

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS )  
COMPANY, INC. FOR AN ORDER DECLARING )  
THAT IT IS AUTHORIZED TO CONSTRUCT, ) CASE NO. 2013-00365  
OWN, AND OPERATE A COMPRESSED )  
NATURAL GAS STATION IN BEREA, KENTUCKY )

NOTICE OF FILING

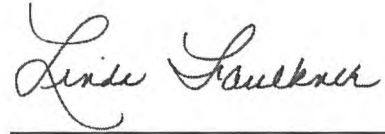
Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on September 16, 2014 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on September 16, 2014 in this proceeding;
- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on September 16, 2014.

A copy of this Notice, the certification of the digital video record, hearing log, and exhibits have been electronically served upon all persons listed at the end of this Notice. Parties desiring an electronic copy of the digital video recording of the hearing in Windows Media format may download a copy at: [http://psc.ky.gov/av\\_broadcast/2013-00365/2013-00365\\_16Sep14\\_Inter.aspx](http://psc.ky.gov/av_broadcast/2013-00365/2013-00365_16Sep14_Inter.aspx). Parties wishing an annotated digital video

recording may submit a written request by electronic mail to [pscfilings@ky.gov](mailto:pscfilings@ky.gov). A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 23<sup>rd</sup> day of September 2014.

A handwritten signature in cursive script that reads "Linda Faulkner".

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Linda Faulkner  
Director, Filings Division  
Public Service Commission of Kentucky

Honorable Dennis G Howard II  
Assistant Attorney General  
Office of the Attorney General  
Utility & Rate Intervention Division  
1024 Capital Center Drive  
Suite 200  
Frankfort, KENTUCKY 40601-8204

Honorable Matthew R Malone  
Attorney at Law  
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127 West Main Street  
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Honorable Robert M Watt, III  
Attorney At Law  
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300 West Vine Street  
Suite 2100  
Lexington, KENTUCKY 40507-1801

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS COMPANY, )  
INC. FOR AN ORDER DECLARING THAT IT IS ) CASE NO. 2013-00365  
AUTHORIZED TO CONSTRUCT, OWN, AND )  
OPERATE A COMPRESSED NATURAL GAS STATION )  
IN BEREA, KENTUCKY )

CERTIFICATE

I, Sonya Harward, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on September 16, 2014. Hearing Log, Exhibits, Exhibit List, and Witness List are included with the recording of September 16, 2014.

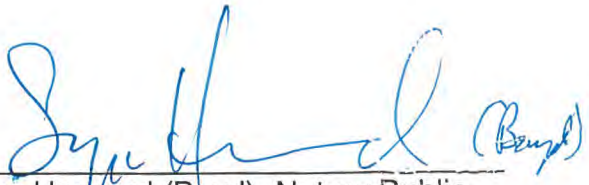
2. I am responsible for the preparation of the digital recording.

3. The digital recording accurately and correctly depicts the Hearing of September 16, 2014.

4. The "Exhibit List" attached to this Certificate correctly lists all Exhibits introduced at the Hearing of September 16, 2014.

5. The "Hearing Log" attached to this Certificate accurately and correctly states the events that occurred at the Hearing of September 16, 2014 and the time at which each occurred.

Given this 19<sup>th</sup> day of September, 2014.

  
\_\_\_\_\_  
Sonya Harward (Boyd), Notary Public  
State at Large  
My commission expires: August 27, 2017





# Session Report - Detail

2013-00365\_16Sept2014

Delta Natural Gas Company

Date:	Type:	Location:	Department:
9/16/2014	Other	Public Service Commission	Hearing Room 1 (HR 1)

Judge: David Armstrong; Linda Breathitt; Jim Gardner  
 Witness: John Brown - Delta Natural Gas Co.; Glenn Jennings - Delta Natural Gas Co. ; Jonathon Morpheu - Delta Natural Gas Co. ; David Mrowzinski - IGS CNG Services; Matthew Wesolosky - Delta Natural Gas Co.  
 Clerk: Sonya Harward

Event Time	Log Event
9:52:49 AM	Session Started
9:52:52 AM	Session Paused
10:03:52 AM	Session Resumed
10:03:58 AM	Chairman Armstrong Preliminary Remarks
10:04:44 AM	Introductions - Chairman David Armstrong, Vice Chairman Jim Gardner, and Commissioner Linda Breathitt
10:04:54 AM	Atty. Robert Watt and Atty. Chapman Hopkins for Delta
10:05:10 AM	Atty. Matthew Malone and Matthew White for IGS and Clean Energy
10:05:28 AM	Atty. Jennifer Hans and Atty. Angela Goad for Attorney General's Office
10:05:38 AM	Atty. Virigina Gregg, Atty. Jonathan Beyer, and Atty. Ann Ramser for the PSC
10:05:54 AM	Public notice has been given and there are no outstanding motions.
10:06:11 AM	Call for Public Comments
10:06:31 AM	Public Comment: Lyle Roelots - Berea College President Note: Harward, Sonya Here is support of the Delta proposal.
10:08:43 AM	Chairman Armstrong Comments
10:09:20 AM	Public Comment: Randy Stone - City Administrator for City of Berea Note: Harward, Sonya Here is support of the Delta proposal.
10:11:16 AM	Chairman Armstrong Comment - More Public Comments may be taken later.
10:11:40 AM	Witness John Brown takes the stand and is sworn in Note: Harward, Sonya Chief Financial Officer, Secretary, and Treasurer for Delta Natural Gas Company
10:13:25 AM	Atty. Watt Direct Exam of Witness Brown Note: Harward, Sonya Witness provided one correction to his testimony: Changes to Tariff Sheets in Exhibit 4 to his testimony.
10:14:09 AM	Atty. Goad Cross Exam of Witness Brown
10:14:34 AM	Atty. Goad to Witness Brown Note: Harward, Sonya Referencing the response to the AG's Initial Request, Item 12, where "need" is defined.
10:16:30 AM	Atty. Goad to Witness Brown Note: Harward, Sonya Referencing the response to the AG's Initial Request, Item 10, regarding how many customers have CNG vehicles.
10:16:58 AM	Atty. Goad to Witness Brown Note: Harward, Sonya Referencing the Commission's First Request, Item 7, regarding CNG markets.
10:21:28 AM	Atty. Goad to Witness Brown Note: Harward, Sonya Asking if any current customer would benefit from a CNG station.
10:24:31 AM	Objection by Atty. Watt Note: Harward, Sonya Atty. Watt clarified Delta's request.
10:25:25 AM	Atty. Goad Response to Objection
10:25:44 AM	Chairman Armstrong Sustains

10:25:53 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Referencing Witness's Testimony, page 2, lines 20-23, regarding primary reason Delta wants to build the CNG station.
10:27:52 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Asking about research being done before building a CNG station.
10:29:39 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Asking why Delta Shareholders should not pay for this station, rather than the ratepayers.
10:32:01 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Referencing the Commission's First Request, Item 1, regarding non-rate base model and commercial model.
10:35:42 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Asking if CNG stations in other states fully funded by ratepayers.
10:37:10 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Referencing Witness's Testimony, page 6, line 17, regarding three CNG stations that exist in Kentucky and how they are funded.
10:41:13 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Referencing Witness's Testimony, page 8, line 22, and top of page 9.
10:44:01 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Continuing to ask about the need for a market analysis.
10:45:51 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Asking if Delta is also requesting sales at the station to be unregulated.
10:48:30 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Asking if Delta is also requesting a guaranteed rate of return on the CNG station.
10:52:25 AM	Atty. Goad to Witness Brown Note: Harward, Sonya	Referencing Witness's Testimony, page 3, lines 16-18, regarding Utah regulation and CNG issues.
10:54:10 AM	AG - Exhibit 1 Note: Harward, Sonya	Kentucky Legislature, HB 560, 14RS, WWW Version
10:56:49 AM	Atty. White Cross Exam of Witness Brown	
10:57:23 AM	Atty. White to Witness Brown Note: Harward, Sonya	Referencing Witness's Testimony, page 8, regarding different rate models that can be used to fund CNG infrastructure.
10:58:53 AM	Atty. Watt Objection Note: Harward, Sonya	Use of "guaranteed rate of return."
10:59:51 AM	Atty. White to Witness Brown Note: Harward, Sonya	Asking about natural gas being a natural monopoly, and comparing it with a gas station, which is not a monopoly.
11:01:05 AM	Atty. White to Witness Brown Note: Harward, Sonya	Referencing Witness's Testimony, page 6 -- corrected to page 3, line 1.
11:04:43 AM	Atty. White to Witness Brown Note: Harward, Sonya	Asking if this CNG station is approved, would more CNG stations then be approved.
11:05:43 AM	Atty. White to Witness Brown Note: Harward, Sonya	Referencing Witness's Testimony, Exhibit 4, regarding the transportation rate for the CNG station.
11:11:35 AM	Atty. White to Witness Brown Note: Harward, Sonya	Referencing Witness's Testimony, page 9, regarding market analysis.

