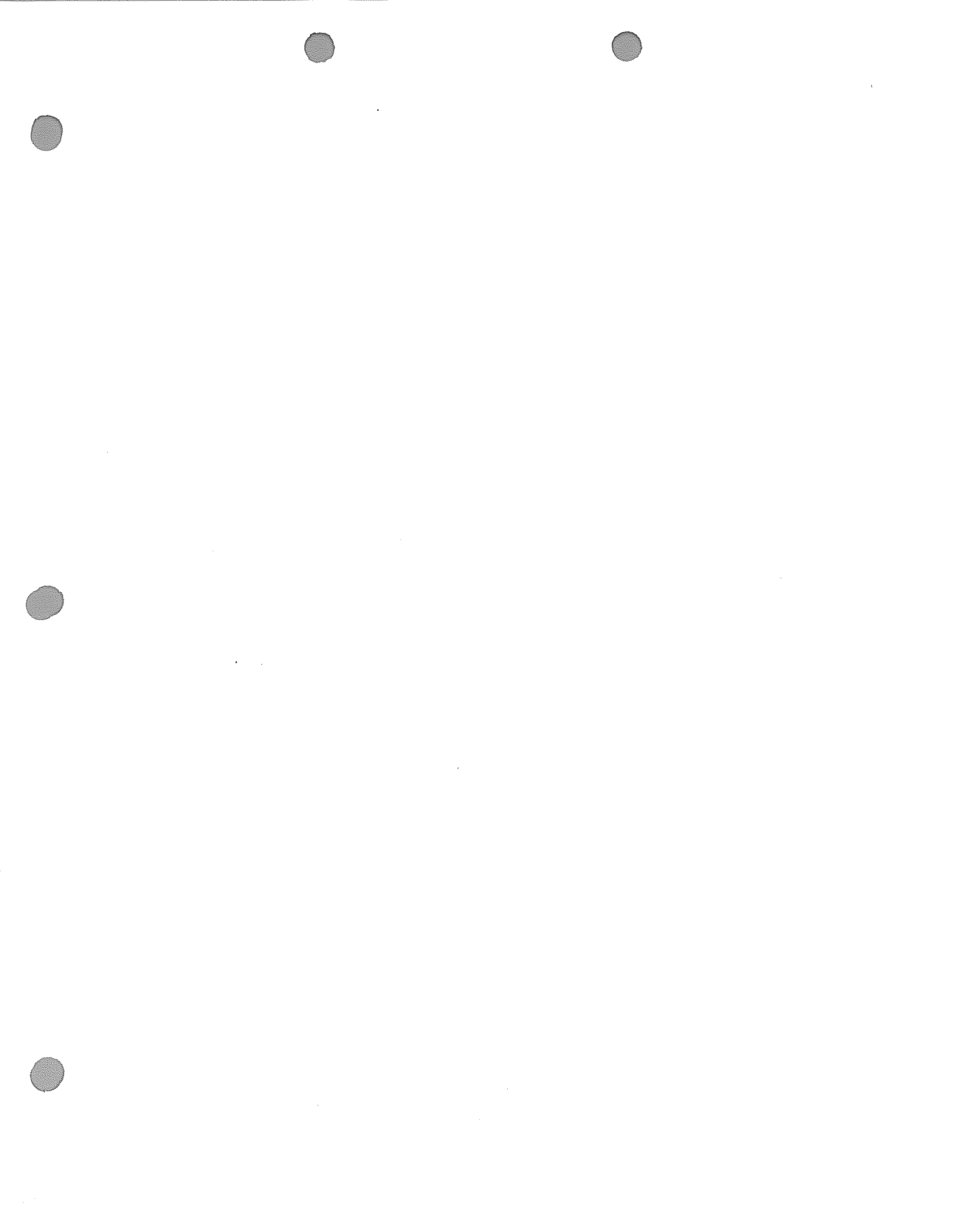
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allowed and thus would actually reduce rates to customers. In that case there would be no CNG subsidy. The \$2.24 rate impact assumes the investment and no usage at all, the worst case scenario.

In this proceeding, Delta is asking to only build this one station. Delta urges the Commission to approve the building of this single station as a pilot project for CNG in Kentucky. A pilot project will give the Commission and Delta the data to better determine the necessary regulatory model to encourage the future development of CNG infrastructure in Kentucky.

Sponsoring Witness:

John B. Brown



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6. State whether Delta's sales or transportation tariffs as currently structured would permit the resale of natural gas as a motor vehicle fuel. If not, state whether such a tariff revision, similar to that proposed by Atmos Energy Kentucky in Case No. 2013-00148, would sufficiently enable the provision of CNG services through commercial enterprises not related to or affiliated with Delta.

