



**STOLL
KEENON
OGDEN**
PLLC

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LEXINGTON, KY 40507-1801
MAIN: (859) 231-3000
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RECEIVED

JAN 23 2014

**PUBLIC SERVICE
COMMISSION**

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

January 23, 2014

HAND DELIVERED

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

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

Dear Mr. Derouen:

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

Sincerely,

Robert M. Watt, III

rmw:rmw

Enclosures

cc: Mr. John B. Brown (w/o encl.)
Counsel of Record (w/encl.)

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JAN 23 2014

PUBLIC SERVICE
COMMISSION

VERIFICATION

COMMONWEALTH OF KENTUCKY)

)

SS:

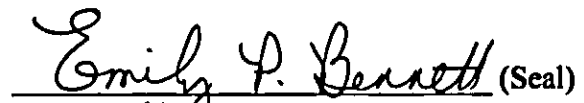
COUNTY OF CLARK)

)

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 22nd day of January 2014.

 (Seal)
Notary Public

My Commission Expires:

6/20/2016



VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF CLARK)

The undersigned, Glenn R. Jennings, being duly sworn, deposes and says that he is Chairman of the Board, President and CEO 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.

Glenn R. Jennings
Glenn R. Jennings

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of January 2014.

Emily P. Bennett (Seal)
Notary Public

My Commission Expires:

6/20/2016



VERIFICATION

COMMONWEALTH OF KENTUCKY)
COUNTY OF CLARK)
SS:

The undersigned, Jonathan W. Morphey, being duly sworn, deposes and says that he is Manager of Engineering 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.

Jonathan W. Morphey (handwritten signature)
Jonathan W. Morphey (printed name)

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of January 2014.

Emily P. Bennett (handwritten signature) (Seal)
Notary Public



My Commission Expires:

6/20/2016 (handwritten date)

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF CLARK)

SS:

The undersigned, **Matthew D. Wesolosky**, being duly sworn, deposes and says that he is Vice President - Controller 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.

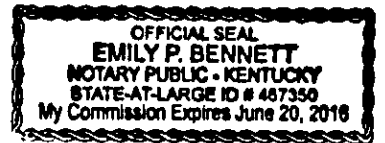
Matthew D. Wesolosky
Matthew D. Wesolosky

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of January 2014.

Emily P. Bennett (Seal)
Notary Public

My Commission Expires:

6/20/2016



**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00365**

**SECOND PSC DATA REQUEST
DATED JANUARY 10, 2014**

1. Refer to the response to Item 1, part b., of the Commission Staff's First Request for Information ("Staff's First Request") which indicates that Delta's capital projects totaled \$7.2 million in its 2013 fiscal year. Provide the total amount of Delta's capital expenditures for each of the years from 2009 through 2012.

Response:

2009	\$8.4 million
2010	\$5.3 million
2011	\$8.1 million
2012	\$7.3 million

Sponsoring Witness:

John B. Brown

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00365**

**SECOND PSC DATA REQUEST
DATED JANUARY 10, 2014**

2. Refer to the attachment to the response to Item 4 of Staff's First Request. Explain how Delta developed the incremental cost of \$9,350 for all the different vehicles that will operate on natural gas.

Response:

Delta contacted a Chevrolet/Ford dealership from whom Delta purchases a portion of its fleet vehicles. The dealership provided Delta with the cost to purchase each vehicle as either a traditional gasoline model or a dual fuel (gasoline/CNG) model. The dual fuel is an option package added by the manufacturer to each vehicle and is the same cost for each vehicle.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00365

SECOND PSC DATA REQUEST
DATED JANUARY 10, 2014

3. Refer to Delta's Response to Item 5 of Staff's Initial Request for Information ("Staff's Initial Request") and Delta's Response to Item 89 of the Attorney General's First Request for Information ("Attorney General's First Request") regarding Delta's award of a \$250,000 tax credit from the Kentucky Cabinet for Economic Development through its Office of Compliance, Financial and Administrative Services Incentive Assistance Division ("Cabinet for Economic Development").
 - a. Provide a list identifying all types of taxes to which the \$250,000 credit awarded by the Cabinet for Economic Development can be applied.
 - b. Provide all documentation submitted by or on behalf of Delta to the Cabinet for Economic Development seeking financial incentives for its proposed Compressed Natural Gas ("CNG") Station, including, but not limited to, all correspondence, applications, and supportive documentation.
 - c. Provide all documentation Delta has received from the Cabinet for Economic Development regarding any and all financial incentives pertaining to its proposed CNG Station.
 - d. Provide all documentation Delta has submitted to or received from any entity other than the Cabinet for Economic Development regarding financial incentives for its proposed CNG Station.

Response:

- a. The \$250,000 credit awarded by the Cabinet for Economic Development is through the Incentives for Energy Independence Act Tax Incentive Program which offers incentives on sales tax, payroll taxes, income taxes and natural gas severance taxes.
- b. See attached for the Application for Incentives for Energy Independence Act (IEIA) Tax Incentive Program filed with the Kentucky Cabinet for Economic Development (Attachment I) and the Amended Application for Incentives (Attachment II).
- c. See Attachment III preliminary approval from the Cabinet for Economic Development and draft Memorandum of Agreement between KEDFA and Delta.
- d. See Attachment IV for all email correspondence related to the tax incentives.

Sponsoring Witness:

Matthew D. Wesolosky

**APPLICATION FOR INCENTIVES FOR
ENERGY INDEPENDENCE ACT (IEIA) TAX
INCENTIVE PROGRAM**

For Office Use Only	
_____	Department for New Business Development
_____	Department for Existing Business Development
_____	Date forwarded to Office of Energy Policy
_____	Date forwarded to Department of Revenue

October 21, 2013
Date of Application

1. Applicant Information (entity applying for tax incentives):

Company Name Delta Natural Gas Company, Inc.				
Street or P. O. Box 3617 Lexington Road, Winchester	City Clark	County Clark	State KY	Zip Code 40391
Federal Employer ID Number 61-0456329	Kentucky Employer ID Number 005944	NAICS Code 221210		
Contact Person Matthew D. Wesolosky	Telephone 859-744-6171	Fax		
E Mail Address mwesolosky@deltagas.com		Company Web Address www.deltagas.com		

2. Is this an expansion of an existing facility or a new location? Expansion New Location Start-Up

3. Type of Facility: Alternative Fuel using Coal
 Gasification Facility using Coal
 Alternative Fuel using Biomass Resources
 Gasification Facility using Biomass Resources
 Renewable Energy Facility Type: Compressed Natural Gas Station
 Carbon Dioxide Transmission Pipeline

Seeking Advanced Disbursement? Y N

4. Project Location, if different from above:

Street 129 Glades Road Berea	City Berea	County Madison	State KY	Zip Code 40403
Contact Person Matthew D. Wesolosky	Telephone 859-744-6171	Fax	E Mail Address mwesolosky@deltagas.com	

5. Company Organization:

Subchapter S-Corporation Subchapter C-Corporation Partnership Type: _____
 Limited Liability Partnership Limited Liability Company Proprietorship

Date Business Established: 10/7/1949 Company's Fiscal Year End: June 30
 State of Incorporation or Organization: KY Date Incorporated or Organized: 10/7/1949
 Registered Agent Name / Address:
John B. Brown
3617 Lexington Road, Winchester KY 40391

If publicly traded, identify: Exchange: NASDAQ Symbol: DGAS

6. Company Ownership:

Please identify all owners of the company with 20% or more interest in the company and provide Social Security Number and Date of Birth. If owners are legal entities, please identify the officers serving on the board of directors, management committee of the applicant or other governing body or appropriate principals with governing oversight of the applicant entity and provide their Social Security Number and Date of Birth. The Cabinet may run a background check on individuals identified. If necessary, please submit listing on a separate document.

Name	City	State	SSN	Ownership Percentage
NONE				
Name	City	State	SSN	Ownership Percentage
Name	City	State	SSN	Ownership Percentage
Name	City	State	SSN	Ownership Percentage
Name	City	State	SSN	Ownership Percentage

7. Has the applicant, or any owner or affiliate of the applicant ever been convicted of any criminal offenses, been in receivership or adjudicated a bankruptcy, been denied a business related license or had a business related license suspended or revoked by any administrative, governmental or regulatory agency?