11:16:43 AM	Atty. White to Witness Brown Note: Harward, Sonya	Asking about commerical fleets being the vast majority of CNG users throughout the country.
11:18:29 AM	Atty. White to Witness Brown Note: Harward, Sonya	Asking if there is very little market for residential use in the CNG market.
11:19:59 AM	Atty. White to Witness Brown Note: Harward, Sonya	Asking if there are any contractual committments with fleets to use the CNG station.
11:24:19 AM	Atty. White to Witness Brown Note: Harward, Sonya	Asking if there would be an increased charge to customers if there is an over-run of the cost to build the stations.
11:25:06 AM	Atty. White to Witness Brown Note: Harward, Sonya	Referencing Witness's Testimony, page 10, lines 22-23, regarding unregulated price of CNG.
11:33:09 AM	Atty. White to Witness Brown Note: Harward, Sonya	Asking about Delta seeking recovery of the cost of the station through distribution sales regardless of the recovery of cost through sales at the station.
11:36:25 AM	Atty. White to Witness Brown Note: Harward, Sonya	Asking if Delta is seeking to tie price of CNG to the charge at the pump to the rate of return that Delta will recieve on its distribution assets.
11:37:32 AM	Atty. White to Witness Brown Note: Harward, Sonya	Asking about a competitor coming in to build when there is another competitor with a lower price.
11:41:02 AM	Atty. Gregg Cross Exam of Witness Brown	
11:41:22 AM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Asking if the CNG station will be providing a regulated utility service.
11:43:15 AM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Referencing Witness's response to Commission's Request, Item 6, regarding Shareholders paying for project.
11:45:05 AM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Asking about adding more to the burden of Delta's customers that already bear high costs for gas.
11:47:11 AM	PSC Staff - Exhibit 1 Note: Harward, Sonya	Several Documents: First PSC Data Request, dated Dec, 13, 2013, Item 1; First PSC Data Request, dated Dec, 13, 2013, Item 5; Second PSC Data Request, dated Jan. 10, 2013, Item 6; Second AG Data Request, dated Jan. 10, 2013, Item 33; Second AG Data Request, dated Jan. 10, 2013, Item 11; Second PSC Data Request, dated Jan. 10, 2013, Item 3; Exhibit A, Memorandum of Agreement Regarding Entry Into Energy Incentive Agreement; and copy of 278.508.
11:48:12 AM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Referencing page 11 of Witness's Direct Testimony, provided as a document in the PSC Staff - Exhibit 1 to this hearing.
11:50:22 AM	Atty. Watt clarifying the question	being asked by Atty. Gregg to Witness Brown.
11:50:52 AM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Asking if there are any other charges proposed to be included in the volumetric rate.
11:52:29 AM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Referencing response to AG's Second Request, Item 11, page 2, regarding date on tariff sheet and the rates charged on this tariff.

11:59:57 AM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Referencing response to AG's Second Request, Item 11, regarding a rate in the attached Vectron tariff.
12:03:14 PM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Referencing response to AG's Second Request, Item 11, last sheet, regarding rates charged by Piedmont.
12:10:29 PM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Asking if there are any car dealerships in the Delta area that sell cars with CNG capabilities.
12:12:01 PM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Asking about Delta purchasing 11 dual-fuel vehicles, and the cost for converting existing vehicles.
12:15:48 PM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Asking if the primary purpose for the facility is to produce an alternate transportation fuel, and if any electricity is to be produced.
12:18:05 PM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Asking about Delta's compliance with 278.508(1), regarding non-regulated activity.
12:20:58 PM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Asking what flexibility the Commission would have with the regulation, 278.508.
12:24:16 PM	Atty. Gregg to Witness Brown Note: Harward, Sonya	Asking when Delta plans on filing its next rate application.
12:26:16 PM	Break for Lunch	
12:26:31 PM	Session Paused	
1:31:14 PM	Session Resumed	
1:31:24 PM	Vice Chairman Gardner Cross Exam of Witness Brown Note: Harward, Sonya	Asking about price point.
1:34:05 PM	Vice Chairman Gardner to Witness Brown Note: Harward, Sonya	Asking what makes this proposal a pilot.
1:36:36 PM	Vice Chairman Gardner to Witness Brown Note: Harward, Sonya	Asking about the tariff.
1:39:05 PM	Vice Chairman Gardner to Witness Brown Note: Harward, Sonya	Asking about 278.508 and Witness's view of this regulation.
1:41:05 PM	Camera Lock Deactivated	
1:42:27 PM	Vice Chairman Gardner to Witness Brown Note: Harward, Sonya	Referencing 278.2201 and asking about a minimum threshold and subsidizing.
1:44:18 PM	Vice Chairman Gardner to Witness Brown Note: Harward, Sonya	Asking about the annual \$2.76 charge to a customer.
1:45:38 PM	Vice Chairman Gardner to Witness Brown Note: Harward, Sonya	Asking about the Commission setting a cap on the annual charge for customers.
1:46:25 PM	Commissioner Breathitt Cross Exam of Witness Brown Note: Harward, Sonya	Asking about the term GGE and if stations are user friendly.
1:50:26 PM	Commissioner Breathitt to Witness Brown Note: Harward, Sonya	Asking about make up of crude oil vs. CNG and how it effects the cost of each.
1:51:46 PM	Commissioner Breathitt to Witness Brown Note: Harward, Sonya	Asking about the pipe replacement program and waiving the costs.
1:54:04 PM	Chairman Armstrong Cross Exam of Witness Brown Note: Harward, Sonya	Asking about Atmos having CNG stations in other states.
1:54:48 PM	Chairman Armstrong to Witness Brown Note: Harward, Sonya	Asking if there is a parallel between the hybrids and the battery-operated vehicles.