Response:

Delta's sales or transportation tariffs as currently structured would not, under most circumstances, easily facilitate the resale of natural gas as a motor vehicle fuel. Rule No. 15 of Delta's tariff currently provides that "Customer shall not sell the gas purchased from the Company to any other customer, company or person." The applicability of Delta's current sales and transportation tariffs is set forth below.

Residential—would not apply because CNG stations reselling natural gas as a motor vehicle fuel would be Non-Residential. Use by home-based fueling stations, though, would be billed under the Residential Tariff.

Small Non-Residential—could apply in the unlikely case that the CNG station would desire firm service.

Large Non-Residential—could apply in the unlikely case that the CNG station would desire firm service and their usage would require a meter larger than AL425.

Interruptible—this rate is structured with a \$250 per month customer charge which makes using this rate schedule advantageous only in cases of large usage. CNG stations, at least initially, would likely not have usage to warrant the higher customer charge.

On System Transportation—this tariff requires a daily nominated volume which averages a minimum of 250 Ccf of gas per day. CNG stations, at least initially, would likely not have the usage to meet this minimum usage requirement.

The proposed Atmos tariff revision would not sufficiently enable the provision of CNG services through commercial enterprises not related to or affiliated with Delta. While the Atmos language "no gas delivered under this rate schedule and applicable contract shall be available for resale to anyone other than an end-user for use as a motor vehicle fuel" does indicate that the tariff contemplates having a CNG station as a customer, it does nothing to address the practical considerations for attempting to apply each of Delta's tariffs to a CNG Station, as listed above. In addition, the Atmos language does not

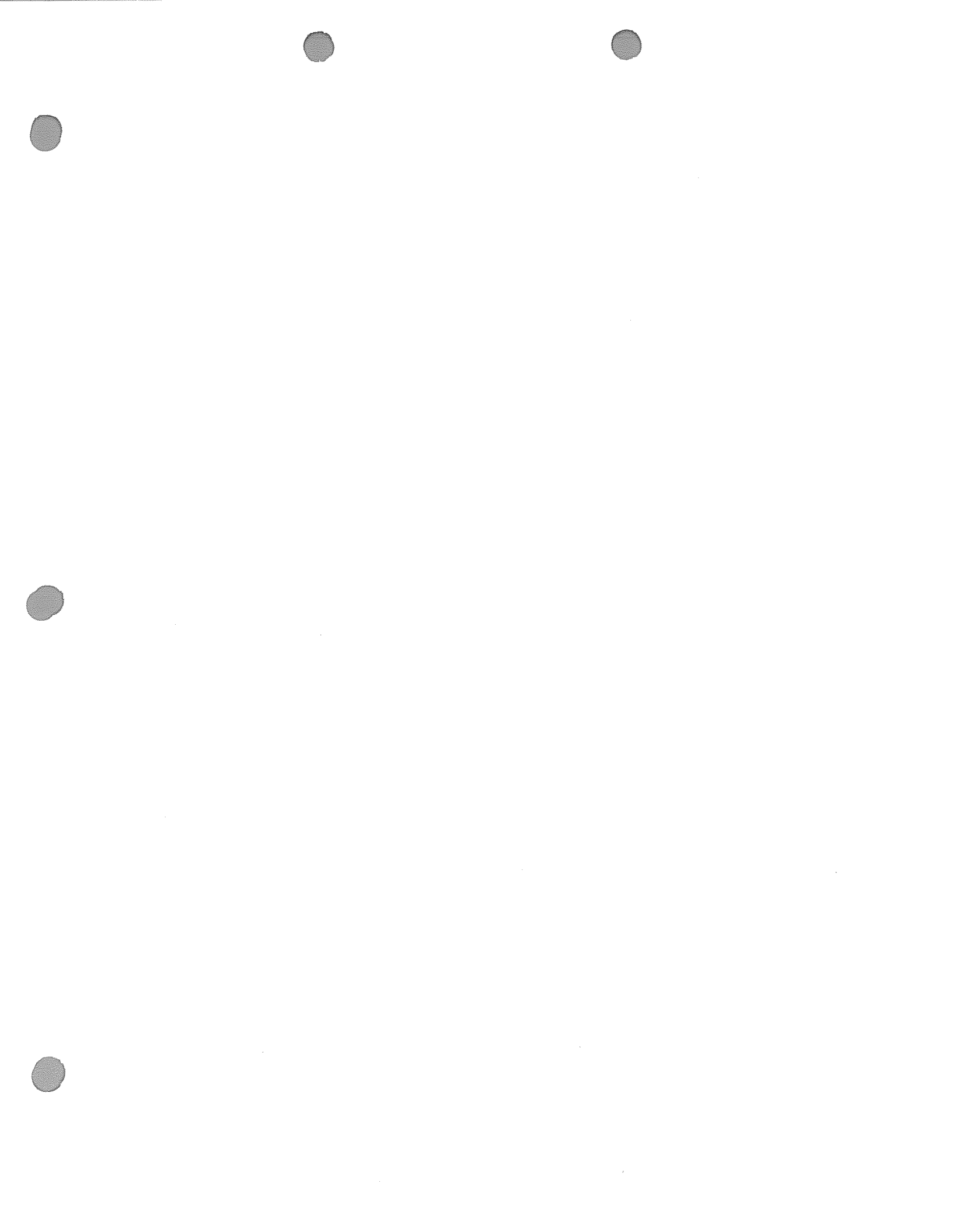
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provide for flexible rates as permitted by KRS 278.508(2) as discussed on page 12 line 1
in Brown Testimony.

