

COMMONWEALTH OF KENTUCKY

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BEFORE THE PUBLIC SERVICE COMMISSION

APR 11 2014

PUBLIC SERVICE COMMISSION

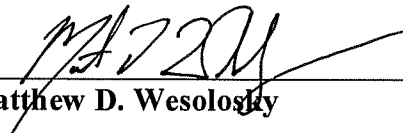
In the Matter of:

AN ADJUSTMENT OF THE PIPE )  
REPLACEMENT PROGRAM RIDER OF )  
DELTA NATURAL GAS COMPANY, INC. )

CASE NO. 2014-00072

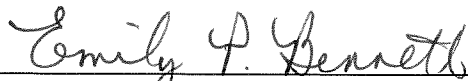
VERIFICATION

The undersigned, **Matthew D. Wesolosky**, being duly sworn, deposes and states that he is Vice President - Controller of Delta Natural Gas Company, Inc. and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
**Matthew D. Wesolosky**

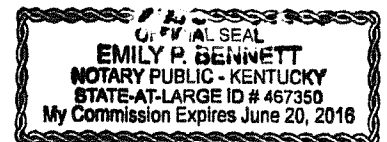
STATE OF KENTUCKY )  
  )  
COUNTY OF CLARK )

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 9<sup>th</sup> day of April, 2014

  
\_\_\_\_\_  
Notary Public (SEAL)

My Commission Expires:

6/20/2016



**DELTA NATURAL GAS COMPANY, INC.**  
**CASE NO. 2014-00072**

**FIRST PSC DATA REQUEST**  
**DATED APRIL 3, 2014**

1. Refer to Schedule I of Delta's Pipe Replacement Program ("PRP") filing.
  - a. Explain whether Delta's billings based on number of customers from Case No. 2010-00116 could be causing it to under-collect its ongoing PRP investment.
  - b. Provide Delta's number of customers, by class, for the Residential, Small Non-Residential, Large Non-Residential, and Interruptible classes for the years 2010 through 2013.

Response:

- a. Yes. The decrease in Delta's number of customers since Case No. 2010-00116 is causing Delta to under-collect its ongoing PRP investment.

Delta would be open to using the current number of customers for the twelve months ended October 31, 2013 to determine its PRP rates. The attached Exhibit I is a revised filing which adjusts the PRP adjustment by \$3,214 for the formula correction noted in Item 2. of this data request. Exhibit I also illustrates how utilizing the number of customers for the twelve months ended October 31, 2013 would impact the current filing. The following illustrates the impact these changes have on the proposed PRP rates:

	As filed	As revised, per Item 2.	As revised, per Item 2. with updated number of customers
Residential	\$ 1.66	\$ 1.66	\$ 1.71
Small Non-Residential	\$ 3.22	\$ 3.23	\$ 3.27
Large Non-Residential	\$ 25.09	\$ 25.16	\$ 25.10
Interruptible	\$ 125.27	\$ 125.63	\$ 155.76

- b. See attached Exhibit II.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.  
Pipe Replacement Program Filing  
Program Year Ended: **December 31, 2013**  
Rates Effective: **April 23, 2014**

	2010	2011	2012	2013	Total
1 Total annual expenditures under the PRP (Schedule II)	\$ 1,574,788	\$ 1,730,104	\$ 3,796,271	\$ 2,961,542	
2 Less:					
3 Accumulated depreciation	(103,750)	(99,425)	(136,240)	(34,096)	
4 Accumulated deferred income taxes	(536,564)	(619,006)	(1,359,699)	(1,111,259)	
5 Net PRP Rate Base, as of December 31, 2012	934,474	1,011,673	2,300,332	1,816,187	
6 WACOC, per case no 2010-00116	7.97025%	7.97025%	7.97025%	7.97025%	
7 Allowed Return	74,480	80,633	183,342	144,755	
8 Tax expansion factor, w PSC (per Case No. 2010-00116)	1.60658	1.60658	1.60658	1.60658	
9 Return, grossed up for income taxes	\$ 119,658	\$ 129,544	\$ 294,554	\$ 232,561	\$ 776,317
10 Cost of Service Items (Schedule III)					269,001
12 Current Year PRP Adjustment					\$ 1,045,318
13 Balancing Adjustment					
14 Prior Year PRP Adjustment					802,950
15 Less: Actual Collections of Prior Year PRP Adjustment May 2013 through February 2014					(594,738)
16 Less: Estimated Collections March 2014 and April 2014					(129,170) A
17 Total PRP Adjustment					\$ 1,124,360