1:57:30 PM	Atty. Watt Re-Direct Exam of Witness Brown Note: Harward, Sonya	Asking some clarifying questions that he previously gave answers to when asked by other parties.
2:00:07 PM	Atty. Goad Re-Cross Exam of Witness Brown Note: Harward, Sonya	Asking if it is possible for Delta to absorb any volatility in price at the pumps without the contributions from the ratepayers.
2:01:14 PM	Witness Brown excused from the stand.	
2:01:31 PM	Witness Matthew Wesolosky takes the stand and is sworn in. Note: Harward, Sonya	Vice President/Controller of Delta Natural Gas Company
2:02:35 PM	Atty. Watt Direct Exam of Witness Wesolosky Note: Harward, Sonya	Changes to testimony, provided in Delta - Exhibits 1 and 2 to this Hearing.
2:03:08 PM	Delta - Exhibit 1 Note: Harward, Sonya	Wesolosky Revised Exhibit 1
2:05:00 PM	Delta - Exhibit 2 Note: Harward, Sonya	Revised Break Even Analysis
2:07:38 PM	Atty. Goad Cross Exam of Witness Wesolosky Note: Harward, Sonya	Asking what original cost projection was to build the station and the difference between the original and current cost.
2:09:09 PM	POST HEARING DATA REQUEST by Atty. Goad (due in 10 days) Note: Harward, Sonya	Worksheet to be revised with customer rate/impact charge.
2:10:19 PM	Atty. Goad to Witness Wesolosky Note: Harward, Sonya	Asking about the use of past costs of natural gas.
2:11:08 PM	Atty. Goad to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Testimony, pages 4 and 5, regarding the savings per CNG vehicle.
2:12:34 PM	Atty. Goad to Witness Wesolosky Note: Harward, Sonya	Referencing Mrowzinski Testimony, page 4, lines 15-20.
2:14:36 PM	Atty. Goad to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Rebuttal Testimony, page 6, lines 8-14.
2:16:43 PM	Atty. Goad to Witness Wesolosky Note: Harward, Sonya	Asking how a private CNG station can compete with a CNG station that Delta builds.
2:17:36 PM	Atty. White Cross Exam of Witness Wesolosky	
2:18:07 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Direct Testimony, page 4, revised amount of cost savings for use of CNG vehicles.
2:22:12 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Testimony, page 5, regarding the revenue requirement.
2:25:13 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Direct Testimony, page 5, lines 15-16, regarding GGE costs.
2:28:43 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Asking questions about Delta only contributing half of the projected revenue, then Delta would have to double its projected sales.
2:30:51 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Asking questions about insurance costs.
2:33:34 PM	Atty. Watt Objection Note: Harward, Sonya	Witness not familiar with price elasticity.
2:34:13 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Asking about maintenance costs.
2:35:29 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Direct Testimony, page 5 and 6, regarding error in conversion of CCF to GGE.

2:36:40 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Rebuttal Testimony, page 1, regarding Delta employees operating the station.
2:40:37 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Rebuttal Testimony, page 2, regarding employee hired to focus on CNG sales in Kentucky.
2:44:01 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Rebuttal Testimony, page 3, lines 18-19, regarding charging vehicle costs to the station.
2:47:01 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Rebuttal Testimony, page 4, lines 8-13, regarding the \$20,000 cost to run station.
2:51:38 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Going over some calculations to determine usage that the station may get each year.
2:58:00 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Rebuttal Testimony, page 4, regarding a press release about Clean Energy.
3:00:07 PM	Atty. Watt Objection Note: Harward, Sonya	Witness does not know about the type of contract.
3:01:01 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Continues line of questioning about the additions added to the cost in the contract being discussed.
3:02:03 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Rebuttal Testimony, page 6, regarding Delta being able to recover cost through rates.
3:02:47 PM	Atty. Watt Objection Note: Harward, Sonya	Question already been answered.
3:04:34 PM	Atty. White to Witness Wesolosky Note: Harward, Sonya	Referencing Witness's Rebuttal Testimony, page 6, regarding building future CNG stations.
3:06:30 PM	Atty. Hans - Clarification about Delta Exhibits	
3:07:21 PM	Atty. Gregg Cross Exam of Witness Wesolosky Note: Harward, Sonya	Asking about savings per year for CNG vehicles.
3:09:38 PM	Witness Wesolosky dismissed.	
3:09:56 PM	Witness Jonathon Morphew takes the stand and is sworn in. Note: Harward, Sonya	Manager of Engineering for Delta Natural Gas Company
3:11:07 PM	Atty. Watt Direct Exam of Witness Morphew Note: Harward, Sonya	Change to testimony, provided in Delta - Exhibit 3 to this Hearing.
3:12:00 PM	Delta - Exhibit 3 Note: Harward, Sonya	Summary Sheet, CNG Source
3:13:29 PM	Atty. Hans Cross Exam of Witness Morphew	
3:14:41 PM	Atty. Hans to Witness Morphew Note: Harward, Sonya	Asking about increase from original estimate to current estimate in cost to build structure, and what the tax increase was.
3:16:28 PM	Atty. Hans to Witness Morphew Note: Harward, Sonya	Asking about increase in various costs on new estimate to build station.
3:17:47 PM	Atty. Gregg Cross Exam of Witness Morphew Note: Harward, Sonya	Asking about the permits needed from the city to build the station.
3:19:43 PM	Atty. Gregg to Witness Morphew Note: Harward, Sonya	Asking if any Delta employee has ever operated a gas station.
3:20:57 PM	Atty. Gregg to Witness Morphew Note: Harward, Sonya	Asking about employees in Delta's Berea operation.

3:22:55 PM	Atty. Gregg to Witness Morphey Note: Harward, Sonya	Asking about safety in operating a CNG fueling station.
3:25:19 PM	Atty. Gregg to Witness Morphey Note: Harward, Sonya	Asking how customers would know that their station exists.
3:26:43 PM	Atty. Gregg to Witness Morphey Note: Harward, Sonya	Asking if Delta would consider a pump at a gas station rather than a full CNG station.
3:28:24 PM	Atty. Gregg to Witness Morphey Note: Harward, Sonya	Asking about Corbin CNG station that Delta constructed in the past.
3:31:58 PM	Commissioner Breathitt Cross Exam of Witness Morphey Note: Harward, Sonya	Referencing Witness's Testimony, page 5, at the top, regarding storage vessels and quick fill.
3:34:37 PM	Commissioner Breathitt to Witness Morphey Note: Harward, Sonya	Asking if there are any federal regulations.
3:34:56 PM	Commissioner Breathitt to Witness Morphey Note: Harward, Sonya	Asking about signage for the price of gas in front of the station.
3:36:36 PM	Witness Morphey dismissed.	
3:36:43 PM	Break	
3:36:50 PM	Session Paused	
3:48:35 PM	Session Resumed	
3:48:41 PM	Witness Glenn Jennings takes the stand and is sworn in.	
	Note: Harward, Sonya	Chairman of the Board for Delta Natural Gas Company
3:50:57 PM	Atty. Watt Direct Exam of Witness Jennings	
3:51:36 PM	Atty. Watt to Witness Jennings	
	Note: Harward, Sonya	Asking Witness about Delta - Exhibits 1 and 3 to this Hearing.
3:52:45 PM	Atty. Goad Cross Exam of Witness Jennings	
	Note: Harward, Sonya	Referencing Wesolosky Rebuttal Testimony, page 2, line 18, to page 3, line 2, regarding Witness's connections in Berea.
3:56:46 PM	Atty. Goad to Witness Jennings	
	Note: Harward, Sonya	Asking about how long Delta has been considering a CNG station in Berea.
3:59:03 PM	Atty. Goad to Witness Jennings	
	Note: Harward, Sonya	Asking if Berea could put in a station just as easily as Delta, and get tax dollars to pay for it.
4:00:02 PM	Atty. Goad to Witness Jennings	
	Note: Harward, Sonya	Asking about all 23 counties of Delta ratepayers paying for the CNG station in Berea.
4:05:43 PM	Atty. Goad to Witness Jennings	
	Note: Harward, Sonya	Asking about potential bias with Witness's prominence in Berea.
4:06:21 PM	Atty. White Cross Exam of Witness Jennings	
	Note: Harward, Sonya	Asking about having another entity to build and run a CNG station.
4:10:40 PM	Atty. Gregg Cross Exam of Witness Jennings	
	Note: Harward, Sonya	Asking if Witness considers natural gas is a renewable energy.
4:12:06 PM	Atty. Gregg to Witness Jennings	
	Note: Harward, Sonya	Referencing last 2 documents of PSC Staff - Exhibit 1 to this Hearing. (Attached to PSC 2nd Request, Item 3)
4:16:12 PM	Atty. Gregg to Witness Jennings	
	Note: Harward, Sonya	Asking if CNG is an alternate fuel.
4:17:59 PM	Atty. Gregg to Witness Jennings	
	Note: Harward, Sonya	Asking if Witness reviewed Memorandum of Agreement, one of the documents in PSC Staff - Exhibit 1 to this Hearing.
4:19:43 PM	Atty. Gregg to Witness Jennings	
	Note: Harward, Sonya	Asking about CNG stations in Carrollton and Somerset.