Sponsoring Witness:

John B. Brown



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7. How many CNG-powered vehicles does Delta estimate are currently operating within the service area of its proposed CNG fueling station? Are there other known CNG fueling stations proposed in the area by either regulated or private investors?

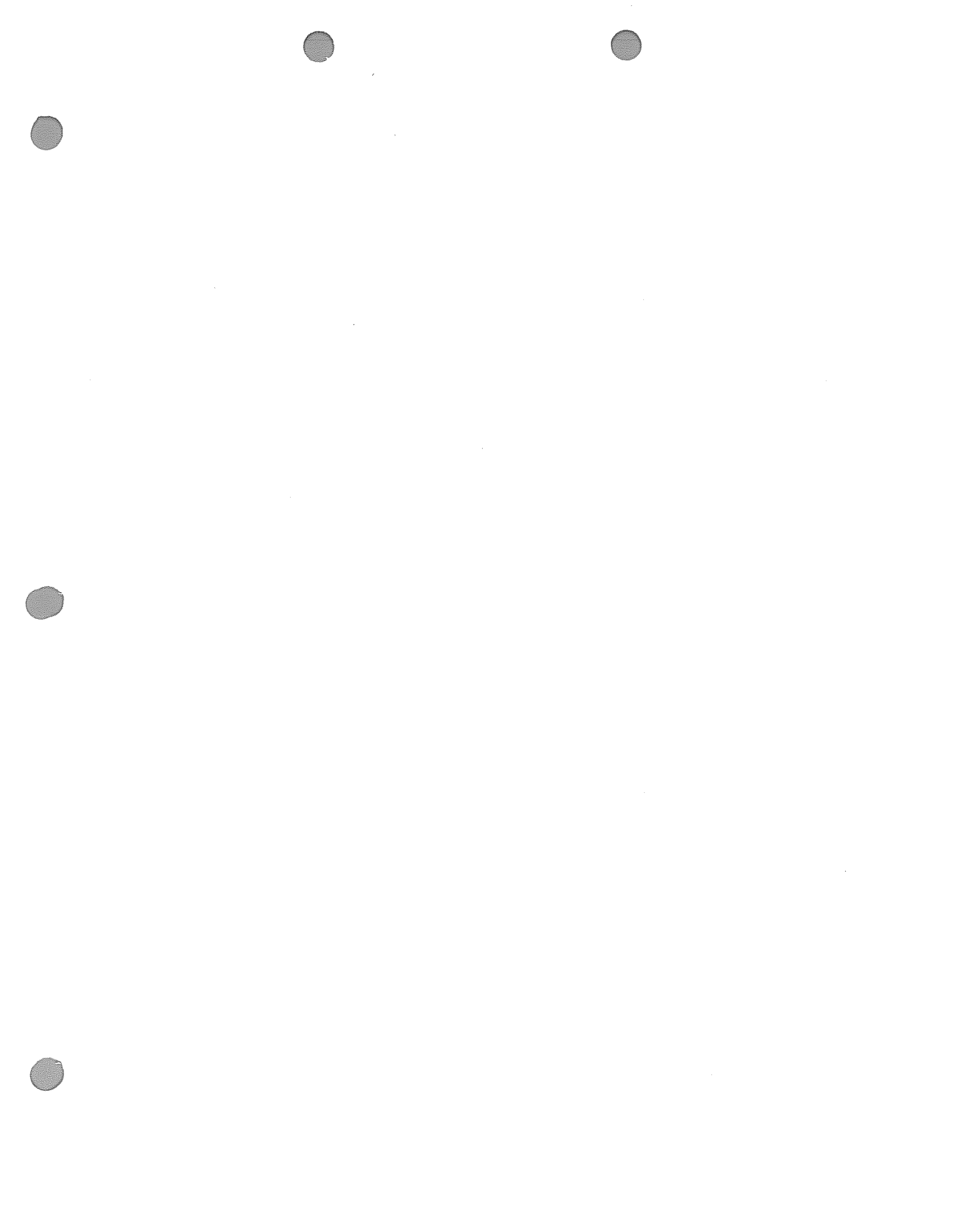
Response:

The service area of Delta's proposed CNG fueling station is the general vicinity of Berea, Kentucky. There are no other known present or proposed CNG fueling stations in the Berea area by either regulated or private investors.