Y N

If yes, please list violation and explain: _____

8. Person to Review Legal Documents:

Applicant Attorney Stoll Keenon Ogden		Contact Person Robert M. Watt	
Street or P. O. Box 300 W Vine, Suite 2100	City Lexington	State KY	Zip Code 40507
Telephone 859-231-3000	Fax	E Mail Address Robert.Watt@skofirm.com	

9. Accountant:

Accountant Matthew D. Wesolosky		Contact Person	
Street or P. O. Box 3617 Lexington Road	City Winchester	State KY	Zip Code 40391
Telephone 859-744-6171	Fax	E Mail Address mwesolosky@deltagas.com	

10. Has the applicant previously participated in other Kentucky incentive programs? Y N
If yes, please indicate program, location, amount and approximate date:

11. Does applicant (or parent company) have any other operations in Kentucky? Y N
If yes, please list name and location of other operations:

Yes, Delta distributes or transports natural gas throughout central Kentucky. Delta has physical locations in Winchester, Berea, Corbin, Middlesboro,
Nicholasville, Owingeville, Barbourville, Stanton, London, Williamsburg and Manchester

12. New Location Project Information:
(Complete this section if the project constitutes a new location for the applicant)

Project Site Acreage	2.0
Building Square Footage	

* Is the property to be acquired through:

- Title to property
- Capital Lease
- Operating Lease
- Easement

* Pursuant to Subchapter 27 of KRS Chapter 154, an applicant must certify that this project would not locate in the Commonwealth but for the incentives being offered. Any public announcement or legal commitment (i.e. lease or contract) without appropriate contingencies will jeopardize eligibility for incentives. ** We encourage you to check with our staff to confirm that proper contingency language is in place before entering into legal obligations regarding location of the project or making any public announcements regarding a new facility location.

** See Statement 4

Is the facility:

- New construction
- Acquisition

Is there an option or contract to purchase the property?

If yes, please explain.

- Y N Option
- Y N Contract

13. Upgrade or Retrofit Project Information:

(Complete this section only if the project involves the upgrade or retrofit of an existing Kentucky facility.)

Does the project involve relocation from an existing Kentucky facility?

Y N

If yes, is real estate available at or adjacent to the existing facility?

Y N

Does the project involve additions or renovations to existing buildings?

Y N

Present Acreage	
Increased New Acreage	
Total Acreage	

Present Square Footage	
Increased Square Footage	
Total Square Footage	

If you own the site, indicate: Date of Purchase _____ Purchase Price _____

If you lease the site, indicate record owner of real estate:

Lessor Name: _____

Address: _____

Lease Terms: *List terms, monthly rent and length of lease*

Existing lease terms:

Lease terms after expansion:

14. Project Financial Information

Estimated Project Costs

FIXED ASSET COST

Land	_____ Acres	\$
Building (new construction/additions)		\$
Improvements (existing buildings)		\$
Equipment (including installation cost)		\$1,293,100
Building Fixtures		\$
Easement Costs (if a pipeline project)		\$
Other (describe)		\$
Total Fixed Assets		\$1,293,100

FIXED ASSET FINANCING SOURCES:

Bank Loan	<u>Short-term line of credit</u>	\$646,550
Bond Issue	_____	\$
Federal Grants		\$
State Grants		\$
Other Grants (describe)	_____ _____	\$
Equity		\$646,550
Total Asset Financing Sources		\$1,293,100

14. Investment Schedule

Anticipated Project Start Date: April 2014

Anticipated Project Completion Date: October 2014

Estimated Annual Investment

Year 1	1,293,100
Year 2	
Year 3	
Year 4	
Year 5	
Total	1,293,100

15. Products to be Produced

Describe the type of products produced currently and the types of products to be produced after construction, retrofit, or upgrade including the processes.

Delta proposes to install a compressed natural gas station used to fuel compressed natural gas vehicles.

Delta does not currently transport or distribute natural gas for use as a vehicle fuel.

Will electricity be produced? Y N Will it be produced for sale? Y N

16. Planned Facility Capacity

Anticipated Maximum Facility Capacity *before* and *after* Construction, Retrofit, or Upgrade:

	Before	After
Product <u>Natural Gas</u> :	<u>0</u>	<u>888,000 GGE**</u>
Product _____ :	_____	_____
Product _____ :	_____	_____

17. Estimated Facility Output

Estimated Annual Facility Output

Product 1: <u>Natural Gas (GGE)***</u>	Product 2: _____	Product 3: _____
Year 1 <u>174,000</u>	Year 1 _____	Year 1 _____
Year 2 <u>174,000</u>	Year 2 _____	Year 2 _____
Year 3 <u>174,000</u>	Year 3 _____	Year 3 _____
Year 4 <u>174,000</u>	Year 4 _____	Year 4 _____
Year 5 <u>174,000</u>	Year 5 _____	Year 5 _____
Year 6 <u>174,000</u>	Year 6 _____	Year 6 _____
Year 7 <u>174,000</u>	Year 7 _____	Year 7 _____
Year 8 <u>174,000</u>	Year 8 _____	Year 8 _____
Year 9 <u>174,000</u>	Year 9 _____	Year 9 _____
Year 10 <u>174,000</u>	Year 10 _____	Year 10 _____
Year 11 <u>174,000</u>	Year 11 _____	Year 11 _____
Year 12 <u>174,000</u>	Year 12 _____	Year 12 _____
Year 13 <u>174,000</u>	Year 13 _____	Year 13 _____
Year 14 <u>174,000</u>	Year 14 _____	Year 14 _____
Year 15 <u>174,000</u>	Year 15 _____	Year 15 _____
Year 16 <u>174,000</u>	Year 16 _____	Year 16 _____
Year 17 <u>174,000</u>	Year 17 _____	Year 17 _____
Year 18 <u>174,000</u>	Year 18 _____	Year 18 _____
Year 19 <u>174,000</u>	Year 19 _____	Year 19 _____
Year 20 <u>174,000</u>	Year 20 _____	Year 20 _____
Year 21 <u>174,000</u>	Year 21 _____	Year 21 _____
Year 22 <u>174,000</u>	Year 22 _____	Year 22 _____
Year 23 <u>174,000</u>	Year 23 _____	Year 23 _____
Year 24 <u>174,000</u>	Year 24 _____	Year 24 _____
Year 25 <u>174,000</u>	Year 25 _____	Year 25 _____
Total <u>4,350,000</u>	Total _____	Total _____

*Please Note: Attach additional sheets if necessary to show all products produced.

** GGE - Gasoline Gallons Equivalent

*** Represents the estimated minimum output required for sustainability of the project

19. Proposed Feedstocks

Describe types of feedstocks to be used in the production of Alternative Fuel/Gasification or Renewable Energy and projected sources.

none.

Estimated Annual Volume of Feedstocks Used

Feedstock 1: _____	Feedstock 2: _____	Feedstock 3: _____
Year 1	Year 1	Year 1
Year 2	Year 2	Year 2
Year 3	Year 3	Year 3
Year 4	Year 4	Year 4
Year 5	Year 5	Year 5
Year 6	Year 6	Year 6
Year 7	Year 7	Year 7
Year 8	Year 8	Year 8
Year 9	Year 9	Year 9
Year 10	Year 10	Year 10
Year 11	Year 11	Year 11
Year 12	Year 12	Year 12
Year 13	Year 13	Year 13
Year 14	Year 14	Year 14
Year 15	Year 15	Year 15
Year 16	Year 16	Year 16
Year 17	Year 17	Year 17
Year 18	Year 18	Year 18
Year 19	Year 19	Year 19
Year 20	Year 20	Year 20
Year 21	Year 21	Year 21
Year 22	Year 22	Year 22
Year 23	Year 23	Year 23
Year 24	Year 24	Year 24
Year 25	Year 25	Year 25
Total	Total	Total

*Please Note: Attach additional sheets if necessary to show all feedstocks to be used.

20. Permits

Please list all required federal and state permits including type of permit, issuing agency, application date, and anticipated award date.

Type of Permit	Issuing Agency	Application Date	Anticipated Award Date
Regulatory approval	Kentucky Public Service Commission	October 1, 2014	November, 2014
Permit To Install Compressed Natural Gas Fueling Facilities	Public Protection Cabinet; Department of Housing, Buildings and Construction; Division of Fire Prevention - Hazardous Materials Section	To be filed subsequent to regulatory approval	
Local Building Permits	City of Berea	To be filed subsequent to regulatory approval	

21. Please complete this section if constructing a carbon dioxide transmission pipeline.

Date of Construction Certificate from the Kentucky State Board on Electric Generation and Siting: NA

Please attach copy of the Construction Certificate and a list of counties involved.