4:20:24 PM	Atty. Watt Re-Direct Exam of Witness Jennings Note: Harward, Sonya	Asking about tax incentives.
4:23:07 PM	Witness Jennings dismissed	
4:23:26 PM	Witness David Mrowinski takes the stand and is sworn in. Note: Harward, Sonya	CNG Program Manager for IGS CNG Services
4:25:22 PM	Atty. White Direct Exam of Witness Mrowzinski	
4:25:57 PM	Atty. Watt Cross Exam of Witness Mrowzinski	
4:26:32 PM	Atty. Watt to Witness Mrowzinski Note: Harward, Sonya	Asking about IGS having fueling stations in Kentucky and if Clean Energy has one other than the one at the waste management facility in Louisville.
4:28:11 PM	Atty. Watt to Witness Mrowzinski Note: Harward, Sonya	Asking Witness to describe a private CNG fueling station.
4:30:00 PM	Atty. Watt to Witness Mrowzinski Note: Harward, Sonya	Referencing Witness's Testimony, page 7, line 13, regarding \$0.50 profitability.
4:30:51 PM	Atty. Watt to Witness Mrowzinski Note: Harward, Sonya	Referencing a copy of a presentation that was attached to the Witness's Testimony.
4:35:09 PM	Atty. Watt to Witness Mrowzinski Note: Harward, Sonya	Referencing response to Delta's Request, Item 22.d., regarding electric compression cost.
4:38:15 PM	Atty. Watt to Witness Mrowzinski Note: Harward, Sonya	Asking if Witness is aware that electricity in Kentucky is priced lower than most states.
4:38:44 PM	Atty. Watt to Witness Mrowzinski Note: Harward, Sonya	Referencing response to Delta's Request, Item 22.a., regarding estimates of maintenance.
4:42:13 PM	Atty. Watt to Witness Mrowzinski Note: Harward, Sonya	Referencing Witness's Testimony, page 13, line 16, regarding issues with competitive CNG stations.
4:44:43 PM	Atty. Goad Cross Exam of Witness Mrowzinski Note: Harward, Sonya	Asking what Witness believes the total cost of natural gas will be at the CNG pump, and describe how you get to that price.
4:51:22 PM	Atty. Goad to Witness Mrowzinski Note: Harward, Sonya	Asking if Delta's proposal concerning the CNG station construction costs are reasonable.
4:53:21 PM	Atty. Goad to Witness Mrowzinski Note: Harward, Sonya	Asking if Witness thinks Delta can obtain public sales to meet the revenue requirement.
4:55:37 PM	Atty. Goad to Witness Mrowzinski Note: Harward, Sonya	Referencing Wesolosky Rebuttal Testimony, Exhibit 1, a press release, and references the \$1.21 GGE cost.
4:58:10 PM	Atty. Goad to Witness Mrowzinski Note: Harward, Sonya	Asking Witness to expand on answer about ratepayers having to pay the cost and it hindering CNG infrastructure over the long run.
5:00:56 PM	Atty. Gregg Cross Exam of Witness Mrowzinski Note: Harward, Sonya	Asking if Witness considers a CNG station a risky endeavor.
5:03:13 PM	Vice Chairman Gardner Cross Exam of Witness Mrowzinski Note: Harward, Sonya	Asking about when an employee was hired for marketing in Berea area.
5:05:34 PM	Vice Chairman Gardner to Witness Mrowzinski Note: Harward, Sonya	Asking about their being a market for CNG because fleets are doing it, not because of residential customers.



5:07:28 PM Vice Chairman Gardner to Witness Mrowzinski  
Note: Harward, Sonya Asking when Witness thinks it will move into a market that is primarily residential vehicles.

5:12:25 PM Vice Chairman Gardner to Witness Mrowzinski  
Note: Harward, Sonya Asking if they have a CNG station in an area with less than 200,000 people.

5:15:12 PM Commissioner Breathitt Cross Exam of Witness Mrowzinski  
Note: Harward, Sonya Asking how much time Kentucky employee spends in Kentucky.

5:19:27 PM Vice Chairman Gardner to Witness Mrowzinski

5:20:37 PM Vice Chairman Gardner to Witness Mrowzinski  
Note: Harward, Sonya Asking if there would be a gas price sign at a CNG station.

5:21:22 PM POST HEARING REQUESTS by Atty. Gregg  
Note: Harward, Sonya 1-Delta provide the estimated cost of the project per customer if not eligible for economic tax incentives and credits.  
Note: Harward, Sonya 2-Delta provide verification that the proposed CNG fueling station will still be eligible for tax incentives from the Economic Development Cabinet.

5:22:57 PM All POST HEARING REQUEST due in 10 days

5:23:19 PM Atty. Watt.- Confirms AG's POST HEARING REQUEST

5:23:51 PM Briefs due by 10/16

5:24:53 PM Adjourned

5:25:00 PM Session Paused

5:25:09 PM Session Ended



## Exhibit List Report

2013-00365\_16Sept2014

Delta Natural Gas Company

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<b>Name:</b>	<b>Description:</b>
AG - Exhibit 1	Kentucky Legislature, HB 560, 14RS, WWW Version
Delta - Exhibit 1	Wesolosky Revised Exhibit 1
Delta - Exhibit 2	Revised Break Even Analysis
Delta - Exhibit 3	Summary Sheet, CNG Source
PSC Staff - Exhibit 1	Several Documents

Delta Natural Gas Company, Inc.  
Case No. 2013 -00365  
Testimony of Matthew D. Wesolosky  
Wesolosky Revised Exhibit I

Estimated CNG Project Cost

	<u>Unit Price</u>	<u>Qty</u>	<u>Extended Price</u>
1 Two Compressors (972 SCFM (7.4 GGE/Minute)	\$ 191,000	2	\$ 382,000
2 Automatic Regenerative Dryer	94,350	1	94,350
3 Storage Sphere 3 pack	93,750	1	93,750
4 Priority/Sequential Panel	28,000	1	28,000
5 CNG Dispenser	48,900	2	97,800
6 Card Reader	18,500	2	37,000
7 Signage	20,000	1	20,000
8 Dispenser Canopy	39,600	1	39,600
9 Materials for Site Preparation (concrete, asphalt, 10 electrical, valves, tubing, etc. )	346,687	1	<u>346,687</u>
11 <b>Equipment</b>			<b>\$ 1,139,187</b>
12 Installation & Site Prep	115,563	1	115,563
13 Survey, Engineering & Geo-technical Survey	56,100	1	56,100
14 Freight	12,700	1	12,700
15 Training	10,000	1	<u>10,000</u>
16 <b>Labor</b>			<b>\$ 194,363</b>
17 <b>Project Cost</b>			<b><u><u>\$ 1,333,550</u></u></b>

Delta Natural Gas Company, Inc.  
Case No. 2013 -00365  
Testimony of Matthew D. Wesolosky  
Revised Break Even Analysis