Being no known present CNG fueling stations in the Berea area, Delta estimates there are no CNG-powered vehicles currently operating within the Berea service area.

Sponsoring Witness:

John B. Brown



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8. Refer to the Direct Testimony of Jonathan W. Morphey, page 8, lines 15-17. Provide the amounts for electric service, dispenser repairs, compressor oil and filter changes, and natural gas filter replacements used to arrive at the \$20,000 annual operation cost for the CNG fueling station.

Response:

Delta has not performed a cost study related to CNG station operation and maintenance costs. The annual operational cost was derived by interviewing another utility currently operating a CNG station and a vendor which installs CNG facilities.

Sponsoring Witness:

Jonathan Morphey



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9. List and describe all safety concerns Delta has considered in conjunction with operation of a CNG fueling station.

Response:

The facility will be constructed in accordance with all codes as depicted in NFPA 52 - Vehicle Gaseous Fuel Systems Code.

The facility will be equipped with an ESD (emergency shutdown) system for public use in the event of a safety concern.

The dispensers will be equipped with external break-away safety devices to prevent natural gas from escaping, in the event a customer damages a fueling hose.

The facility will provide two entrances to allow for easier access to and from the fueling area. Each entrance will have two lanes. In the event of a safety concern, this will facilitate entering and exiting the facility.

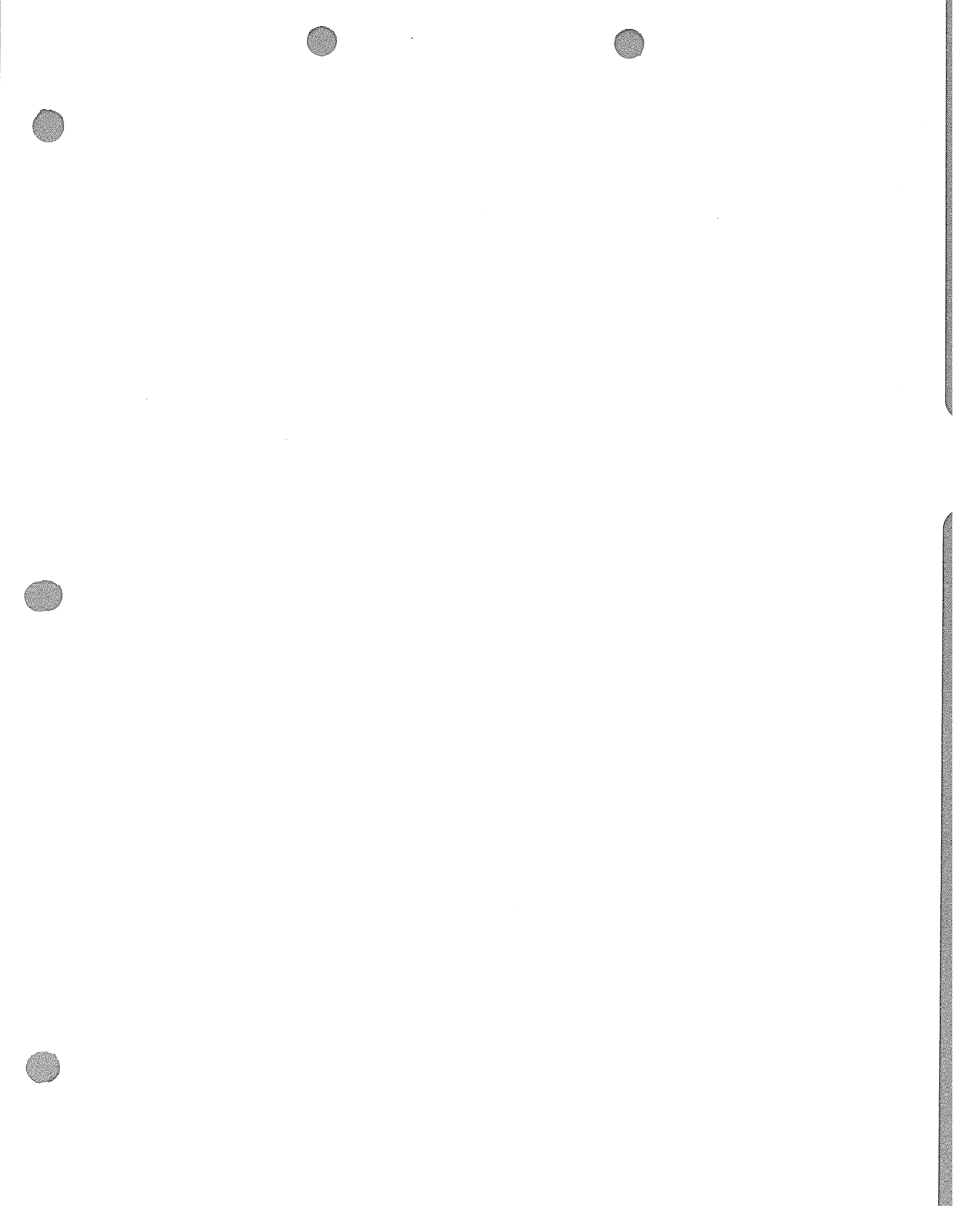
The facility will be located approximately 150 feet from the nearest street. This will decrease the likelihood of any vehicles accidentally leaving the street and damaging the facility. All compressors and storage containers will be located behind Delta's existing building thus providing even greater protection from vehicle damage.