NA

IEIA Wage Assessments **See Statement 9 attached to this application**

Post Construction Employment, Wage and Benefit Projections:

NA - see Statement 8 included with this application	All Full-Time Employees*	KY Resident Full-Time Employees*
(1) Current Number of Jobs at Project Location		
(2) Total New Jobs to be Created		
(3) Total Jobs Projected (1+2)		

* Full-time employees are persons employed by the company for at least 35 hours per week

Will the applicant provide employee benefits as part of the compensation package? Y N

Will all full-time employees be covered in the employee benefit plan? Y N

Indicate employee benefits the applicant will contribute to:

- | | |
|---|---|
| <input type="checkbox"/> Life Insurance | <input type="checkbox"/> 401 K |
| <input type="checkbox"/> Health Insurance | <input type="checkbox"/> Other Retirement |
| <input type="checkbox"/> Vision Insurance | <input type="checkbox"/> Cafeteria Plan |
| <input type="checkbox"/> Dental Insurance | <input type="checkbox"/> Other (Please Explain) _____ |

Category of Kentucky resident jobs to be created (state number of jobs in each category):

Job Category	Number of Kentucky Resident Jobs	Base Hourly Wage (exclusive of benefits, bonuses, or any other non- guaranteed income)	Hourly Employee Benefit Equivalent
Unskilled		\$	\$
Semi-Skilled		\$	\$
Skilled		\$	\$
Technical		\$	\$
Managerial		\$	\$

Lowest Hourly Wage Paid \$ _____ Number of Employees at Lowest Wage _____

Will the company have any on commission employees working at the project site? Y N
If yes, please describe the compensation arrangement.

1. IEIA Benefit Analysis Data

Please provide the following 25 year estimates for the project operation. If the project is a retrofit or upgrade, include estimates only for the project, not the existing operation or employees.

POST CONSTRUCTION EMPLOYMENT

<u>Year</u>	<u>New Hires</u>	<u>Transfer</u>	<u>Cumulative Employment</u>	<u>Annual Payroll</u>
1	_____	_____	_____	\$ _____
2	_____	_____	_____	\$ _____
3	_____	_____	_____	\$ _____
4	_____	_____	_____	\$ _____
5	_____	_____	_____	\$ _____
6	_____	_____	_____	\$ _____
7	_____	_____	_____	\$ _____
8	_____	_____	_____	\$ _____
9	_____	_____	_____	\$ _____
10	_____	_____	_____	\$ _____
11	_____	_____	_____	\$ _____
12	_____	_____	_____	\$ _____
13	_____	_____	_____	\$ _____
14	_____	_____	_____	\$ _____
15	_____	_____	_____	\$ _____
16	_____	_____	_____	\$ _____
17	_____	_____	_____	\$ _____
18	_____	_____	_____	\$ _____

19	_____	_____	_____	\$ _____
20	_____	_____	_____	\$ _____
21	_____	_____	_____	\$ _____
22	_____	_____	_____	\$ _____
23	_____	_____	_____	\$ _____
24	_____	_____	_____	\$ _____
25	_____	_____	_____	\$ _____
<hr/>				
Totals	_____	_____	_____	\$ _____

IEIA Income Tax Incentives

Estimate Kentucky taxable income to be generated by the project. For retrofit or upgrade projects, estimate only that portion of taxable income associated with the project, not the existing operations.

Year	Income (Loss)
1	\$ 103,000
2	\$ 44,000
3	\$ 57,000
4	\$ 68,000
5	\$ 78,000
6	\$ 87,000
7	\$ 91,000
8	\$ 91,000
9	\$ 91,000
10	\$ 91,000
11	\$ 91,000
12	\$ 91,000
13	\$ 91,000
14	\$ 91,000
15	\$ 91,000

*See Statement 10 in the notes following this application for assumptions used in developing taxable income projections.

Year	Income (Loss)
16	\$ 130,000
17	\$ 168,000
18	\$ 168,000
19	\$ 168,000
20	\$ 168,000
21	\$ 168,000
22	\$ 168,000
23	\$ 168,000
24	\$ 168,000
25	\$ 168,000
Total	\$2,898,000

List federal & state income tax liability for the previous three years:

Year	Federal	Kentucky
2012	\$*	\$*
2011	\$*	\$*
2010	\$*	\$*

* Delta has not sold natural gas as a vehicle fuel within the past three years and therefore has no taxable income derived from the sale of CNG.

Estimate the Gross Sales¹ and Gross Profits² attributable to the project. For retrofit or upgrade projects, estimate only that portion of sales and gross profits attributable to the project, not the existing operations.

Year	Gross Sales*	Gross Profits*
1	\$ 340,000	\$ 221,000
2	\$ 340,000	\$ 221,000
3	\$ 340,000	\$ 221,000
4	\$ 340,000	\$ 221,000
5	\$ 340,000	\$ 221,000
6	\$ 340,000	\$ 221,000
7	\$ 340,000	\$ 221,000
8	\$ 340,000	\$ 221,000
9	\$ 340,000	\$ 221,000
10	\$ 340,000	\$ 221,000
11	\$ 340,000	\$ 221,000
12	\$ 340,000	\$ 221,000
13	\$ 340,000	\$ 221,000
14	\$ 340,000	\$ 221,000
15	\$ 340,000	\$ 221,000

¹ Gross Sales = Total Sales - (Discounts + Returns + Allowances)

² Gross Profits = Gross Sales - Cost of Goods Sold.

*See Statement 10 in the notes following this application for assumptions used in developing estimated sales and gross receipts.

Year	Gross Sales	Gross Profits
16	\$ 340,000	\$ 221,000
17	\$ 340,000	\$ 221,000
18	\$ 340,000	\$ 221,000
19	\$ 340,000	\$ 221,000
20	\$ 340,000	\$ 221,000
21	\$ 340,000	\$ 221,000
22	\$ 340,000	\$ 221,000
23	\$ 340,000	\$ 221,000
24	\$ 340,000	\$ 221,000
25	\$ 340,000	\$ 221,000
Totals	\$8,500,000	\$ 6,375,000

¹ Gross Sales = Total Sales - (Discounts + Returns + Allowances)

¹ Gross Profits = Gross Sales - Cost of Goods Sold.

IEIA Severance Tax Incentives

Estimate Kentucky severance tax to be generated by the project. For retrofit or upgrade projects, estimate only that portion of severance tax associated with the project, not the existing operations.

Year	Severance Tax
1	\$ 3,800*
2	\$ 3,800
3	\$ 3,800
4	\$ 3,800
5	\$ 3,800
6	\$ 3,800
7	\$ 3,800
8	\$ 3,800
9	\$ 3,800
10	\$ 3,800
11	\$ 3,800
12	\$ 3,800
13	\$ 3,800
14	\$ 3,800
15	\$ 3,800

*21,000 MCF of natural gas would need to be purchased to produce 174,000 GGE annually. In the event 100% of the estimated gas for the station was purchased from Kentucky sources \$3,800 of severance tax would be generated annually.

Year	Severance Tax
16	\$ 3,800
17	\$ 3,800
18	\$ 3,800
19	\$ 3,800
20	\$ 3,800
21	\$ 3,800
22	\$ 3,800
23	\$ 3,800
24	\$ 3,800
25	\$ 3,800
Total	\$ 95,000

IEIA Sales Tax Incentives

Information

Estimated Costs

A. Building/Construction Materials and Building Fixtures (Permanently incorporated as an improvement to real Property) and not purchased under an exemption from Kentucky Sales and Use tax. **\$ 0**

B. Costs associated with the construction, installation and rehabilitation of fixtures and facilities (i.e., tools/equipment rental/consumable supplies) not purchased under an exemption from Kentucky Sales and Use tax **\$ 0**

C. Machinery or Equipment* not purchased under an exemption from Kentucky Sales and Use tax. (Attach a separate sheet describing the machinery or equipment to be purchased and its purpose) **\$ 1,110,300**

D. Sum of A, B, & C **\$ 1,110,300**

Anticipated Kentucky sales and use tax to be paid on Building/Construction Materials, Building Fixtures and Machinery or Equipment. **66,618**

6% of line D above

Certification of Application

I, the undersigned on behalf of the applicant, hereby represent and certify that the foregoing application information, including all attachments, to the best of my knowledge, is (a) true, complete and accurate with respect to the information concerning the proposed project for which financial incentives are sought; and (b) does not contain any information for which any entity competing with the applicant may claim a proprietary interest.

The undersigned, on behalf of the applicant, acknowledges that information contained within the application and its attachments may be subject to public disclosure to the extent required by law pursuant to any request made under the Kentucky Open Records Act contained in Chapter 61 of the Kentucky Revised Statutes. Notwithstanding the above, except as otherwise agreed to by the applicant in writing, no confidential or proprietary information shall be disclosed if properly excluded for disclosure under KRS 61.878 (as determined by the Authority, the Kentucky Attorney General or court of competent jurisdiction).