	Calculated Net Revenue @ Approved Rates per Case No. 2010-00116	Class Allocation	Allocated PRP Adjustment	# Customers Per Case No. 2010-00116	Monthly PRP Rate	# of Customers for the 12 months ended October 31, 2013	Monthly PRP Rate
18 Residential	\$ 14,846,218	54.3%	\$ 610,781	367,914	\$ 1.66	356,499	\$ 1.71
19 Small Non-Residential	3,991,286	14.6%	164,204	50,794	\$ 3.23	50,225	\$ 3.27
18 Large Non-Residential	7,008,122	25.6%	288,318	11,460	\$ 25.16	11,485	\$ 25.10
19 Interruptible	1,484,119	5.4%	61,057	486	\$ 125.63	392	\$ 155.76
20	\$ 27,329,745	100.0%	\$ 1,124,360	430,654		418,601	

A Based on average monthly PRP billings for the six-months ended February 2014.

Calendar Year 2010  
PRP Worksheet

	A		Book Depreciation Reserve			Book Net Book Value	COR Rate	COR Value
	2010 Investment	Book Depr Year 4	Depreciation					
			Beginning	Expense	Ending			
1 Distribution Mains	816,750	3.10%	(63,298)	(25,319)	(88,617)	728,133	0.01%	\$ (82)
2 Transmission Mains	23,974	2.33%	(1,397)	(559)	(1,956)	22,018	0.02%	(5)
3 Services	118,268	2.69%	(7,953)	(3,181)	(11,134)	107,134	0.42%	(497)
4 Gathering Lines	-	2.25%	-	-	-	-	0.00%	-
5 Storage Lines	-	2.05%	-	-	-	-	0.00%	-
6 Cost of Removal	615,796	various	(1,459)	(584)	(2,043)	613,753	0.00%	-
	1,574,788		(74,107)	(29,643)	(103,750)	1,471,038		\$ (584)

	Book Investment	Qualifying Tax Expense Percentage	Tax Expense	Tax Additions	50% Bonus Depreciation	Depreciable Base	MACRS YEAR 4	Tax Depreciation Reserve					Tax Net Book Value	
								Tax Life	Beginning	Expense	Bonus Depr	MACRS Depr		Ending
7 Distribution Mains	816,750	94.5%	(771,829)	44,921	(22,461)	22,461	15	7.695%	(800,477)	-	-	(1,728)	(802,205)	14,545
8 Transmission Mains	23,974	100.0%	(23,974)	-	-	-	15	7.695%	(23,974)	-	-	-	(23,974)	-
9 Services	118,268	0.0%	-	118,268	(59,134)	59,134	20	6.177%	(71,620)	-	-	(3,653)	(75,273)	42,995
10 Gathering Lines	-	0.0%	-	-	-	-	7	12.495%	-	-	-	-	-	-
11 Storage Lines	-	0.0%	-	-	-	-	15	7.695%	-	-	-	-	-	-
12 Cost of Removal	615,796	NA	-	-	-	-	NA	NA	-	-	-	-	-	NA
	1,574,788		(795,803)	163,189	(81,595)	81,595			(896,071)	-	-	(5,381)	(901,452)	57,540

	Net Book Value		Cumulative Timing Difference	Statutory Rate	Deferred Income Taxes
	Book	Tax			
	13 Distribution Mains	728,133			
14 Transmission Mains	22,018	-	(22,018)	37.96%	(8,358)
15 Services	107,134	42,995	(64,139)	37.96%	(24,347)
16 Gathering Lines	-	-	-	37.96%	-
17 Storage Lines	-	-	-	37.96%	-
18 Cost of Removal	613,753	NA	(613,753)	37.96%	(232,981)
	1,471,038	57,540	(1,413,498)		(536,564)