There will not be any natural gas lines located on public right of way pertaining to the facility. This decreases any concern of an outside party excavating in the vicinity of the pipelines and damaging them.

The facility will be located immediately adjacent to Delta's Berea District Office, thereby having some Delta personnel close at hand during normal business hours in case of emergency.

Sponsoring Witness:

Jonathan Morphew



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10. Explain when Delta anticipates the CNG fueling station will bring in more revenue than the level of expenses incurred, and become profitable.

Response:

On page 5 of the Wesolosky testimony, the fuel savings for a company-owned vehicle was reported to be \$4,200 per year. This estimate excluded the impact of Federal and state taxes on CNG as a motor vehicle fuel and the incremental depreciation expense resulting from the higher cost of a CNG vehicle. Taking into account these items the actual savings per vehicle is \$2,745, calculated as follows:

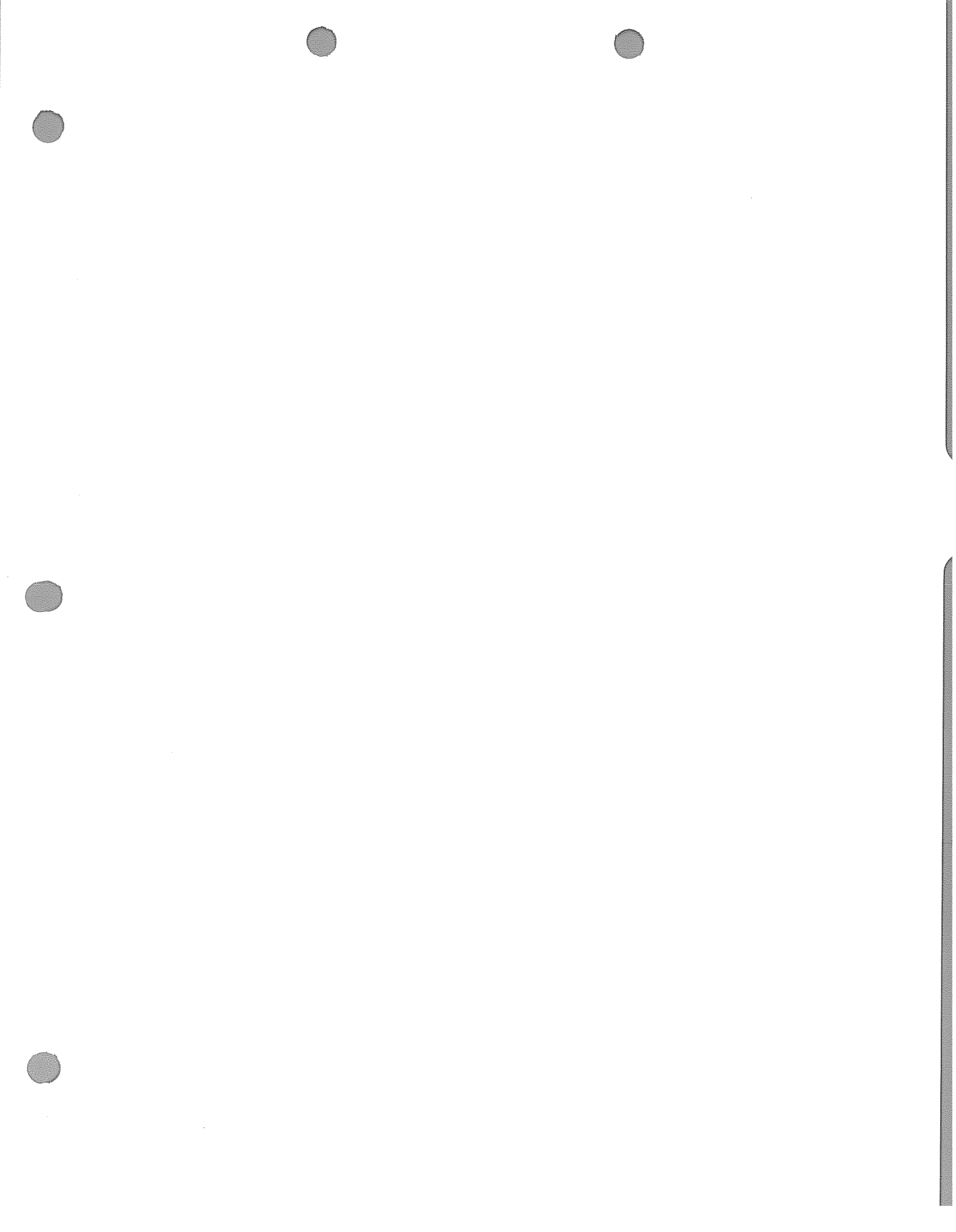
Savings, as reported	\$ 4,200	
Federal tax	(275)	(18.3 cents per gallon *1,500 gallons)
State tax	(419)	(27.9 cents per gallon *1,500 gallons)
Depreciation expense	<u>(761)</u>	(\$9,350 increased cost per CNG vehicle *8.14% depreciation rate)
Revised savings	\$ 2,745	