	As reported in testimony		As revised	
	Amount	Source	Amount	Source
1 Revenue requirement	\$ 228,000	page 4, line 4	\$ 228,000	page 4, line 4
2 2013 Ccf billed	51,592,000	page 4, line 4	46,183,810	AG-1 - 84
3 Volumetric rate, per Ccf (line 1 / line 2)	\$ 0.004	page 4, line 6	\$ 0.005	as calculated
4 Fiscal 2013 avg residential consumption	560	page 4, line 8	560	page 4, line 4
5 Impact to residential customer rates (line 3 x line 4)	\$ 2.24	page 4, line 10	\$ 2.76	as calculated
6 Revenue Requirement	\$ 228,000	page 4, line 4	\$ 228,000	page 4, line 4
7 Less: Vehicle savings				
8 Number of vehicles	11	page 5, line 8	11	page 5, line 8
9 Savings per vehicle	\$ (4,200)	page 5, line 8	\$ (2,700)	corrected, per PSC 1-10, rounded
10 Total vehicle savings (line 8 x line 9)	\$ (46,200)	page 5, line 9 & 12	\$ (29,700)	as calculated
11 Revenue requirement from external customers (line 6 + line 10)	\$ 181,800	page 5, line 13	\$ 198,300	as calculated
12 Assumed sales price, exclusive of taxes	\$ 2.00	page 5, line 14	\$ 2.00	page 5, line 14
13 Less: Gas cost, per GGE	\$ (0.30)	page 5, line 15	\$ (0.48)	corrected Wesolosky Rebuttal (page 6, line 1) (\$.38 per Ccf X 1.267)
14 per GGE contribution towards revenue requirement (line 12 - line 13)	\$ 1.70	page 5, line 16 & page 6, line 5	\$ 1.52	as calculated
15 GGE sales required to break even (line 11 / line 14)	107,000	page 5, line 17	130,000	as calculated
16 GGE consumption of average fleet vehicle	1,500	page 5, line 18	1,500	page 5, line 18
17 Additional fleet vehicles required to break even (line 15 / line 16)	72	page 5, line 18	87	as calculated

**SUMMARY SHEET  
CNG SOURCE  
1350 BROOKEVILLE WAY INDIANAPOLIS IN. 46239  
CONTACT: DOUG LUBS**

<u>ITEM</u>	<u>QUANTITY</u>	<u>UNIT</u>	<u>RATE PER UNIT</u>	<u>ESTIMATED COST</u>
CAM. 250HP COMP. W/ VERT. DISCHARGE	2	972SCFM	\$191,000.00	\$382,000.00
AUTO-REGEN DRYER	1		\$94,350.00	\$94,350.00
3PACK STORAGE SPHERE	1	11,650SCF	\$93,750.00	\$93,750.00
PRIORITY SEQUENTIAL PANEL	1		\$28,000.00	\$28,000.00
DUAL POST DISPENSER	2	TRANS NOZ	\$48,900.00	\$97,800.00
CARD READER	2		\$18,500.00	\$37,000.00
INSTALLATION MATERIALS	1		\$346,687.00	\$346,687.00
INSTALLATION LABOR	1		\$115,563.00	\$115,563.00
CANOPY	1		\$39,600.00	\$39,600.00
COMPRESSOR START UP AND TRAINING	1		\$10,000.00	\$10,000.00
DESIGN DEVELOPMENT	1		\$56,100.00	\$56,100.00
FREIGHT	1		\$12,700.00	\$12,700.00
SIGNAGE	1		\$20,000.00	\$20,000.00

**SUB TOTAL**

\$1,333,550.00

**UNIT PRICE DOES NOT INCLUDE APPLICABLE SALES TAX**  
SALES TAX ON EQUIP.

\$64,775.22

**TOTAL COST**

**\$1,398,325.22**



# Kentucky Legislature



HB560

14RS

WWW Version

The hyperlink to a bill draft that precedes a summary contains the most recent version (Introduced/GA/Enacted) of the bill. If the session has ended, the hyperlink contains the latest version of the bill at the time of sine die adjournment. Note that the summary pertains to the bill as introduced, which is often different from the most recent version.

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HB 560 (BR 1724) - K. Hall, K. Sinnette

AN ACT relating to utility cost recovery.

Create a new section of KRS Chapter 278 to establish a mechanism whereby a natural gas utility may recover in rates part of the cost of building out infrastructure to fueling stations so that the station may offer natural gas as a vehicle fuel.

Mar 4-introduced in House

Mar 5-to Tourism Development & Energy (H)

Mar 18-posted in committee

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[Legislature Home Page](#) | [Record Front Page](#)

AG  
Exhibit 1

AN ACT relating to utility cost recovery.

*Be it enacted by the General Assembly of the Commonwealth of Kentucky:*

➔SECTION 1. A NEW SECTION OF KRS CHAPTER 278 IS CREATED TO READ AS FOLLOWS:

*As used in Sections 1 to 3 of this Act:*

*(1) "Qualifying project" means a project to serve a fueling station that dispenses or plans to dispense natural gas as a motor vehicle fuel and:*

*(a) The project is located where adequate natural gas service is not available;*

*and*

*(b) The project will provide adequate natural gas service;*

*(2) "Eligible infrastructure costs" means:*

*(a) Investment in infrastructure for a qualifying project;*

*(b) Return on the investment using the natural gas utility's weighted average cost of capital as authorized in the utility's most recent rate case or pursuant to KRS 278.509;*

*(c) Incremental operation and maintenance expense; and*

*(d) Associated depreciation and property taxes; and*

*(3) "Investment" means costs incurred to deploy infrastructure, including planning, development, and construction costs for the expansion, replacement, relocation, and extension of infrastructure plus allowances for funds used during construction and for funds used until the qualifying project is included in the natural gas utility's rate base.*

➔SECTION 2. A NEW SECTION OF KRS CHAPTER 278 IS CREATED TO READ AS FOLLOWS:

*(1) Notwithstanding any contrary provision of law, the natural gas utility constructing infrastructure under Sections 1 to 3 of this Act shall be permitted to recover in rates the eligible infrastructure costs necessary to complete the*

qualifying project.

(2) The natural gas utility shall account for monthly costs incurred on the cumulative investment in infrastructure as a deferred cost until new base rates and charges that incorporate eligible infrastructure costs become effective for the natural gas utility. Deferred costs shall be accounted for as a regulatory asset.

(3) (a) Eligible infrastructure costs shall be reduced by a non-gas base revenue credit equal to the amount of the non-gas revenue received from the qualifying project by the natural gas utility for providing sales, transportation services, or both.

(b) The non-gas base revenue credit shall be applied before the commission issues an order establishing customer rates in a general rate case involving recovery of costs deferred under this section.

(c) The non-gas base revenue credit for a qualifying project shall not exceed the eligible infrastructure costs for the qualifying project.

(d) The commission may consider a positive non-gas base revenue credit for a qualifying project in establishing new base rates and charges that incorporate eligible infrastructure costs.

➔SECTION 3. A NEW SECTION OF KRS CHAPTER 278 IS CREATED TO READ AS FOLLOWS:

(1) The investment for all qualifying projects of a natural gas utility in any year shall not exceed one percent (1%) of the natural gas utility's net plant investment that was utilized in establishing base rates in the utility's most recent rate case and are, therefore, in the ordinary course of business.

(2) Deferral of costs recovered pursuant to Sections 1 to 3 of this Act shall have no effect on the recovery of any other cost by the natural gas utility.



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

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

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

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:

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

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

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%

**DELTA NATURAL GAS COMPANY, INC.**

**CASE NO. 2013-00365**

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

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

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

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

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



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

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

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

1 Q. If Delta is proposing that it will own the CNG Station, why is Delta charging the  
2 station a transportation rate?

3 A. Since the sales to the public from the station will be treated as unregulated, charging the  
4 Delta owned station a transportation rate treats the station as if it were an unaffiliated  
5 customer and provides Delta the ability to evaluate the profitability of the station as if it  
6 were a commercial entity. For example, if the station sold 50 gasoline gallon equivalents  
7 ("GGE") at a sales price of \$2 per GGE (\$2.54 per CCF), a gas cost of \$.30 per GGE  
8 (\$.38 per CCF), a transportation rate of \$.13 per GGE (\$.16 per CCF) and \$5 of other  
9 operating costs, the station's profitability would be \$74. Failure to charge the station the  
10 transportation rate would be to say the profitability of the station was \$80, which is  
11 misleading since there is cost associated with transporting the gas to the station.

12 Q. In the preceding example, in a rate case how much would the station contribute  
13 towards Delta's revenue requirement?