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

Calendar Year 2011  
PRP Worksheet

	A		Book Depreciation Reserve			Book Net Book Value	COR Rate	COR Depr
	2011 Investment	Book Depr Year %	Beginning	A Depreciation Expense	Ending			
1 Distribution Mains	828,951	3.10%	(38,546)	(25,697)	(64,243)	764,708	0.01%	\$ (83)
2 Transmission Mains	88,312	2.33%	(3,087)	(2,058)	(5,145)	83,167	0.02%	(18)
3 Services	383,075	2.69%	(15,457)	(10,305)	(25,762)	357,313	0.42%	(1,609)
4 Gathering Lines	-	2.25%	-	-	-	-	0.00%	-
5 Storage Lines	-	2.05%	-	-	-	-	0.00%	-
6 Cost of Removal	429,766	various	(2,565)	(1,710)	(4,275)	425,491	0.00%	-
	1,730,104		(59,655)	(39,770)	(99,425)	1,630,679		\$ (1,710)

	Book Investment	Qualifying Tax		Tax Additions	100% Bonus Depreciation		Depreciable Base	MACRS YEAR	Tax Life	Tax Depreciation Reserve				Tax Net Book Value	
		Expense Percentage	Tax Expense		Tax Bonus	Depr				Tax Expense	Bonus Depr	MACRS Depr	Ending		
7 Distribution Mains	828,951	71.0%	(588,555)	240,396	(240,396)	-	-	15	8.550%	(828,951)	-	-	-	(828,951)	-
8 Transmission Mains	88,312	94.0%	(82,981)	5,331	(5,331)	-	-	15	8.550%	(88,312)	-	-	-	(88,312)	-
9 Services	383,075	100.0%	(383,075)	-	-	-	-	20	6.677%	(383,075)	-	-	-	(383,075)	-
10 Gathering Lines	-	0.0%	-	-	-	-	-	7	17.492%	-	-	-	-	-	-
11 Storage Lines	-	0.0%	-	-	-	-	-	15	8.550%	-	-	-	-	-	-
12 Cost of Removal	429,766	NA	-	-	-	-	-	NA	NA	-	-	-	-	-	NA
	1,730,104		(1,054,611)	245,727	(245,727)	-	-			(1,300,338)	-	-	-	(1,300,338)	-

	Net Book Value		Cumulative		
	Book	Tax	Timing Difference	Statutory Rate	Deferred Income Taxes
13 Distribution Mains	764,708	-	(764,708)	37.96%	(290,283)
14 Transmission Mains	83,167	-	(83,167)	37.96%	(31,570)
15 Services	357,313	-	(357,313)	37.96%	(135,636)
16 Gathering Lines	-	-	-	37.96%	-
17 Storage Lines	-	-	-	37.96%	-
18 Cost of Removal	425,491	NA	(425,491)	37.96%	(161,516)
	1,630,679	-	(1,630,679)		(619,006)

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

Calendar Year 2012  
PRP Worksheet

	A Book Depr		Book Depreciation Reserve			Book Net Book Value	COR	
	2012 Investment	Year 2	Beginning	Depreciation Expense	Ending		Rate	COR Depr
1 Distribution Mains	2,164,531	3.10%	(33,550)	(67,100)	(100,650)	2,063,881	0.01%	\$ (216)
2 Transmission Mains	31,604	2.33%	(368)	(736)	(1,104)	30,500	0.02%	(6)
3 Services	732,128	2.69%	(9,847)	(19,694)	(29,541)	702,587	0.42%	(3,075)
4 Gathering Lines	-	2.25%	-	-	-	-	0.00%	-
5 Storage Lines	-	2.05%	-	-	-	-	0.00%	-
6 Cost of Removal	868,008	various	(1,648)	(3,297)	(4,945)	863,063	0.00%	-
	3,796,271		(45,413)	(90,827)	(136,240)	3,660,031		\$ (3,297)