Therefore, if Delta replaces eleven vehicles in the short-term, the expected savings are \$30,195 per year. Total expenses for the station are estimated to be \$75,170, per Exhibit II, Schedule III of the Wesolosky Testimony. After subtracting the annual cost savings of \$30,195 from the \$75,170 of annual operating costs, \$44,975 of costs remain in addition to \$153,212 of return which need to be recovered from sales to public vehicles. Page 6 of the Wesolosky testimony states the average light-duty vehicle would contribute \$900 annually towards the revenue requirement. Based on this estimate, 50 public vehicles would be required to cover the \$44,975 of costs and 171 public vehicles would be required to cover the \$153,212 of return.

However, since it depends upon future usage by Delta and others, the time frame for when revenue would exceed expenses is unknown.

Sponsoring Witness:

Matthew D. Wesolosky



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11. Identify the costs incurred to convert a vehicle to use CNG and explain if the cost is the same for different types of vehicles.

Response:

It is our intent to replace existing vehicles with new CNG equipped vehicles that are dual fuel. The actual cost to convert an existing vehicle to natural gas is not being considered and has not been determined at this time.

Sponsoring Witness:

Jonathan Morphey



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12. What is the length of time required to upgrade a vehicle so that the vehicle can use CNG? How long will the CNG fueling station be sitting idle before any of Delta's vehicles are converted to use CNG?