14 A. In the preceding example, \$80 would be contributed towards Delta's revenue  
15 requirement. Of the \$80, \$6.50 (50 GGE x \$.13 per GGE) of the transaction would be  
16 contributed from Delta's transportation service and the remainder is contributed from the  
17 non-regulated activity.

18 Q. Will the profit (loss) of the CNG Station as described above be the net impact of the  
19 CNG Station on the utility and its customers?

20 A. Any loss would be offset by tariff transportation revenues earned by the utility for  
21 delivering natural gas to the station. Though the tariff transportation rate is a cost to the  
22 station, it is paid to the utility as an added contribution to utility margin.

23

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

**SECOND DATA REQUEST FROM ATTORNEY GENERAL  
DATED JANUARY 10, 2014**

33. Please reference the company's response to OAG 1-60. Based on a natural gas price of \$4.30 at the Henry Hub and \$3.179 price for regular, unleaded gasoline in Frankfort, Kentucky as of January 8, 2014, perform the calculation on page 11 of Mr. Brown's Testimony. In the calculation, use all actual or best projected costs that will ultimately be included in the marketing for sale price for CNG, including but not limited to taxes. (If Delta believes the use of the aforementioned natural gas price is the incorrect one to employ, the company may provide a different one along with the justification for doing so.)

**Response:**

The Henry Hub price is a reasonable approximation of the unit cost of gas delivered to Berea in January 2014. Attached is a revised page 11 of the Brown testimony, which includes the gas cost requested by the data request, as well as the applicable taxes. As noted in the response to AG-1 Item 60 b and g, the \$5 of operating costs was included for illustrative purposes only to explain the differences between measuring station profitability versus the contribution towards the revenue requirement. The operating costs for the station are listed at Exhibit II of the Wesolosky testimony; however, the operating cost per GGE for these fixed costs is a function of the annual sales, which cannot be estimated.

**Sponsoring Witness:**

Matthew D. Wesolosky



1 Q. If Delta is proposing that it will own the CNG Station, why is Delta charging the  
2 station a transportation rate?

3 A. Since the sales to the public from the station will be treated as unregulated, charging the  
4 Delta owned station a transportation rate treats the station as if it were an unaffiliated  
5 customer and provides Delta the ability to evaluate the profitability of the station as if it  
6 were a commercial entity. For example, if the station sold 50 gasoline gallon equivalents  
7 ("GGE") at a sales price of \$2 per GGE (\$2.54 per CCF), a gas cost of \$.34 per GGE  
8 (\$.43 per CCF), a transportation rate of \$.13 per GGE (\$.16 per CCF), federal taxes of  
9 \$.183 per GGE, state taxes of \$.309 per GGE and \$5 of other operating costs, the  
10 station's profitability would be \$47. Failure to charge the station the transportation rate  
11 would be to say the profitability of the station was \$53, which is misleading since there is  
12 cost associated with transporting the gas to the station.

13 Q. In the preceding example, in a rate case how much would the station contribute  
14 towards Delta's revenue requirement?

15 A. In the preceding example, \$53 would be contributed towards Delta's revenue  
16 requirement. Of the \$53, \$6.50 (50 GGE x \$.13 per GGE) of the transaction would be  
17 contributed from Delta's transportation service and the remainder is contributed from the  
18 non-regulated activity.

19 Q. Will the profit (loss) of the CNG Station as described above be the net impact of the  
20 CNG Station on the utility and its customers?

21 A. Any loss would be offset by tariff transportation revenues earned by the utility for  
22 delivering natural gas to the station. Though the tariff transportation rate is a cost to the  
23 station, it is paid to the utility as an added contribution to utility margin.

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

**SECOND DATA REQUEST FROM ATTORNEY GENERAL**  
**DATED JANUARY 10, 2014**

11. Please reference the company's response to PSC 1-14.
- a. Describe what is meant when Delta states that it has "monitored CNG development through its involvement with the American Gas Association."
  - b. Provide all documentation related to the prior question.
  - c. Describe the nature and outcome of the inquiries made of "Questar, Vectren, Piedmont, and Atlanta Gas Light about their CNG facilities and development of CNG."
  - d. Provide copies of all materials provided to or received from Questar, Vectren, Piedmont, and Atlanta Gas Light about their CNG facilities and development of CNG.

**Response:**

- a. Delta's Chairman, President and CEO is a member of the American Gas Association Board of Directors, having served on that board for many years. Thus he has been in meetings over many years where CNG has been discussed and has participated in meetings where AGA member companies have discussed their CNG efforts.

Also see Exhibits II and III of John Brown's testimony.

- b. Involvement with the AGA board led Delta to investigate/visit CNG facilities of the companies listed in Delta response to PSC-1 Item 14. This information has been provided in various responses in this proceeding, including PSC-1 Item 14 and PSC-2 Item 4. Also see the responses to AG-1 Items 14 and 15.
- c. The inquiries occurred over the telephone or during visits with the utilities. They seem to be satisfied with their CNG fueling operations. They continue to add CNG facilities in their companies, so Delta assumes they do so because they believe it to be a good thing for their customers.

Delta believes CNG to be a good thing to provide for its customers as well. This is based partially on the experiences of these companies.

- d. See attached.

**Sponsoring Witness:**

**Glenn R. Jennings**

2.04 NATURAL GAS VEHICLE RATE (NGV) *- Since 1989*

NGV VOLUMETRIC RATE

	Rate Per Dth Used Dth = decatherm = 10 therms = 1,000,000 Btu
Base DNG	\$5.01140
Energy Assistance	0.02448
Infrastructure Rate Adjustment	<u>0.16104</u>
Distribution Non-Gas Rate	\$5.19692
Base SNG	\$0.80155
SNG Amortization	<u>0.00000</u>
Supplier Non-Gas Rate	\$0.80155 <i>in-tangible costs</i>
Base Gas Cost	\$4.08880
Commodity Amortization	<u>0.07335</u>
Commodity Rate	\$4.16215
<b>Total Rate</b>	<b>\$10.16062</b>

NGV CLASSIFICATION PROVISIONS

- (1) Service is used for refueling natural gas-powered vehicles with compressed natural gas at Company-owned refueling stations.
- (2) All sales are subject to the applicable federal excise tax and the state sales tax described in § 8.02.
- (3) The Energy Assistance rate is subject to a maximum of \$50.00 per month and other conditions as specified in § 8.03.

Issued by R. W. Jibson, President	Advice No.	Section Revision No.	Effective Date
	12-03	29	September 1, 2012

## RATE 129 NATURAL GAS VEHICLE SERVICE

### AVAILABILITY

This Rate Schedule shall be available throughout the Company's Service Area, subject to the availability of adequate facilities and gas supplies, which determination shall be within Company's reasonable discretion.

### CHARACTER OF SERVICE

This Rate Schedule applies to the provision of (1) Gas Sales Service to a Customer-owned and operated CNG facility for the express purpose of converting such natural gas to CNG to fuel natural gas vehicles, or (2) the sale of CNG to any Customer from Company-Owned and operated CNG facilities to fuel natural gas vehicles.

Transportation Service is not provided under this Rate Schedule. Gas Service provided under this Rate Schedule to the Customer-owned and operated CNG facility shall be metered and billed separately from Gas Service provided under any other Rate Schedule.

### RATES AND CHARGES

For Sales Service provided to a Customer-owned and operated CNG facility, the monthly Rates and Charges shall be:           

Customer Facilities Charge:  
\$18.12

Maximum Distribution Charge:  
\$0.1378 per therm

*going to  
1.46 max-therm*

For CNG Service provided from a designated Company-owned and operated CNG facility, the monthly Rates and Charges shall be:           

Maximum Distribution Charge:  
\$0.4207 per therm

### Appendices:

The following Appendices shall be applied monthly:

- Appendix A – Gas Cost Adjustment
- Appendix G – Universal Service Fund Rider
- Appendix H – Pipeline Safety Adjustment

### Minimum Monthly Charge:

The Minimum Monthly Charge shall be the Customer Facilities Charge, if applicable.