In addition, the undersigned on behalf of the applicant, acknowledges and grants permission to the Authority to share any and all information contained within the application and its attachments with appropriate state agencies and contracted consultants to determine the feasibility and potential impacts associated with project for which incentives are sought.



Signature

John B. Brown

Print Name

CFO

Title

10-21-13

Date

**ATTACHMENT A
CABINET FOR ECONOMIC DEVELOPMENT
ECONOMIC INCENTIVE DISCLOSURE STATEMENT**

INSTRUCTIONS: In accordance with the Executive Branch Code of Ethics, Chapter 11A of the Kentucky Revised Statutes ("KRS"), before any board or authority within or attached to the Cabinet for Economic Development ("CED") takes final action on any contract or agreement by which a bond, grant, lease, loan, assessment, incentive, inducement, or tax credit is awarded (the "incentive package"), the beneficiary of the incentive package must file with the approving board or authority a disclosure statement stating: (i) the identity of the beneficiary of the incentive package, (ii) the identity of any person employed to act on behalf of the beneficiary with respect to the incentive package, (iii) the details of any financial transaction (as defined in KRS 11A.201(5)(a), see below) between the beneficiary (or any other person listed in (ii) above) and any agent or public servant of the Cabinet for Economic Development, any member of any board or authority within or attached to that Cabinet, or any other public servant involved in the negotiation of the economic incentive package. Your application or request will not be processed until this form is filed. CED will file copies of this form with the Executive Branch Ethics Commission pursuant to KRS 11A.233(2).

NOTE: For purposes of KRS 11A.201(5)(a), the definition of "financial transaction" is activity conducted or undertaken for profit, not available to the general public on the same terms, that arises from the joint ownership, the ownership, or part ownership in common, of any real or personal property or any commercial or business enterprise of whatever form between:

- 1) Beneficiary, agent or employee of the beneficiary; and
- 2) CED agent, employee, member of board or authority attached to CED, or other public servant involved in the negotiation of any incentive package.

Beneficiary's Legal Name:

Delta Natural Gas Company, Inc.

Type(s) of Economic Incentive Package(s): Sales tax and severance tax under the IEIA Tax Incentive Program

Please identify all employees or agents of the Beneficiary who have acted on behalf of the Beneficiary in its dealings with the CED or any board or authority within or attached to the CED (please attach separate sheet if additional room is needed) in regard to the above incentive package:

Name & Title: <u>Glenn R. Jennings, Chairman of the Board, President & CEO</u>	Organization: <u>Delta Natural Gas Company, Inc.</u>
Name & Title: <u>John B. Brown, CFO</u>	Organization: <u>Delta Natural Gas Company, Inc.</u>
Name & Title: <u>Matthew D. Weeolosky, VP - Controller</u>	Organization: <u>Delta Natural Gas Company, Inc.</u>
Name & Title: _____	Organization: _____

Have any of the above-listed employees or agents of the Beneficiary had any "financial transactions" (as defined above) with a CED agent, employee, or a board or agency attached to CED or any other public servant involved in the negotiation of any economic incentive package?

Yes: No:

If yes, please detail any "financial transactions" (as defined above) between the Beneficiary (or any other person listed as an employee or agent of the Beneficiary) and (i) any agent or public servant of the CED, (ii) any member of any board or authority within or attached to that Cabinet, or (iii) any other public servant involved in the negotiation of the economic incentive package (please attach separate sheet if needed):

1. Name of Beneficiary (Agent or Employee): _____

Name of Cabinet (Agent, Employee or Board/Authority member): _____

Name of Other Public Servant: _____

Description of Financial Transaction: _____

2. Name of Beneficiary (Agent or Employee): _____

Name of Cabinet (Agent, Employee or Board/Authority member): _____

Name of Other Public Servant: _____

Description of Financial Transaction: _____


3. Name of Beneficiary (Agent or Employee): _____

Name of Cabinet (Agent, Employee or Board/Authority member): _____

Name of Other Public Servant: _____

Description of Financial Transaction: _____

The undersigned, a duly authorized representative of the Beneficiary listed above, hereby certifies that the information set forth in this Economic Incentive Disclosure Statement has been reviewed, and is true and correct to the best of the knowledge of the undersigned.

Signature: 
Date: 10-21-13

Statement 1 - A brief history of the business and description of the project

Delta Natural Gas Company, Inc., founded in 1949, distributes or transports natural gas to approximately 36,000 customers. Delta's distribution and transmission pipeline systems are located in central and southeastern Kentucky, and it owns and operates an underground storage field in southeastern Kentucky. Delta transports natural gas to industrial customers who purchase their natural gas in the open market. Delta also transports natural gas on behalf of local producers and customers not on the distribution system and sells liquids extracted from natural gas.

The proposed project would be to construct, own and operate a compressed natural gas station at its existing facilities on Glades Road in Berea, Kentucky. Specifically, Delta proposes to construct compressors, tanks, dispensing pumps and card readers for credit cards, along with such other construction as may be necessary for the operation of the CNG station. The station would be for the fueling of vehicles owned by Delta Natural Gas. The CNG station would also be available for the sale of natural gas as a motor vehicle fuel to the public.

Statement 2 - The authority may request a letter of support from the local government describing any local economic development funding or incentive as well as giving general support for the proposed project.

To be determined by the authority.

Statement 3 - A financial statement from the applicant for the most recent fiscal year end, or if the applicant is a newly formed entity, a financial statement from all appropriate partners, parent entities or other related entities.

See Attachment B

Statement 4 - A letter from the applicant stating:

For a new project: a statement that the economic development project could reasonably and efficiently locate outside of the Commonwealth and, without the inducements offered by the authority, the eligible company would likely locate outside of the state

All facilities owned by Delta are located within the Commonwealth and the inducements offered by the authority provide incentive for Delta to construct the CNG station.

Statement 5 - Identification of the applicant's affiliates as required by KRS 154.27-030 shall include the entity name, state of incorporation or organization, federal tax identification number or social security number for individual partners, agent for service of process, street address and telephone number, and if there are more than two (2) affiliates, shall include a diagram of the ownership structure of the affiliated companies.

Delta Natural Gas Company, Inc. is a publicly traded corporation.

Contact Information
3617 Lexington Road
Winchester, KY 40391
859-744-6171

Delta Natural Gas Company, Inc. has three wholly-owned subsidiaries:

<u>Name of Subsidiary</u>	<u>Federal Id Number</u>	<u>Address</u>	<u>Phone</u>	<u>State of Incorporation</u>
Delta Resources, Inc.	61-1056941	same as parent	same as parent	KY
Delgasco, Inc.	61-1103681	same as parent	same as parent	KY
Enpro, Inc.	61-1103680	same as parent	same as parent	KY

Registered Agent for Delta Natural Gas and its Subsidiaries: John B. Brown

Statement 6 - A description of carbon capture readiness of the facility if the facility is an Alternative Fuel or Gasification Facility.

The facility is not an Alternative Fuel or Gasification Facility.

Statement 7 - A description of the Project Scope, including the status of all required permits, certificates or approvals.

The proposed project would be to construct, own and operate a compressed natural gas station at its existing facilities on Glades Road in Berea, Kentucky. See Item 20 of the application for all required permits and their status.

Statement 8 - An itemized list of the components of the capital investment, including specific estimated cost by line item, identification of items expected to qualify for sales tax exemption and projected date of completion or purchase.

The compressed natural gas station is a turnkey solution where the vendor delivers and installs the compressed natural gas station. Of the \$1,293,105 total investment, the vendor estimates the equipment purchases to be \$1,110,305, with the remainder of the purchase price attributable to labor and installation. The estimated cost of equipment to be purchased is:

	Unit Price	Qty	Extended Price
Two Compressors (972 SCFM (7.4 GGE/Minute)	\$ 184,500	2	\$ 369,000
Automatic Regenerative Dryer	98,650	1	98,650
Storage Spheres 3 pack	93,750	1	93,750
Priority/Sequential Panel	37,900	1	37,900
CNG Dispenser	38,225	1	38,225
CNG Dispenser (large vehicle)	41,880	1	41,880
Card Reader	13,500	1	13,500
Additional Card Reader	6,800	1	6,800
Signage	20,000	1	20,000
Dispenser Canopy	39,600	1	39,600
Vehicle Discharge Cover	6,500	2	13,000
Materials for Site Preparation (concrete, asphalt)	338,000	1	338,000
Equipment*			\$ 1,110,305
Installation & Site Prep	112,000	1	112,000
Survey, Engineering & Geo-technical Survey	56,100	1	56,100
Freight	9,700	1	9,700
Training	5,000	1	5,000
Labor			\$ 182,800
Project Cost			\$ 1,293,105

*Equipment cost is expected to be eligible for the sales tax exemption.