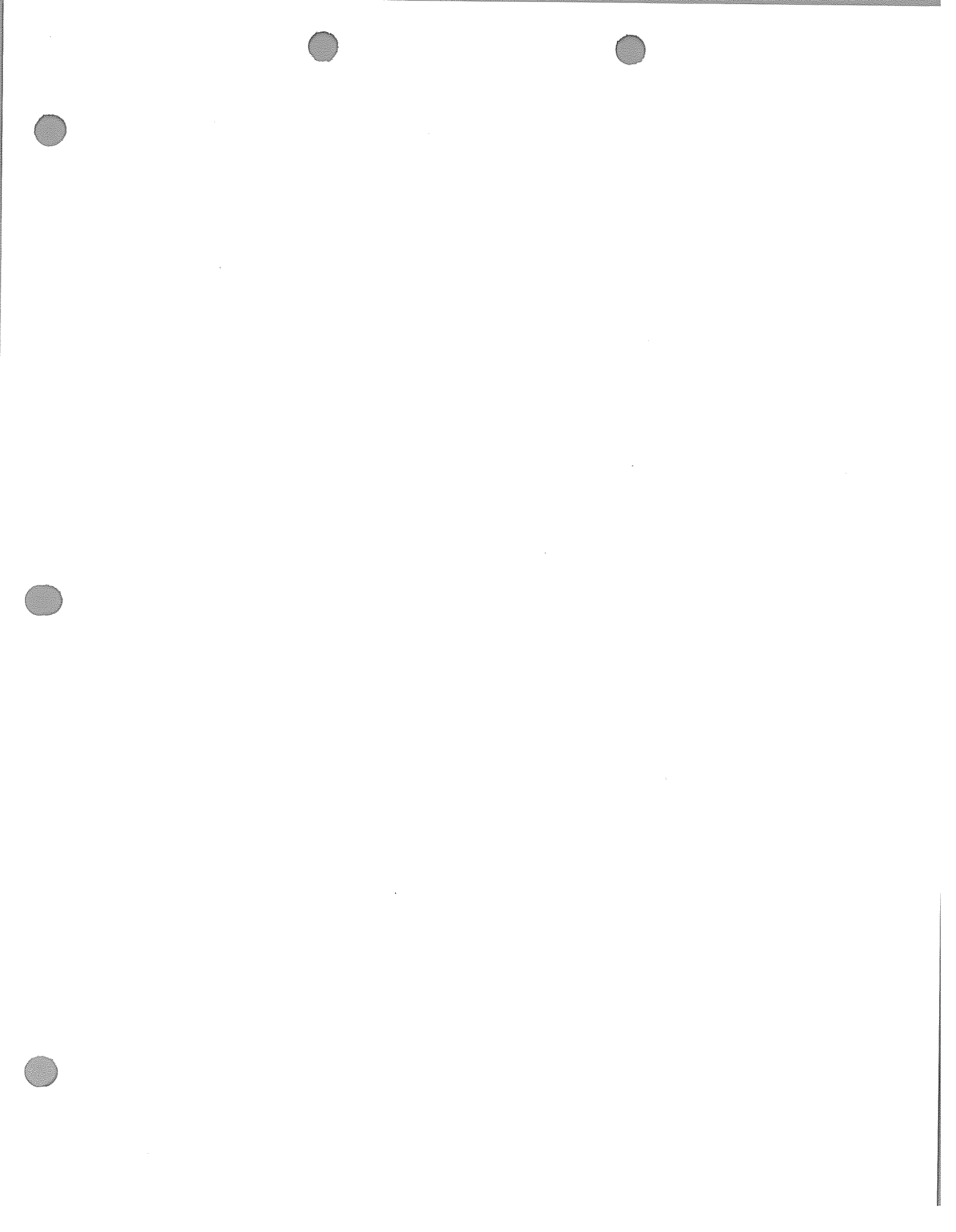
Response:

The length of time to upgrade an existing vehicle has not been determined at this time, see response to Question 11.

We plan to have new CNG vehicles in Delta's fleet prior to the completion of the CNG facility. We do not anticipate the station being idle for any length of time before its utilization.

Sponsoring Witness:

Jonathan Morpew



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13. Refer to the Brown Testimony, pages 3-4, specifically referring to the State of Utah's efforts to become a leader in CNG. Is Delta aware that the Utah PSC has recently filed a Report that includes the following: "The PSC recommends Utah's utility rates remain free of costs that are not related to or required by the provision of public utility service."

Response:

Delta was not previously aware of the cited report.

Sponsoring Witness:

John B. Brown



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14. Has Delta investigated CNG fueling stations and CNG vehicles in any other states? If yes, describe, generally, the current status of each in all such states.

Response:

Delta has monitored CNG development through its involvement with the American Gas Association and involvement with NGV America. Delta has inquired of Questar, Vectren, Piedmont and Atlanta Gas Light about their CNG facilities and development of CNG.

Delta visited Questar in Utah in October, 2012. Questar has developed an extensive station network in the Salt Lake City, Utah area. They have 30 stations in Utah and Wyoming owned and operated by Questar Gas Company.