	Qualifying Tax			50% Bonus Depreciable			MACRS YEAR	Tax Depreciation Reserve					Tax Net Book Value	
	Book Investment	Expense Percentage	Tax Expense	Tax Additions	50% Bonus Depreciation	Depreciable Base		Tax Life	2	Beginning	Tax Expense	Bonus Depr		MACRS Depr
7 Distribution Mains	2,164,531	93.0%	(2,013,014)	151,517	(75,759)	75,758	15	9.500%	(2,092,561)	-	-	(7,197)	(2,099,758)	64,773
8 Transmission Mains	31,604	1.3%	(416)	31,188	(15,594)	15,594	15	9.500%	(16,790)	-	-	(1,481)	(18,271)	13,333
9 Services	732,128	100.0%	(732,128)	-	-	-	20	7.219%	(732,128)	-	-	-	(732,128)	-
10 Gathering Lines	-	0.0%	-	-	-	-	7	24.490%	-	-	-	-	-	-
11 Storage Lines	-	0.0%	-	-	-	-	15	9.500%	-	-	-	-	-	-
12 Cost of Removal	868,008	NA	-	-	-	-	NA	NA	-	-	-	-	-	NA
	3,796,271		(2,745,558)	182,705	(91,353)	91,352			(2,841,479)	-	-	(8,678)	(2,850,157)	78,106

	Net Book Value		Cumulative Timing Difference	Statutory Rate	Deferred Income Taxes
	Book	Tax			
13 Distribution Mains	2,063,881	64,773	(1,999,108)	37.96%	(758,861)
14 Transmission Mains	30,500	13,333	(17,167)	37.96%	(6,517)
15 Services	702,587	-	(702,587)	37.96%	(266,702)
16 Gathering Lines	-	-	-	37.96%	-
17 Storage Lines	-	-	-	37.96%	-
18 Cost of Removal	863,063	NA	(863,063)	37.96%	(327,619)
	3,660,031	78,106	(3,581,925)		(1,359,699)

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

Calendar Year 2013  
PRP Worksheet

	A		Book Depreciation Reserve			Book Net Book Value	COR Rate	COR Depr
	2013 Investment	Book Depr Year 1	Beginning	Depreciation Expense	Ending			
1 Distribution Mains	1,672,265	3.10%	-	(25,920)	(25,920)	1,646,345	0.01%	\$ (84)
2 Transmission Mains	-	2.33%	-	-	-	-	0.02%	-
3 Services	520,370	2.69%	-	(6,999)	(6,999)	513,371	0.42%	(1,093)
4 Gathering Lines	-	2.25%	-	-	-	-	0.00%	-
5 Storage Lines	-	2.05%	-	-	-	-	0.00%	-
6 Cost of Removal	768,907	various	-	(1,177)	(1,177)	767,730	0.00%	-
	2,961,542		-	(34,096)	(34,096)	2,927,446		\$ (1,177)

	Book Investment	Qualifying Tax Expense Percentage	Tax Expense	Tax Additions	50% Bonus Depreciation	Depreciable Base	MACRS YEAR 1	Tax Depreciation Reserve				Tax Net Book Value		
								Tax Life	Beginning	Expense	Bonus Depr		MACRS Depr	Ending
7 Distribution Mains	1,672,265	100.0%	(1,672,265)	-	-	-	15	5.000%	-	(1,672,265)	-	-	(1,672,265)	-
8 Transmission Mains	-	0.0%	-	-	-	-	15	5.000%	-	-	-	-	-	-
9 Services	520,370	100.0%	(520,370)	-	-	-	20	3.750%	-	(520,370)	-	-	(520,370)	-
10 Gathering Lines	-	0.0%	-	-	-	-	7	14.286%	-	-	-	-	-	-
11 Storage Lines	-	0.0%	-	-	-	-	15	5.000%	-	-	-	-	-	-
12 Cost of Removal	768,907	NA	-	-	-	-	NA	NA	-	-	-	-	-	NA
	2,961,542		(2,192,635)	-	-	-			-	(2,192,635)	-	-	(2,192,635)	-

	Net Book Value		Cumulative Timing Difference	Statutory Rate	Deferred Income Taxes
	Book	Tax			
13 Distribution Mains	1,646,345	-	(1,646,345)	37.96%	(624,953)
14 Transmission Mains	-	-	-	37.96%	-
15 Services	513,371	-	(513,371)	37.96%	(194,876)
16 Gathering Lines	-	-	-	37.96%	-
17 Storage Lines	-	-	-	37.96%	-
18 Cost of Removal	767,730	NA	(767,730)	37.96%	(291,430)
	2,927,446	-	(2,927,446)		(1,111,259)