Statement 9 - A plan for and description of how company will employ Kentucky residents at the facility after completion of the project and how the company will ensure that workers during construction phase are Kentucky residents including projected numbers. The plan for employment of Kentucky residents during construction must include explanation of methods to be employed and describe specific actions that will be taken by the applicant to ensure that Kentucky residents will have opportunities for employment.

Delta does not intend to hire additional employees to maintain the CNG station after completion of the project. Existing Delta employees may be used to prepare the site for the CNG station. The CNG station itself is a turnkey solution from an out-of-state vendor and will be installed by the vendor.

Statement 10 - A business plan for the facility, including full analysis of product, market potential, funding sources, legal structure and management team.

The CNG station will be wholly owned and operated by Delta Natural Gas Company, Inc. The CNG station is estimated to sell 174,000 GGE of natural gas annually. The estimated taxable income for year one has been calculated as follows:

Revenue	\$	340,000
Expenses		
Natural gas	\$	(85,000)
Transportation cost		(34,000)
Interest		(20,000)
Operations and maintenance		(20,000)
Property taxes		(13,000)
Depreciation*		(65,000)
Total expenses	\$	(237,000)
Net income before income taxes*	\$	<u>103,000</u>
Income taxes	\$	<u>(39,000)</u>
Net income	\$	<u>64,000</u>

* Taxable income projections assume the same amount of sales and operating expense in years 1-25. However, taxable income varies in years 1-25 based on use of MACRS depreciation rates.

Additionally, see Items 13 through 17 on the Application for Incentives For Energy Independence Act (IEIA) Tax Incentive Program.

Statement 11 - If this is a Carbon Dioxide Transmission Pipeline project, a map delineating the path of the pipeline.

The project is not a carbon dioxide transmission pipeline.

Statement 12 - A completed Attachment "A" - Cabinet for Economic Development Incentive Disclosure Statement.

See Attachment A



Delta Natural Gas Company, Inc.

3617 Lexington Road
Winchester, Kentucky 40391-9797



www.deltagas.com

PHONE: 859-744-6171

FAX: 859-744-3623

November 14, 2013

Kentucky Economic Development Finance Authority
Donald Goodin
Old Capitol Annex
300 West Broadway
Frankfort, Kentucky 40601

Mr. Goodin,

We have met with Don Newell from the Energy and Environment Cabinet to discuss Delta's Application for Incentives for Energy Independence Act Tax Incentive Program. Mr. Newell defined the allowable costs under the program as being limited to those costs which directly pertain to the production of an alternative fuel. Therefore, any costs downstream of the meter, or for the convenience of the vehicle operator should not be included. As a result of our discussion with Mr. Newell, Delta hereby amends Statement 8 in its Application to exclude the costs that fall outside of the scope of the program.

	Originally Filed	Exclusions	Amended
Two Compressors (972 SCFM (7.4 GGE/Minute)	\$ 369,000	\$ -	\$ 369,000
Automatic Regenerative Dryer	98,650	-	98,650
Storage Sphere 3 pack	93,750	-	93,750
Priority/Sequential Panel	37,900	-	37,900
CNG Dispenser	38,225	(8,400) ¹	29,825
CNG Dispenser (large vehicle)	41,880	(8,400) ¹	33,480
Card Reader	13,500	(13,500) ²	-
Additional Card Reader	8,800	(8,800) ²	-
Signage	20,000	(20,000) ²	-
Dispenser Canopy	39,800	(39,800) ²	-
Vertical Discharge Cover	13,000	-	13,000
Materials for Site Preparation (concrete, asphalt)	338,000	(33,800) ³	304,200
Equipment	<u>\$ 1,110,305</u>	<u>\$ (130,800)</u>	<u>\$ 979,505</u>
Installation & Site Prep	112,000	(5,600) ²	106,400
Survey, Engineering & Geo-technical Survey	58,100	(2,800) ³	53,300
Freight	9,700	(500) ³	9,200
Training	5,000	(300) ³	4,700
Labor	<u>\$ 182,800</u>	<u>\$ (9,200)</u>	<u>\$ 173,600</u>
Project Cost	<u>\$ 1,293,105</u>	<u>\$ (139,700)</u>	<u>\$ 1,153,405</u>

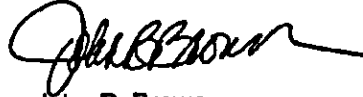
¹ Downstream of the meter, each dispenser has two hose assemblies for fueling vehicles which includes a flexible hose, break-away safety connector and a nozzle. The costs of the items are excluded.

² These items are excluded in their entirety.

³ After reviewing the engineering drawings of the proposed station layout with Mr. Newell, it is estimated that materials and labor for site preparation should be reduced by ten percent and five percent, respectively, as a portion of the property is for retail access to the station and does not relate to the production of the compressed natural gas.

We appreciate the Cabinet's consideration of our application. If you have any questions please feel free to contact Matthew Wesolosky at 859-744-6171 extension 1149 or myself at extension 1109.

Sincerely,



John B. Brown
Chief Financial Officer, Treasurer
and Secretary



CABINET FOR ECONOMIC DEVELOPMENT

Steven L. Beshear
Governor

Old Capitol Annex
300 West Broadway
Frankfort, Kentucky 40601
ThinkKentucky.com

Larry M. Hayes
Secretary

December 12, 2013

Mr. Matthew D. Wesolosky
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

Dear Mr. Wesolosky:

I am pleased to notify you that the Kentucky Economic Development Finance Authority (KEDFA) preliminarily approved the application for Delta Natural Gas Company, Inc. under the Incentives for Energy Independence Act (IEIA) program on December 12, 2013.

Under this program, the company has 90 days to enter into a Memorandum of Agreement (MOA) regarding the obligations and commitments of your company and KEDFA between preliminary and final approval. I have drafted the MOA setting forth the basic contingencies necessary for final approval with a time line of one year for identifying a definite location, two years for completing all steps necessary for final approval and five years thereafter for activation.

A copy of Resolution IEIA-I-13-19777, which preliminarily approves the company and the project, is enclosed for your records. Also enclosed are two Memoranda of Agreements. Please have an official of the company sign both and return them to this office no later than March 1, 2014. An executed MOA will be returned for your records.

Should you have any questions on this matter, please do not hesitate to contact me at (502) 782-1978.

Sincerely,

J. Don Goodin, Director
Incentive Assistance Division
Enclosures

EXHIBIT A
MEMORANDUM OF AGREEMENT

MEMORANDUM OF AGREEMENT
REGARDING ENTRY INTO ENERGY INCENTIVE AGREEMENT

This Memorandum of Agreement (the "Memorandum of Agreement") is made by and between the KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY ("KEDFA"), a public body, corporate and politic, created under Chapter 154 of the Kentucky Revised Statutes and Delta Natural Gas Company, Inc. (the "Company"), a Kentucky corporation registered to do business in Kentucky, with principal offices in Winchester, Kentucky

WITNESSETH:

1. Preliminary Statement. Among the facts and circumstances which have resulted in the execution of this Memorandum of Agreement by and between the parties are the following:

A. The Company proposes to acquire, construct, equip and install an "eligible project", as defined in Section 154.27-010 of the Kentucky Revised Statutes, consisting of the acquisition, construction, equipping and installation of renewable energy facility in the Commonwealth (the "Project"); and

B. The acquisition, construction and equipping of the Project by the Company will advance the public purposes of achieving energy independence, creating new jobs, and new investment, and creating new sources of tax revenues that, but for the incentives to be offered, would not exist and appears to be eligible for incentives pursuant to Chapter 154, subchapter 27 of the Kentucky Revised Statutes (collectively the "Act"); and

C. KEDFA has agreed with the Company to enter into a "tax incentive agreement" as defined in KRS 154.27-010(28) (hereinafter referred to as an "Energy Incentive Agreement") upon compliance by the Company with certain conditions, requirements and obligations and subject to the approval of KEDFA of the terms of all agreements, ordinances and other documents required incident to said Energy Incentive Agreement; and

D. The total Project cost is estimated to exceed ONE MILLION, ONE HUNDRED FIFTY-THREE THOUSAND, THREE HUNDRED FIVE DOLLARS (\$1,153,305), of which, more than ONE MILLION, ONE HUNDRED FIFTY-THREE THOUSAND, THREE HUNDRED FIVE DOLLARS (\$1,153,305) is anticipated to qualify as "capital investment" as that term is defined in the Act; and;