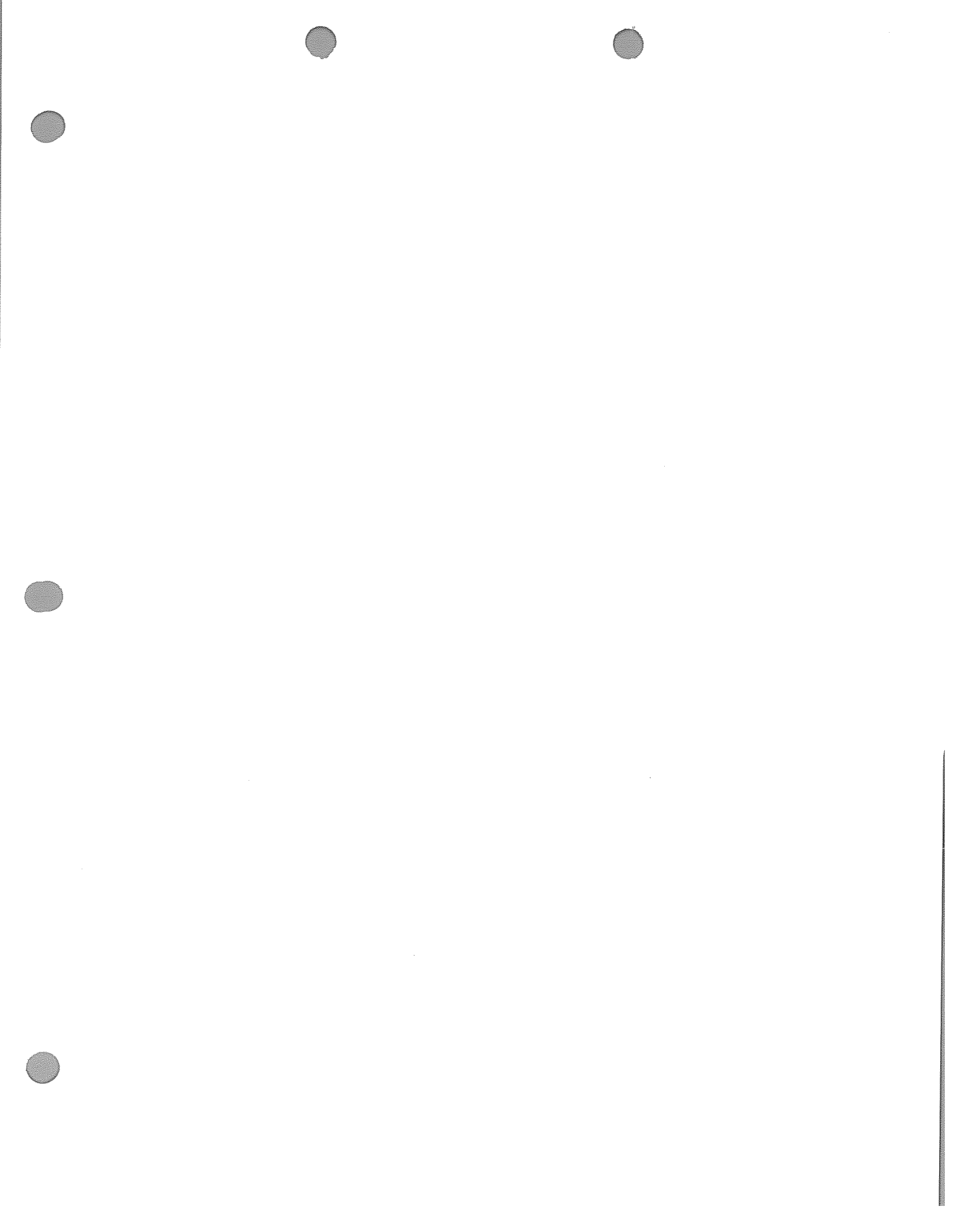
Delta visited Vectren in Indiana in February, 2013. Vectren has a station in Evansville, Indiana and is developing plans for a CNG station in its service area in Ohio.

Delta visited Piedmont Natural Gas in November, 2012. Piedmont Natural Gas has developed and is continuing to develop CNG stations in North and South Carolina and Tennessee. They have 6 stations in North Carolina, 2 in South Carolina and 1 in Tennessee with a second one planned there.

Delta spoke with Atlanta Gas Light in latter 2012 and since by phone. Atlanta Gas Light has developed and is continuing to develop CNG stations in Georgia. They have approximately 10 older stations from the 1990's and are developing and installing 7 new stations over the next year in Georgia. One of these is complete.

Sponsoring Witness:

Glenn R. Jennings



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15. State whether Delta previously owned and operated a CNG fueling station to fuel its own vehicles. If so, state whether Delta ever explored making those facilities available to CNG-powered vehicles owned by others. Explain.

Response:

Delta installed a CNG station in the Corbin area in 1990. Delta converted its vehicle fleet in that general area to operate on CNG (dual fuel vehicles). Delta did not install this station with the intention and capacity to make it a public station, as there was no public market known to Delta in that area.

Delta later installed dispenser pumps to measure gas used. No public market developed in that Corbin area. Delta has considered upgrading and/or replacing this Corbin station. But, a station is planned by a third party and under development in Corbin that Delta could use to fuel its future CNG vehicles. Thus, Delta has no current plans to upgrade that station, and instead plans to spend that money on its Berea station.

Delta's CNG use with its old Corbin station gave Delta experience with CNG. We believe, with CNG developments occurring since 1990, that it is in Delta's and our customers' best interest for Delta to install this new station in Berea.

Sponsoring Witness:

Glenn R. Jennings