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

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

											Total Cost of Service Impact																
											\$																
											2010	2011	2012	2013													
											\$	\$	\$	\$													
1 Increased depreciation expense (schedule II)											29,643	39,770	90,827	34,096	\$	194,336											
Operating expense reductions																											
											2010-0116 Calendar 2009 Test Year	2010		2011		2012		2013									
											Actual Expense	Decrease in Operating Expense	2011	Decrease in Operating Expense	2012	Decrease in Operating Expense	2013	Decrease in Operating Expense									
2 Maintenance of Transmission and Distribution Mains											76,450	84,618	62,961	79,664	57,467	\$	\$	\$	\$	\$	\$						
											\$ 76,450	\$ 84,618	\$ 62,961	\$ 79,664	\$ 57,467	\$	\$	\$	\$	\$	\$						
											-	(13,489)	-	(18,983)			\$	(18,983)									
Increased property tax expense																											
											2010		2011		2012		2013										
											Increased Ad Valorem Taxes		Increased Ad Valorem Taxes		Increased Ad Valorem Taxes		Increased Ad Valorem Taxes										
3 PRP Additions, Net Book Value											\$ 1,471,038			\$ 1,630,679			\$ 3,660,031			\$ 2,927,446							
4 Ad valorem tax rate											0.9665%	\$ 14,218	0.9665%	\$ 15,761	0.9665%	\$ 35,375	0.9665%	\$ 28,294	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Per Case 2010-00116, FR10(6)(h) Tab 27, Schedule 5.1</i>																											
5 Total taxable value											144,250,000																
6 Property tax expense											1,394,198																
7 Average ad valorem tax rate											0.9665%																
8 Total Cost of Service Impact																	\$	269,001									



**DELTA NATURAL GAS**  
**Cost of Removal and Replacement Projects for 2013**

<u>PLANT ACCOUNT</u>	<u>PLANT CLASSIFICATION</u>	<u>PIPE SIZE AND TYPE INSTALLED</u>	<u>INSTALLED FOOTAGE</u>	<u>TOTAL</u>
	COST OF REMOVAL	( A )	-	768,907
367	TRANSMISSION MAINS		-	-
376	DISTRIBUTION MAINS	UNDER 2" PLASTIC	2,011	72,893
376	DISTRIBUTION MAINS	2" PLASTIC	43,930	1,173,720
376	DISTRIBUTION MAINS	4" PLASTIC	4,873	189,054
376	DISTRIBUTION MAINS	6" PLASTIC	2,974	172,011
376	DISTRIBUTION MAINS	1" STEEL	55	4,698
376	DISTRIBUTION MAINS	3" STEEL	0	2,558
376	DISTRIBUTION MAINS	6" STEEL	2,132	49,507
376	DISTRIBUTION MAINS	8" STEEL	0	7,824
			<u>55,975</u>	<u>1,672,265</u>
380	SERVICES	( B )	-	520,370
			Report Total	<u>2,961,542</u>
			Control Total	<u>2,961,542</u>

( A ) Represents cost of removal incurred. No pipe installed.

( B ) Represents replacement of a service line. Delta does not track the footage of each individual service line.

Delta Natural Gas Company, Inc.

Case No. 2014-00072

Item 1b.

Number of Customers

	For the twelve months ended October 31,			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Residential	366,957	363,203	357,861	356,499
Small Non-Residential	50,695	50,499	49,912	50,225
Large Non-Residential	11,397	11,556	11,478	11,485
Interruptible	470	455	420	392
	<u>429,519</u>	<u>425,713</u>	<u>419,671</u>	<u>418,601</u>

**DELTA NATURAL GAS COMPANY, INC.**  
**CASE NO. 2014-00072**

**FIRST PSC DATA REQUEST**  
**DATED APRIL 3, 2014**

2. Refer to Schedule III of Delta's PRP filing. On line 2, the decrease in operating expense for 2011 is calculated as the difference between the actual 2011 expense and the 2010-00116 Calendar 2009 Test Year Expense (\$76,450 - \$62,961). Explain why Delta calculated the decrease in operating expense for 2013 as the difference between the actual 2013 expense and the actual 2012 expense (\$79,664 - \$57,467).