### Other Charges:

The Other Charges set forth in Appendix C shall be charged to Customer, if applicable.

### Competitive Flexibility:

The Company may, on an individual Customer basis, assess a Distribution Charge lower than the Maximum Distribution Charge in order to meet competition from alternate fuels. The decision to assess a lower charge will be made by the Company based on its analysis of competitive conditions.

Effective: August 1, 2010



**VECTREN**  
Live Smart

[Residential Customers](#)

[Business Customers](#)

[Corporate](#)

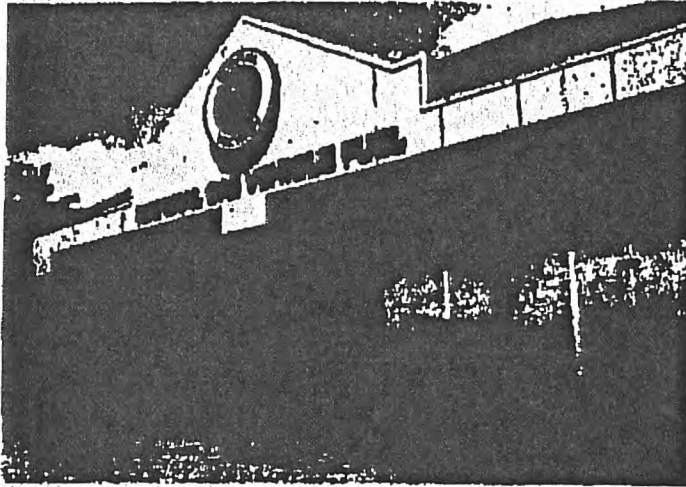
[Conservation Connection](#)

[Community](#)

[Public Safety](#)

[Investor Relations](#)

[Careers](#)



**Eco Fuel Center**

Vectren Natural Gas Fuel Center is conveniently located off the Lloyd Expressway in Evansville, IN on the corner of Heidelberg & Division Streets.

Effective 11/01/2012

**Fuel Price: \*\$1.29 GGE**

(gas gallon equivalent)

\*Price includes both state & federal tax

**Fuel Type - Compressed Natural Gas**

**PSI Available - 3000/3600**

**Access - Public (open 24hrs)**

**Payment Accepted - Major Credit Cards**

For questions or concerns regarding our station, please call (937) 312-2565

**Natural Gas Vehicles**

Natural Gas Vehicle - NGV is the term used to describe vehicles that use Compressed Natural Gas (CNG) as a transportation fuel. There are two types of NGVs: dedicated vehicles that use only CNG, or bi-fuel vehicles, in which CNG or gasoline may be used.

**NGVs for Fleets** - NGVs are ideal for fleet owners, who are seeking a safe, green, and economical alternative to gasoline or diesel. Changing to CNG is a wise decision given the fuel's many advantages. Click on the links below to learn why you should choose natural gas.

**Why choose Compressed Natural Gas?**

- **Economical**
- **Clean Burning**
- **Financial Incentives**
  - **Indiana**
  - **Ohio**
  - **Federal**
- **Safe**

Fleet owners and others interested in information on NGVs for their business operations may contact Graham Bailey at (937) 312-2565 or [gbailey@vectren.com](mailto:gbailey@vectren.com)

**Related Links**

- [Greater Indiana Clean Cities Coalition](#)
- [Clean Fuels Ohio](#)
- [CNG Fueling Stations in Indiana](#)
- [CNG Fueling Stations in Ohio](#)
- [NGVAmerica](#)

**OTHER CONTACTS INCLUDE:**

PAT TYRINE  
DON NYSLER



**RATE SCHEDULE 142  
NATURAL GAS VEHICLE FUEL**

**Applicability and Character of Service**

Gas Service under this Rate Schedule is available to any Customer in the area served by the Company in the State of North Carolina for the consumption and/or resale of natural gas as a motor fuel, upon application to and consent by the Company to such Service, as provided in the Company's Service Regulations.

Gas Service under this Rate Schedule shall be metered at the Customer's Premises, or at the Company's Premises for purposes of providing public access to compressed natural gas filling stations. All gas delivered pursuant to this Rate Schedule shall be metered separately from any gas delivered under any of the Company's other Rate Schedules.

**Rates and Charges**

The rates to be charged for gas Service pursuant to this Rate Schedule are set forth on the Company's "Rates and Charges" tariff sheet and may be viewed at the Company's Web Site at [www.piedmontng.com](http://www.piedmontng.com). A copy of the "Rates and Charges" tariff sheet is also on file with the North Carolina Utilities Commission and available from the Company. Rates are subject to adjustment from time to time with the approval of the North Carolina Utilities Commission.

**Highway Use Taxes**

The rates to be charged for gas Service pursuant to this Rate Schedule do not include applicable Federal, State and/or local highway motor fuel use taxes and fees. If applicable, bills rendered under this Rate Schedule will include such taxes and fees.

**Payment of Bills**

Bills are net and due upon receipt. Bills rendered for Service provided at the Customer's Premises become past due 15 days after bill date. Bills rendered for Service provided at the Company's Premises shall be paid at the time of Service with a valid credit or debit card accepted by the Company.

**Late Payment Charge**

For Service provided at the Customer's Premises, a late payment charge of 1% per month will be applied to all balances not paid prior to the next month's billing date.

**Service Interruption and Curtailment**

Gas Service under this Rate Schedule is subject to the provisions contained within Rate Schedule 106, "Schedule for Limiting and Curtailing Service," and the Company's Service Regulations.

**Applicable Documents Defining Obligations of the Company and Its Customers**

The applicable documents defining the obligations of the Company and its Customers are those described in Section 3 of the Company's Service Regulations.

Issued by Thomas E Skains, Chairman, President and CEO  
Issued to comply with authority granted by the  
North Carolina Utilities Commission  
Docket No. G-9, Sub 582

Issued: 8/19/2010  
Effective: 10/1/2010

*for 15-20 year*

### RATE SCHEDULE 142 NATURAL GAS VEHICLE FUEL

**Rider**

Service to Customers under this Rate Schedule using Company owned and maintained compressor facilities shall be billed at a maximum rate of \$0.40 per therm, in addition to the base rate for Service under this Rate Schedule 142 as set forth on the Company's "Rates and Charges" tariff sheet.