E. Representatives of KEDFA have indicated their willingness for KEDFA to proceed with and to have executed an Energy Incentive Agreement in order to effectuate the purposes of the Act and have advised the Company that, subject to due compliance with all requirements of law and the obtaining of all necessary consents and approvals required by law, and in the happening of all acts, conditions and things required precedent to the approval of the Energy Incentive Agreement, including, but not limited to, the reviews and evaluations of third party consultants as authorized or required by the Act, by virtue of authority of the Act, it will cause to be adopted a final resolution authorizing the execution of an Energy Incentive Agreement granting incentives in an amount not to exceed TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00), (the "Maximum Recovery Amount")

2. Conditions. In order to be eligible to receive the maximum incentives granted pursuant to the Energy Incentive Agreement:

A. The Company agrees to utilize the Project, or cause the Project to be utilized, at all times during the term of the Energy Incentive Agreement as a "renewable energy facility" as that term is defined in the Act; and

B. That the Project is expected to assist in the relief of conditions of unemployment and promote the economic development of the Commonwealth; and

C. The Company may cause contracts to be entered into for, or otherwise provide for, the acquisition, construction and equipping of the Project; and

E. The capital investment of the Project must exceed ONE MILLION DOLLARS (\$1,000,000.00); and

F. The Company agrees to pay the cost of such third-party consultants as are necessary for evaluation of the Project as set forth in the Act and execute a consultant payment agreement as required by 307 KAR 1:040; and

G. The Company agrees to finalize and disclose a specific location for the Project at least six months prior to anticipated final approval of the Project, but that such disclosure shall not bind or obligate KEDFA to take the project up for final consideration within six months should the analysis and negotiation of the Project require additional time; and

H. That the Company agrees to provide a written report as to the status of the Project, including an estimated time line for construction, significant purchases or contracts relevant to construction, confirmation of additional funding sources, plans for the physical construction, employment of persons who will work at the site of the Project, feasibility or engineering studies and other actions taken related to the planning and construction of the Project beginning on July 1, 2014 and every six months thereafter continuing until activation of the Energy Incentive Agreement; and

I. That the Company agrees to provide any additional documentation or information reasonably requested by KEDFA, the Governor's Office, of Energy Policy, Department of Revenue within the Finance and Administration Cabinet, the Center for Applied Energy Research or any agent or third party consultant acting on behalf of or assisting those agencies in evaluation or monitoring of the Project; and

J. The Company must (i) seek final approval of the incentives to be granted pursuant to the Energy Incentive Agreement in connection with the "capital investment" in the Project within two years from

preliminary approval, (ii) activate the Energy Incentive Agreement and begin incurring recoverable cost and engaging in recoverable activity within five (5) years of the final approval of Project or upon such other time as agreed upon by KEDFA and the Company, and (iii) undertake and complete any remaining acquisition, construction and equipping of the Project as required by the Energy Incentive Agreement; and

L. The Company must take such further action and adopt such further proceedings as may be reasonably required to satisfy the foregoing conditions or as may be required by law; and

3. Representations and Undertakings on the Part of the Company. The Company represents, undertakes, covenants and agrees as follows:

A. The Company has filed its Cabinet for Economic Development Incentive Disclosure Statement (the "Disclosure Statement") related to the Project with KEDFA. If necessary, the Company agrees to update and amend the Disclosure Statement prior to the final approval of the Energy Incentive Agreement if changes have occurred during the period between preliminary approval and final approval.

B. That all information contained in the application is true and correct in all material respects as of the date hereof

4. Undertakings on the Part of KEDFA. Subject to the fulfillment of the conditions herein stated, KEDFA agrees as follows:

A. That it will at the necessary time authorize the Energy Incentive Agreement pursuant to the terms of the Act as then in force, related to the granting of incentives in the Maximum Recovery Amount approved by the KEDFA related to the Project; and

B. That KEDFA shall authorize Company to recover a maximum of TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00) of its capital investment if all other contingencies contained herein are met; and

C. That it will take such other acts and adopt such further proceedings as may be required to implement the aforesaid undertakings as KEDFA may deem necessary or advisable, subject to compliance with applicable laws.

5. General Provisions.

A. In connection with the Energy Incentive Agreement, the Company agrees to pay all professional fees, including the fees and expenses of counsel to KEDFA, or third-party consultants to KEDFA, and KEDFA will incur no liability whatsoever in respect of such services. Upon request, KEDFA agrees to provide the Company with sufficient documentation to verify payment of such expenses. Further, the Company agrees to pay to KEDFA a fee equal to 1/4 of 1% of the Maximum Recovery Amount, provided however, that in no event will the fee exceed a maximum of \$50,000; and

B. If the Energy Incentive Agreement does not receive final approval, the Company agrees that it will reimburse KEDFA for all reasonable and necessary out-of-pocket expenses (including fees and expenses of counsel and fees and expenses of third party experts) which KEDFA may incur at the Company's request arising from the execution of this Memorandum of Agreement, and the performance by KEDFA of its obligations hereunder shall thereupon terminate; and

C. The parties agree that they shall take any actions or provide any information necessary for analysis of the Company's eligibility for an advance disbursement and, if the Company is found eligible, the parties shall negotiate the amount of the advance disbursement, the schedule for disbursements, any

security requirements, and other terms of repayment and shall incorporate the negotiated terms into the Energy Incentive Agreement authorized by the KEDFA; and

D. KEDFA agrees not to disclose any application information or any other information provided by the Company that is clearly marked as confidential or proprietary unless required to do so by the Open Records Act in KRS Chapter 61, or other law or regulation, including a court order. The Cabinet will include in any contract with outside consultants, a clause requiring confidentiality with regard to all information released to the consultants.

E. This Memorandum of Agreement and the Resolution approving this Memorandum of Agreement constitute the present intent of KEDFA to have executed an Energy Incentive Agreement at a later date; and

F. If any provision of this Memorandum of Agreement is determined to be invalid or unenforceable, that determination shall not affect any other provision, the remaining provisions of which shall be construed and enforced as if the invalid or unenforceable provision were not contained herein; and

G. This agreement shall expire and all parties shall be released from any obligation under this agreement if final approval of the Energy Incentive Agreement does not occur within two years of preliminary approval or upon such other time as KEDFA and the Company may agree in writing.

H. Notwithstanding anything to the contrary contained herein, the Company shall have no obligation of any kind whatsoever to begin, proceed with or complete the Project (including, by way of illustration and not of limitation, any obligation with respect to the acquisition, construction, equipping or installation of the Project) by virtue of this Memorandum of Agreement, and the Company reserves the right, in its sole discretion, to decide whether or not to begin, proceed with or complete the Project. KEDFA agrees it will not bring any claim or action (arising from any cause of action or claim including

but not limited to contract, tort or a statute) against the Company or its affiliates as a result of any refusal or failure to begin, proceed with or complete the Project.

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IN WITNESS WHEREOF the parties hereto have entered into this Memorandum of Agreement
by their officers thereunto duly authorized as of the ____ day of _____, 2013.

KENTUCKY ECONOMIC DEVELOPMENT
FINANCE AUTHORITY .

By: _____
J. Don Goodin, Director
Incentive Assistance Division

(SEAL)

DELTA NATURAL GAS COMPANY, INC.

By: _____
Title: _____

RESOLUTION NO. IEIA-I-13-19777

A RESOLUTION OF THE KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY ("KEDFA") DESIGNATING DELTA NATURAL GAS COMPANY, INC. AS A PRELIMINARILY APPROVED COMPANY AND AUTHORIZING THE EXECUTION OF A MEMORANDUM OF AGREEMENT BETWEEN KEDFA AND DELTA NATURAL GAS COMPANY, INC. RELATING TO THE ACQUISITION, CONSTRUCTION AND EQUIPPING OF A CERTAIN CNG RENEWABLE ENERGY FACILITY LOCATED WITHIN THE JURISDICTION OF KEDFA; AGREEING TO ENTER INTO ENERGY INCENTIVE AGREEMENTS AT THE APPROPRIATE TIME FOR GRANTING OF INDUCEMENTS IN CONNECTION WITH THE COSTS INCURRED IN ACQUIRING, CONSTRUCTING AND EQUIPPING SAID PROJECT; AND TAKING OTHER PRELIMINARY ACTION.