Response:

The difference in operating expense for 2013 should have been calculated as the difference between the 2013 expense and the Calendar 2009 Test Year Expense. A revised filing is included with the response to Item 1. of this data request.

Sponsoring Witness:

Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.  
CASE NO. 2014-00072**

**FIRST PSC DATA REQUEST  
DATED APRIL 3, 2014**

3. Refer to Schedule III. Confirm that the last year under the heading "Increased property tax expense" should be shown as 2013 rather than 2012.

Response:

Correct. The heading should show 2013, rather than 2012 and has been updated in Item 1. Exhibit I, Schedule III.

Sponsoring Witness:

Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.  
CASE NO. 2014-00072**

**FIRST PSC DATA REQUEST  
DATED APRIL 3, 2014**

4. Refer to the page titled "Cost of Removal and Replacement Projects for 2013." For each of the items shown, provide a breakdown of the total cost showing separately the cost of materials, the cost of labor, and any other non-material items

Response:

See attached.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.  
Case No. 2014-00072  
Item 4.

PLANT ACCOUNT	PLANT CLASSIFICATION	PIPE SIZE AND TYPE INSTALLED	INSTALLED FOOTAGE	TOTAL	Inventory Materials	Company Payroll	Overhead	Accounts Payable & Other	Total
	COST OF REMOVAL		-	\$ 768,907	\$ 9,959	\$ 147,310	\$ 239,836	\$ 371,802	\$ 768,907
367	TRANSMISSION MAINS		-	-	-	-	-	-	-
376	DISTRIBUTION MAINS	UNDER 2" PLASTIC	2,011	72,893	3,368	25,788	23,636	20,101	72,893
376	DISTRIBUTION MAINS	2" PLASTIC	43,930	1,173,720	59,812	372,249	377,567	364,092	1,173,720
376	DISTRIBUTION MAINS	4" PLASTIC	4,873	189,054	18,894	65,370	60,278	44,512	189,054
376	DISTRIBUTION MAINS	6" PLASTIC	2,974	172,011	21,286	52,433	55,188	43,104	172,011
376	DISTRIBUTION MAINS	1" STEEL	55	4,698	326	2,660	1,595	117	4,698
376	DISTRIBUTION MAINS	3" STEEL	-	2,558	-	273	794	1,491	2,558
376	DISTRIBUTION MAINS	6" STEEL	2,132	49,507	14,705	15,697	15,709	3,396	49,507
376	DISTRIBUTION MAINS	8" STEEL	-	7,824	-	653	2,431	4,740	7,824
			55,975	1,672,265	118,391	535,123	537,198	481,553	1,672,265
380	SERVICES		-	520,370	51,765	128,282	170,867	169,456	520,370
								<b>Grand Total</b>	<b>2,961,542</b>
								<b>Total, per Exhibit I, Schedule IV</b>	<b>2,961,542</b>

**DELTA NATURAL GAS COMPANY, INC.**  
**CASE NO. 2014-00072**

**FIRST PSC DATA REQUEST**  
**DATED APRIL 3, 2014**

5. Refer to the page titled "Cost of Removal and Replacement Projects for 2013," Plant Account 376, Distribution Mains. Confirm that there was no installed footage for three-inch steel pipe in 2013 and that there was no installed footage for eight-inch steel pipe in 2013. Explain the \$2,558 total cost listed for three-inch steel pipe and the \$7,824 total cost listed for eight-inch steel pipe.

**Response:**

Correct. There was no installed footage in 2013 for three-inch and eight-inch steel pipe.

The \$2,558 represents charges for site remediation for a sunken ditch line incurred during the current program year on a replacement which was completed in the prior year.

The \$7,824 represents cost incurred in the current year on a project to replace eight-inch steel pipe. The project is in progress and the feet of pipe replaced are not reported from the field until the project has been completed.