*20 yr. cost of service  
min. volume requirement  
700,000 - 800,000  
50/day*

*in addition to .25  
.25 when base margin*

Rates for CNG service as a regulated service offering

*126 \$/therm per gallon equivalent  
→ customer pays*

NOT IN SEASON

Effective: December 1, 2012

November - March

April - October

	Winter Per Therm	Winter Per GGE	Summer Per Therm	Summer Per GGE
<b>NORTH CAROLINA</b>				
Monthly charge (if applicable)	\$22.00 / month	\$22.00 / month	\$22.00 / month	\$22.00 / month
1 Rate 142 - total approved rate (without rider)	\$0.80080 /therm	\$1.00901 /GGE	\$0.78029 /therm	\$0.98317 /GGE
2 Federal Excise Fuel Tax	\$0.14524 /therm	\$0.18300 /GGE	\$0.14524 /therm	\$0.18300 /GGE
3 NC Inspection Fee	\$0.00198 /therm	\$0.00250 /GGE	\$0.00198 /therm	\$0.00250 /GGE
4 NC Road Tax	\$0.29921 /therm	\$0.37700 /GGE	\$0.29762 /therm	\$0.37500 /GGE
5 NC Excise Tax (pending Lynn Boyette's	\$0.04700 /therm	\$0.05922 /GGE	\$0.04700 /therm	\$0.05922 /GGE
<b>NC Price calibrated to dispenser</b>	<b>\$1.29423 /therm</b>	<b>\$1.63073 /GGE</b>	<b>\$1.27213 /therm</b>	<b>\$1.60289 /GGE</b>
→ <b>With \$0.40/th Rider</b>	<b>\$1.69423</b>	<b>\$2.13473</b>	<b>\$1.67213</b>	<b>\$2.10689</b>
<b>SOUTH CAROLINA</b>				
1 Rate 242 - total approved rate	\$0.79626 /therm	\$1.00329 /GGE	\$0.85605 /therm	\$1.07862 /GGE
2 Federal Excise Fuel Tax	\$0.14524 /therm	\$0.18300 /GGE	\$0.14524 /therm	\$0.18300 /GGE
3 SC Road Tax	\$0.12698 /therm	\$0.16000 /GGE	\$0.12698 /therm	\$0.16000 /GGE
4 Greenville Franchise Fee				
<b>SC Price calibrated to dispenser</b>	<b>\$1.06848 /therm</b>	<b>\$1.34629 /GGE</b>	<b>\$1.12827 /therm</b>	<b>\$1.42162 /GGE</b>
→ <b>With \$0.50/th Rider</b>	<b>\$1.56848</b>	<b>\$1.97629</b>	<b>\$1.62827</b>	<b>\$2.05162</b>
<b>TENNESSEE</b>				
1 Rate 342 - total approved rate	\$0.62691 /therm	\$0.78991 /GGE	\$0.62691 /therm	\$0.78991 /GGE
2 Federal Excise Fuel Tax	\$0.14524 /therm	\$0.18300 /GGE	\$0.14524 /therm	\$0.18300 /GGE
3 TN Road Tax	\$0.10317 /therm	\$0.13000 /GGE	\$0.10317 /therm	\$0.13000 /GGE
4 Nashville Franchise Fee	\$0.04150 /therm	\$0.05229 /GGE	\$0.04150 /therm	\$0.05229 /GGE
<b>TN Price calibrated to dispenser</b>	<b>\$0.91682 /therm</b>	<b>\$1.15520 /GGE</b>	<b>\$0.91682 /therm</b>	<b>\$1.15520 /GGE</b>
→ <b>With \$0.50/th Rider</b>	<b>\$1.41682</b>	<b>\$1.78520</b>	<b>\$1.41682</b>	<b>\$1.78520</b>

*note case*



**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,	City Winchester	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	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:**

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

**9. Accountant:**

<b>Accountant</b> Matthew D. Wesolosky		<b>Contact Person</b>	
<b>Street or P. O. Box</b> 3617 Lexington Road	<b>City</b> Winchester	<b>State</b> KY	<b>Zip Code</b> 40391
<b>Telephone</b> 859-744-6171	<b>Fax</b>	<b>E Mail Address</b> 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, Middleboro, Nicholasville, Owingsville, 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.

Is the facility:

\*\* See Statement 4

- 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**

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

**FIXED ASSET FINANCING SOURCES:**

<b>Bank Loan</b>	<u>Short-term line of credit</u>	\$646,550
<b>Bond Issue</b>	_____	\$
<b>Federal Grants</b>		\$
<b>State Grants</b>		\$
<b>Other Grants (describe)</b>	_____ _____	\$
<b>Equity</b>		\$646,550
<b>Total Asset Financing Sources</b>		\$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> :	0	888,000 GGE**
Product _____:	_____	_____
Product _____:	_____	_____

**17. Estimated Facility Output**

Estimated Annual Facility Output

Product 1: <u>Natural Gas (GGE)**</u>	Product 2: _____	Product 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 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.**

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**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
<b>Total</b>	<b>Total</b>	<b>Total</b>

\*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 Hire</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/>				
<b>Totals</b>	_____	_____	_____	\$ _____

**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.**

<b>Year</b>	<b>Income (Loss)</b>
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
<b>Total</b>	<b>\$2,898,000</b>

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

Year	Federal	Kentucky
<u>2012</u>	\$*	\$*
<u>2011</u>	\$*	\$*
<u>2010</u>	\$*	\$*

\* 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 Sales<sup>1</sup> and Gross Profits<sup>2</sup> 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

<sup>1</sup> Gross Sales = Total Sales - (Discounts + Returns + Allowances)

<sup>2</sup> 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
<b>Totals</b>	<b>\$8,500,000</b>	<b>\$ 6,375,000</b>

<sup>1</sup> Gross Sales = Total Sales - (Discounts + Returns + Allowances)

<sup>1</sup> 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.

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

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**IEIA Sales Tax Incentives**

**Information**

Estimated Costs

<b>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.</b>	<b>\$ 0</b>
<b>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</b>	<b>\$ 0</b>
<b>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)</b>	<b>\$ 1,110,300</b>
<b>D. Sum of A, B, &amp; C</b>	<b>\$ 1,110,300</b>

**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:**

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

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): \_\_\_\_\_

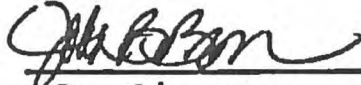
Name of Other Public Servant: \_\_\_\_\_

Description of Financial Transaction: \_\_\_\_\_

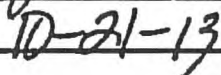
\_\_\_\_\_

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: \_\_\_\_\_



**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 Sphere 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*			<u>\$ 1,110,305</u>
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			<u>\$ 182,800</u>
<b>Project Cost</b>			<u><b>\$ 1,293,105</b></u>

\*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	<u>\$ (237,000)</u>
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 B 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) <sup>1</sup>	29,825
CNG Dispenser (large vehicle)	41,880	(8,400) <sup>1</sup>	33,480
Card Reader	13,500	(13,500) <sup>2</sup>	-
Additional Card Reader	8,800	(8,800) <sup>2</sup>	-
Signage	20,000	(20,000) <sup>2</sup>	-
Dispenser Canopy	39,800	(39,800) <sup>2</sup>	-
Vertical Discharge Cover	13,000	-	13,000
Materials for Site Preparation (concrete, asphalt)	338,000	(33,800) <sup>3</sup>	304,200
Equipment	<u>\$ 1,110,305</u>	<u>\$ (130,800)</u>	<u>\$ 979,505</u>
Installation & Site Prep	112,000	(5,600) <sup>2</sup>	106,400
Survey, Engineering & Geo-technical Survey	58,100	(2,800) <sup>2</sup>	55,300
Freight	9,700	(500) <sup>1</sup>	9,200
Training	5,000	(300) <sup>1</sup>	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>

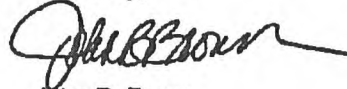
<sup>1</sup> Downstream of the meter, each dispenser has two hose assemblies for fueling vehicles which includes a flexible hose, break-away safety connector and a nozzle. The costs of the items are excluded.

<sup>2</sup> These items are excluded in their entirety.

<sup>3</sup> 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: \_\_\_\_\_



**278.508 Exemption of sale of natural gas used as a motor vehicle fuel from regulation -- Regulation of transportation, distribution, or delivery of natural gas used as a motor vehicle fuel.**

- (1) Notwithstanding any other provisions of this chapter, the rates, terms, and conditions of service for the sale of natural gas to a compressed natural gas fuel station, retailer, or to any end-user for use as a motor vehicle fuel, shall not be subject to regulation by the Kentucky Public Service Commission. Any utility provider of such a nonregulated service shall keep separate records and books of account adequate to allow the commission to allocate costs and revenues and to perform other acts that will assist the commission in enforcing this section.
- (2) The transportation, distribution, or delivery of natural gas to any compressed natural gas fuel station, retailer, or any end-user for use as a motor vehicle fuel, shall continue to be subject to regulation by the Kentucky Public Service Commission. Upon request by the utility, the commission shall set flexible rates which provide a fair opportunity to compete with other motor fuels. Price adjustment pursuant to these flexible rates are not rate changes for purposes of this chapter.
- (3) The sales or transportation transactions described in this section shall not adversely affect the regulated utility's cost or costs, or the availability of natural gas to its utility sales customers.

**Effective:** July 14, 1992

**History:** Created 1992 Ky. Acts ch. 273, sec. 1, effective July 14, 1992.