WHEREAS, Delta Natural Gas Company, Inc. (the "Company") proposes to undertake an eligible project, as defined in Section 154.27-010 of the Kentucky Revised Statutes, consisting of the acquisition, construction, equipping and installation of a CNG facility in Madison County, Kentucky (the "Project"); and

WHEREAS, the acquisition, construction and equipping of the Project by the Company will advance the public purposes of achieving energy independence, creating new jobs, and new investment, and creating new sources of tax revenues that, but for the inducements to be offered, would not exist; and

WHEREAS, KEDFA is further authorized by Chapter 154 and particular subchapter 27 of the Kentucky Revised Statutes (collectively the "Act") to enter into energy incentive agreements upon such terms and conditions as the Act may require and KEDFA may deem advisable for the purpose of defraying the cost of acquiring, constructing and equipping the Project; discussions have occurred between representatives of the Company and KEDFA incident to entry into an energy incentive

agreement and KEDFA has agreed with the Company to enter into an energy incentive agreement upon compliance by the Company with certain conditions, requirements and obligations and subject to the approval of KEDFA of the terms of all agreements, ordinances and other documents required incident to said energy incentive agreement; and

WHEREAS, based upon the Company's estimation of the total capital cost of the Project, KEDFA proposes, at the appropriate time, to approve the execution of an Energy Incentive Agreement, by and between KEDFA and the Company, exhibits to which will be documentation of projected and actual capital costs (as defined in the Act). The total project cost is estimated to be One Million, One Hundred Fifty-Three Thousand, Three-Hundred Five Dollars (\$1,153,305) and the estimated capital investment is One Million, One Hundred Fifty-Three Thousand, Three-Hundred Five Dollars (\$1,153,305); and

WHEREAS, it is deemed necessary and advisable that a Memorandum of Agreement between KEDFA and the Company be executed setting forth the preliminary agreements of the parties with respect to the acquisition, construction and equipping of the Project and the reviews, evaluations and other contingencies that must occur prior to final approval of the incentives and entry into an energy incentive agreement;

NOW, THEREFORE, BE IT RESOLVED BY THE KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY AS FOLLOWS: '

Section 1: It is hereby found, determined and declared that (i) based upon the application as submitted, the Project appears to be eligible for preliminary approval and the Company is designated as a preliminarily approved company meeting the minimum requirements as set forth in KRS 154.27-030; (ii) the recitals set forth in the preamble to this Resolution,

which are incorporated in this Section by reference, are true and correct in all material respects; (iii) the total amount of the incentives to be approved by KEDFA shall not exceed the lesser of 50% of "capital investment" or \$250,000 for the Project; and (iv) the Company has represented that it will have sufficient financial resources to acquire, construct and equip the Project throughout the term of the energy incentive agreement.

Section 2: It is hereby found, determined and declared that the cost of acquiring, constructing and equipping a portion of the Project will be funded by or on behalf of the Company as may be necessary to complete the Project, that any financing obtained by the Company will not be an obligation or give rise to any indebtedness of KEDFA, the Commonwealth of Kentucky, the Kentucky Economic Development Partnership, or any agency, political subdivision or taxing authority of the Commonwealth and that no part of the capital costs or other costs of the Project will be payable out of any general funds, economic developments, assets properties or other contributions of the Commonwealth.


Section 3: In order to induce the acquisition, construction and equipping of the Project with the resultant public benefits which will flow therefrom, it is deemed necessary and advisable that a Memorandum of Agreement be approved and executed by KEDFA. Accordingly, any one of the persons designated by KEDFA is hereby authorized and directed to execute and deliver a Memorandum of Agreement satisfactory to KEDFA's designees within 90 days of the date of preliminary approval, incorporating various requirements for the Company to provide supplemental information, for the Company to fund additional reviews and studies, and including other contingencies necessary for final approval as set forth in the Act.

Section 4: Inasmuch as the Project is to be acquired, constructed and equipped in order to conform to the requirements of the Company, which will in turn facilitate economic development and employment for residents of the Commonwealth, and because the Company has the expertise to plan the Project, it is hereby found, determined and declared that certain studies and evaluations deemed necessary and appropriate be undertaken by the Company. Accordingly, the Company is hereby authorized to formulate and develop plans for the acquisition, construction and equipping of the Project, conduct any studies of the site it deems necessary, pursue fulfillment of all applicable regulatory requirements, and to enter into such contracts and undertakings as may be required to appropriately plan for same.

Section 5: This Resolution shall be in full force and effect from and after its adoption as provided by law.

Section 6: If any provision of this Resolution is determined to be invalid or unenforceable, that determination shall not affect any other provision, the remaining provisions of which shall be construed and enforced as if the invalid or unenforceable provision were not contained herein.

INTRODUCED, SECONDED, READ AND ADOPTED AT A DULY CONVENED MEETING OF
THE KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY, HELD ON THE
12TH DAY OF DECEMBER, 2013.



Jean R. Hale, Chairman
Kentucky Economic Development
Finance Authority

Matthew Wesolosky

From: Matthew Wesolosky
Sent: Thursday, December 12, 2013 3:00 PM
To: Goodin, Don (CED)
Subject: Re: Berea CNG Facility

Don,

Thank you very much for your assistance in the approval process! I look forward to receiving the materials and reach out to you if we have any questions.

Thanks

Matt
Sent from my iPhone

On Dec 12, 2013, at 12:44 PM, "Goodin, Don (CED)" <Don.Goodin@ky.gov> wrote:

<image001.gif>

Mr. Wesolosky:

As Don Newell may have told you, we had our KEDFA meeting today and Delta Natural Gas project in Berea was approved for a \$250,000 tax credit. I will be sending the approval letter and Memorandum of Agreement in the next day or so, but just wanted to let you know of the approval. Please let me know if you have questions.

**J. Don Goodin, Director
Incentive Assistance Division
Office of Compliance, Financial and Administrative Services
Kentucky Cabinet for Economic Development
300 West Broadway Street
Frankfort, KY 40601
(502) 782-1978
(502) 564-7697-FAX**

Matthew Wesolosky

From: Glenn Jennings
Sent: Thursday, November 07, 2013 9:27 AM
To: John Brown; Johnny Caudill; Jonathan Morpew; Matthew Wesolosky
Subject: Fwd: CNG station

Can you meet with Don at 9 am next Wed?

Glenn Jennings
Sent from my iPhone

Begin forwarded message:

From: "Newell, Donald (EEC)" <Donald.Newell@ky.gov>
Date: November 7, 2013 at 9:00:19 AM EST
To: 'Glenn Jennings' <GJENNINGS@DeltaGas.com>
Subject: RE: CNG station

That'll be fine. You just give me a time and I'll be there.

D.O.N.

From: Glenn Jennings [<mailto:GJENNINGS@DeltaGas.com>]
Sent: Thursday, November 07, 2013 8:44 AM
To: Newell, Donald (EEC)
Subject: Re: CNG station

How about Wed am?

Glenn Jennings
Sent from my iPhone

On Nov 7, 2013, at 8:01 AM, "Newell, Donald (EEC)" <Donald.Newell@ky.gov> wrote:

Hey Glenn, just to let you know, the letter is going back to Don Goodin from the evaluation committee clearing your Berea project for incentives. When you get the letter, though, you'll note some exclusions (don't worry, it won't bring the cost below the threshold) and a sentence to the effect that "Committee personnel will be glad to assist you with determining what should be included blah blah blah". I'd be the guy to come out and go over it with your people, so just let me know when's good for you all and I'll do it. It won't take long and I have every day next week except Tuesday available so far.

D.O.N.

Don Newell
Acting Director
Division of Fossil Energy Development
Kentucky Energy and Environment Cabinet

Matthew Wesolosky

From: Newell, Donald (EEC) <Donald.Newell@ky.gov>
Sent: Thursday, November 14, 2013 3:07 PM
To: John Brown
Cc: Glenn Jennings; Greg Coker; Matthew Wesolosky; Jonathan Morpew; Johnny Caudill
Subject: RE: Delta Amendment

Thanks, John. I forwarded the electronic copy to Don to let him know it was coming and asked that you guys be on the December agenda. I'll let you know what I hear.

D.O.N.

From: John Brown [mailto:JBROWN@DeltaGas.com]
Sent: Thursday, November 14, 2013 3:02 PM
To: Newell, Donald (EEC)
Cc: Glenn Jennings; Greg Coker; Matthew Wesolosky; Jonathan Morpew; Johnny Caudill
Subject: Delta Amendment

Don,

I enjoyed meeting you yesterday. Thank you for helping us better understand the scope of the items potentially eligible for the incentive program.

I am putting the attached letter in the mail to Don Goodin today.

John

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00365**

**SECOND PSC DATA REQUEST
DATED JANUARY 10, 2014**

4. Refer to the response to Item 14 of Staff's First Request.
 - a. Identify the specific locations of the stations referenced in the response and describe how they compare to Berea in terms of population and access to interstate highways.
 - b. Identify which kind of business model (Rate-based Model, Non-Rate-based Model, or Competitive Model) is used by each of the identified utilities, with the exception of Atlanta Gas Light, which is provided in Appendix A of Brown Exhibit II.

Response:

- a. See Delta's Response to AG-1 Item 15.