**Sponsoring Witness:**

Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.**  
**CASE NO. 2014-00072**

**FIRST PSC DATA REQUEST**  
**DATED APRIL 3, 2014**

6. Refer to the page titled "Cost of Removal and Replacement Projects for 2013," Cost of Removal (A), which states: "Represents cost of removal incurred. No pipe installed."
- a. Describe how Delta's total cost of \$768,907 for removal was calculated.
  - b. Does Delta track the footage of pipe removed by size and type of pipe? If so, provide a breakdown of each.
  - c. Is the cost of removal determined by the size and type of pipe removed? If so, provide a breakdown of each.
  - d. If the cost of removal is not determined by the size and type of pipe, describe what factors do contribute to the total cost for removal.

Response:

- a. The cost of removal can be further broken down into the following categories:

Service line and meter installations removal	\$741,681
Distribution main removal	11,605
Distribution main replacements	5,261
Service line replacements	<u>10,360</u>
	\$768,907

Item 4. Exhibit III provides a breakdown of the cost of removal showing separately the cost of materials, the cost of labor, and other non-material items.

The cost incurred for the removal of service lines, meter installations and distribution mains is the direct cost incurred for the removal of these assets which includes company labor, outside contractors, inventory and overhead.

For projects where the main or service line is replaced, the total project costs are accumulated and an allocation is made to estimate the portion of costs allocable to removal of the existing pipe versus installation of the new pipe. The cost of removal for these projects is the estimated cost to cut and remove the existing pipe.



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- b. Delta tracks the feet of pipe retired for distribution mains. See attached.
- c. & d. As noted in a. above, Delta uses an allocation to estimate the portion of a replacement project which represents removal of the existing pipe. For projects where pipe is removed, but not replaced, location, geography, size and type of pipe are factors that contribute to the total cost of removal.

Sponsoring Witness:

Matthew D. Wesolosky

**Delta Natural Gas Company, Inc.**  
**Case No. 2014-00072**  
**Item 6.**  
**Distribution Main Cost of Removal**

	<u>Removed Footage</u>	<u>Cost of Removal</u>
<b>Distribution main removal</b>		
3/4" Plastic	491	\$ 3,541
1" Plastic	174	317
1 1/4" Plastic	240	252
2" Plastic	1,492	4,489
1" Steel	891	1,806
1 1/4" Steel	10	1,200
	<u>3,298</u>	<u>\$ 11,605</u>

<b>Distribution main replacement</b>		
3/4" Plastic	635	\$ 179
1" Plastic	142	36
1 1/4" Plastic	52	2
2" Plastic	4,657	736
4" Plastic	255	51
3/4" Steel	37	2
1" Steel	6,839	1,034
1 1/4" Steel	26	86
2" Steel	35,755	2,544
3" Steel	475	154
4" Steel	2,598	228
6" Steel	132	86
8" Steel	1,280	123
	<u>52,883</u>	<u>\$ 5,261</u>

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6. Refer to the page titled "Cost of Removal and Replacement Projects for 2013," Cost of Removal (A), which states: "Represents cost of removal incurred. No pipe installed."
- a. Describe how Delta's total cost of \$768,907 for removal was calculated.
  - b. Does Delta track the footage of pipe removed by size and type of pipe? If so, provide a breakdown of each.
  - c. Is the cost of removal determined by the size and type of pipe removed? If so, provide a breakdown of each.
  - d. If the cost of removal is not determined by the size and type of pipe, describe what factors do contribute to the total cost for removal.

Response:

- a. The cost of removal can be further broken down into the following categories:

Service line and meter installations removal	\$741,681
Distribution main removal	11,605
Distribution main replacements	5,261
Service line replacements	<u>10,360</u>
	\$768,907

Item 4. Exhibit III provides a breakdown of the cost of removal showing separately the cost of materials, the cost of labor, and other non-material items.

The cost incurred for the removal of service lines, meter installations and distribution mains is the direct cost incurred for the removal of these assets which includes company labor, outside contractors, inventory and overhead.

For projects where the main or service line is replaced, the total project costs are accumulated and an allocation is made to estimate the portion of costs allocable to removal of the existing pipe versus installation of the new pipe. The cost of removal for these projects is the estimated cost to cut and remove the existing pipe.

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- b. Delta tracks the feet of pipe retired for distribution mains. See attached.
- c. & d. As noted in a. above, Delta uses an allocation to estimate the portion of a replacement project which represents removal of the existing pipe. For projects where pipe is removed, but not replaced, location, geography, size and type of pipe are factors that contribute to the total cost of removal.

Sponsoring Witness:

Matthew D. Wesolosky

**Delta Natural Gas Company, Inc.**  
**Case No. 2014-00072**  
**Item 6.**  
**Distribution Main Cost of Removal**

	<u>Removed Footage</u>	<u>Cost of Removal</u>
<b>Distribution main removal</b>		
3/4" Plastic	491	\$ 3,541
1" Plastic	174	317
1 1/4" Plastic	240	252
2" Plastic	1,492	4,489
1" Steel	891	1,806
1 1/4" Steel	10	1,200
	<u>3,298</u>	<u>\$ 11,605</u>

<b>Distribution main replacement</b>		
3/4" Plastic	635	\$ 179
1" Plastic	142	36
1 1/4" Plastic	52	2
2" Plastic	4,657	736
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3/4" Steel	37	2
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1 1/4" Steel	26	86
2" Steel	35,755	2,544
3" Steel	475	154
4" Steel	2,598	228
6" Steel	132	86
8" Steel	1,280	123
	<u>52,883</u>	<u>\$ 5,261</u>

**DELTA NATURAL GAS COMPANY, INC.**  
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7. Refer to the page titled "Cost of Removal and Replacement Projects for 2013," Plant Account 380, Services (B), which states: "Represents replacement of a service line. Delta does not track the footage of each individual service line."
- a. Describe how Delta's total cost of \$520,370 for replacement of service lines was calculated.
  - b. Was the pipe size and type installed the same for all service lines replaced in 2013? If yes, what was the pipe size and type installed? What was the total footage of all service lines replaced in 2013?
  - c. If the pipe size and type installed was not the same for all service lines replaced in 2013, describe the pipe sizes and types installed and the total footage for each. Was the cost of replacement the same for each pipe size and type? If not, describe the cost for each.

Response:

- a. The \$520,370 for services represents \$292,853 for the replacement of services and \$227,517 for the installation of curb valves on services. For both type of projects, the costs shown are the direct costs incurred on these projects which includes company labor, outside contractors, inventory and overhead. For the replacement of services, as noted in 6 a., a portion of the total project cost is allocated to the cost to remove the existing pipe and reported as cost of removal with the remaining cost reported as the replacement.
- b. & c. Delta primarily uses three-quarter inch plastic pipe for residential service lines; however, up to two inch plastic pipe can be used based on the expected customer's load and the customer's distance from the distribution main.

Within its property records, Delta tracks the number of services, but not the pipe type, size and footage for each service. Location, geography, size and type of pipe are factors that contribute to the total cost to replace a service.

Sponsoring Witness:

Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.  
CASE NO. 2014-00072**

**FIRST PSC DATA REQUEST  
DATED APRIL 3, 2014**

8. Identify generally the locations of the major main replacements that occurred in 2013 and describe how those specific projects were selected and prioritized.

Response:

See attached for general locations of replacements that occurred in 2013. As in prior years, with an emphasis on public safety, our distribution personnel consider leak history, age and type of pipe in selecting and prioritizing each replacement.

Sponsoring Witness:

Matthew D. Wesolosky

**Delta Natural Gas Company, Inc.**  
**Case No. 2014-00072**  
**Item 8.**  
**Major Main Replacement Projects by Location**

<b>System</b>	<b>Footage Installed</b>	<b>Cost</b>
Berea	- {1}	\$ 23,633
Kingston Terrill	- {2}	7,824
Nicholasville	13,140	372,016
London	2,000	49,075
Barbourville	2,326	71,527
Middlesboro	13,074	424,682
Corbin	16,263	378,933
	<u>46,803</u>	<u>\$ 1,327,690</u>
Replacements less than 1,000 feet		<u>\$ 344,575</u>
<b>Total per PRP Filing 2013 Schedule II</b>		<b><u>\$ 1,672,265</u></b>

{1} Represents cost incurred in the current year on a project to relocate a two-inch plastic main in Berea. The project is in progress and the feet of pipe replaced are not reported from the field until the project has been completed.

{2} Project discussed in Item 5 of this Data Request, represents cost incurred in the current year on a project to replace eight-inch steel pipe. The project is in progress and the feet of pipe replaced are not reported from the field until the project has been completed.