Delta's station proposed for Berea would be located in Berea, perhaps a mile or so from I-75. Population is estimated about 15,000. Delta does not serve any large Kentucky cities, as Delta's service area is mostly rural and smaller communities.

Questar's stations are in and around Salt Lake City, Utah, the largest city in Utah and much more of a metropolitan service area than is Berea. Salt Lake City is intersected by Interstate highways.

Vectren's station is in Evansville, Indiana, a larger metropolitan area than Berea. Evansville is several miles south of Interstate 64.

Piedmont's stations are in and around Charlotte, Greensboro, High Point and Winston-Salem, NC, as well as Greenville and Spartanburg, SC. and Nashville TN. These areas are intersected by interstate highways and are generally in larger metropolitan areas than Berea.

Atlanta Gas Light's stations are in and around Atlanta, the largest city in Georgia. It is intersected by Interstate 75.

- b. Delta believes they would all be considered to be rate-based models.

Sponsoring Witness:

Glenn R. Jennings

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DATED JANUARY 10, 2014**

5. Refer to Delta's Response to Staff's Initial Request, Item 15, regarding Delta's 1990 CNG fueling station in the Corbin area.
- a. What were the dates of operation of this CNG station?
 - b. How were the construction and operation of this CNG station financed?
 - c. Identify the third party that Delta states is currently developing a CNG station in Corbin.
 - d. What is the anticipated timeframe for this station to be open, operating, and available for Delta's proposed dual-fuel vehicles?

Response:

- a. The station has been used since 1990 and still has limited use as a Delta asset. The station is old, but still operable. It needs upgrading to be a public station. Some of the equipment is outdated and in need of replacement. The station does not produce sufficient pressures to meet current CNG operating requirements. It can partially fuel up some vehicles. Delta was considering upgrading it but has deferred that as another station is being developed in the area by a third party.
- b. Delta paid for the station as it does for any other company asset, using internal cash supplemented with Delta's credit line as needed, as a part of its normal utility operation. The station was installed as an asset of Delta. Its purpose was to fuel Delta's vehicles that could access it. Vehicles were converted to run on CNG, and operated thusly for many years. Eventually a combination of higher and fluctuating natural gas prices, lack of conversion equipment and repair/replacements parts, lack of conversion and repair providers and a reduced focus nationally on CNG in vehicles led to a decline in this area and gradually Delta replaced its CNG vehicles with gasoline/diesel vehicles. The station was not installed as a public access station.
- c. Delta understands that the Falls Group Auto dealership in Corbin, or possibly a related company under common ownership, is developing the CNG station in Corbin.
- d. Based on the current status, Delta would estimate the station will be open by May 1, 2014.

Sponsoring Witness:

Glenn R. Jennings

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6. Refer to Delta's Response to the Attorney General's First Request, Item 12, wherein Delta was asked to describe the need for this certificate of public convenience and necessity. Delta's response quotes, in part, language from a Commission Order in another matter, as defining "need as . . . substantial inadequacy of existing service, involving a consumer market sufficiently large to make it economically feasible for the new system or facility to be constructed and operated."
- a. Other than for use by Delta to fuel some of the vehicles it proposes to purchase in the future, what is the consumer market that is sufficiently large to make construction and operation of a CNG Station economically feasible?
 - b. Absent subsidization from Delta's ratepayers, does Delta consider a CNG Station in Berea, Kentucky, to be economically feasible? If yes, provide any economic analyses that show the economic feasibility of the CNG Station absent subsidization.

Response:

- a. & b. Delta recognizes the benefits citizens of other states are enjoying because they have the option of purchasing compressed natural gas as a vehicle fuel. The states in which CNG infrastructure exist have built it by varied means and a combination of public and private partnerships.

There are no public quick fill stations in Delta's service territory. Delta believes the companies building CNG stations across the country have not built in Kentucky, and particularly Delta's service territory, because they have concluded it is not economically viable to build stations in those rural locations. Delta agrees with those unregulated companies that it is not reasonable to expect a CNG fueling station in Delta's service territory to initially be profitable. However, for the citizens of the Commonwealth to realize the benefits of compressed natural gas as an alternative motor vehicle fuel, an infrastructure must extend to rural areas, not just larger cities.

The entire premise for Delta's proposal is the assumption that building a station in Berea, Kentucky is not currently economically feasible—for Delta or anyone else at this point. Although Delta has not performed an economic analysis of a Berea CNG station because of an absence of meaningful data, it is hopeful that it will become profitable once its existence is known to potential users of CNG. The availability of CNG will benefit Delta's customers and non-customers in the Berea area because it is a low cost alternative to gasoline and diesel fuel. There are certainly enough consumers that could convert to CNG if they chose to in

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Berea to support the proposed CNG station. Also, customers traveling on Interstate 75 could easily access the station. If the Commission agrees with Delta that the benefits of developing a CNG infrastructure for the greater good warrant a potential small subsidy by ratepayers until enough customers start using the station, even if only on a pilot basis while energy policy in Kentucky becomes more clear, then the Company is willing to carry out the proposal with care. Until Delta's next general rate case, any subsidy would be borne by Delta's shareholders. The Company has developed a means by which to bring a pilot station to the Berea, Kentucky service territory for an immaterial investment by each of Delta's customers which the Company believes will ultimately benefit all of Delta's customers and the citizens of the Commonwealth.

The Public Service Commission has on several occasions ordered ratepayers to bear the cost of programs that have been deemed for the greater good while not necessary for the provision of their natural gas service. Such examples in Delta's rates includes the Conservation and Efficiency Program, subsidizing those who conserve, the Energy Assistance Program, subsidizing those with lower incomes and the GTI rider, subsidizing research and development. Indeed, the rates of most utilities' residential rate classes are subsidized by other rate classes.

Delta cannot reasonably predict the year in which the station will become profitable.

Delta has a 65 year history as a responsible, innovative, safe and profitable corporate citizen in Kentucky. Delta believes that encouraging the use of CNG in Kentucky is in the long term interest of its customers despite the fact that it is not initially economically feasible. This innovative and forward looking spirit is not new territory for Delta and its regulators. In 1949, H. D. Peet founded Delta with the belief that families in rural Kentucky not only desired, but deserved access to some of the same energy options as the residents inhabiting the larger cities even though the larger companies had no plans at the time to serve the more rural areas. Through cooperation with state and community leaders, a company was formed and sustained that provides quality, dependable service to its customers and today remains the only publicly traded utility company headquartered in Kentucky. Delta believes it is uniquely positioned, with its strong relationships with decision makers in the Berea, Kentucky area, to persuade governments and schools to embrace the use of CNG and make this station a model of success thanks to this partnership of the Commission, the Commonwealth and the Company.

Sponsoring Witness:

John B. Brown

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7. Refer to the response to Item 53, part iii, of the Attorney General's First Request. The second sentence of the response reads, "Investing shareholder money on a project that benefits the citizens of Kentucky but that is not earning a return is not compatible with the interest of the shareholders." Explain how having ratepayers bear the cost on such a project that is not necessary for the provision of their natural gas service is compatible with the interest of ratepayers.

Response:

See the response to PSC-2 Item 6.

Sponsoring Witness:

John B. Brown

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DATED JANUARY 10, 2014**

8. Refer to the response to Item 73 of the Attorney General's First Request. State whether Delta provided the information regarding the cost of conversion for city vehicles in response to the email message from the Berea City Administrator. If so, provide a copy of the information provided or a summary of any verbal response.

Response:

Delta did not provide any specific costs of conversion for city vehicles to the Berea City Administrator.

Delta does not believe that conversion of existing vehicles is the best idea, but that decision will be made on a customer-by-customer basis. A more preferable approach is to buy new vehicles that are dual-fuel from the manufacturer. But, customer specific facts may lead some customers to convert some existing vehicles. Thus specific conversion costs are unknown.

PSC-1 Item 4 shows the incremental cost for certain light duty CNG vehicles to be estimated at \$9,350 above gasoline vehicles.

Specific increased costs to purchase dual-fuel vehicles can only be determined when vehicles are ordered. It is not likely that dual-fuel vehicles will be ordered until there are stations where they can be fueled. Delta has mentioned incremental CNG vehicle costs in the \$10,000, plus or minus, range for certain company vehicles in conversations with the City. But, the incremental costs for vehicles can vary depending on the particular vehicle and the CNG equipment involved. The additional cost for the CNG equipment on each vehicle, the fuel use of the vehicle and the prices of CNG per gallon equivalent at the pump versus gasoline or diesel will be economic factors to be considered by each person evaluating purchasing dual-fuel vehicles.

Sponsoring Witness:

Glenn R. Jennings