Delta Natural Gas Company, Inc.
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DGAS NASDAQ LISTED

February 27, 2004

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PUBLIC SERVICE COMMISSION

Mr. Thomas M. Dorman
Executive Director
Public Service Commission
P O Box 615
Frankfort, KY 40602-0615

RE: CASE NO. 2004-00046

Dear Mr. Dorman:

Enclosed are the original and five copies of Delta's response to the First Data Request of the Commission Staff in the above styled case.

Please acknowledge receipt of this filing by stamping the extra copy of the cover letter and returning to Delta in the envelope provided.

Sincerely,

Connie King

Connie King
Director – Rates & Treasury

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00046

FIRST DATA REQUEST OF COMMISSION STAFF

1. Refer to the second paragraph of Delta's application. Delta states that if the volumes purchased under the forward contracts had been purchased without the forward pricing, it would have used an Inside FERC index price. Delta's Gas Cost Adjustment filings state that non-hedged gas is priced at the New York Mercantile Exchange ("NYMEX") price plus an "add on". Explain why the appropriate comparison price is the Inside FERC index.

RESPONSE:

Delta's gas purchase agreements, under which gas is purchased monthly to supply customers in Delta's northern systems, are priced based upon the index price effective the first of each month as published in *InsideFERC.* Unless the parties agree in writing to purchase/sell a fixed volume of gas at a fixed unit price, all of the gas purchased is tied to this index. When Delta prepares its Gas Cost Recovery (GCR) filings, Delta projects into the future the volumes it will purchase for that three-month period, based upon historical usages. The actual contract price of these future purchases cannot be determined until the first of each purchase month when *Inside FERC* publishes the index prices. Therefore, since the GCR filings are submitted not less than thirty days prior to the effective date of the rate change, Delta must use futures prices for the estimated purchases during that future three-month period to determine the Estimated Gas Cost (EGC) in the GCR filing. The New York Mercantile Exchange is used for this purpose. The "add-on" refers to the adjustment to the index price according to the terms of the gas purchase agreements. For a high percentage of these contract purchases, the adjustment is actually a reduction of the price. In other words, Delta purchases a large percentage of its gas at index *minus* a specified $ amount per Dth.

RESPONDENT:

George S. Billings

DELTA NATURAL GAS COMPANY, INC.
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FIRST DATA REQUEST OF COMMISSION STAFF

2. During the past winter heating season, Delta used $5.00 per Mcf as a threshold price above which it would not purchase forward pricing contracts. Delta states in its application that it would like to remove the reference to a threshold price in its mitigation plan. Explain the criteria that Delta will use to determine when it will enter into a forward pricing contract.

RESPONSE:

We request that there be no references to any particular threshold price due to the constantly changing gas market conditions. When considering whether or not to forward-price gas for storage injections or for flowing gas for winter heating, Delta will consider all available information at the time, including current prices, the current trend in pricing of gas, available information on national supply and consumption as well as forecasts of industry experts. We want to meet our dual objectives of maintaining price stability and of purchasing gas at the best price without being constrained by any particular price threshold.

RESPONDENT:

George S. Billings

DELTA NATURAL GAS COMPANY, INC.
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FIRST DATA REQUEST OF COMMISSION STAFF

3. Provide the volume of flowing gas that Delta plans to purchase under forward contracts for the 2004-05 winter heating season.

RESPONSE:

In the event Delta forward-prices flowing gas on Tennessee Gas Pipeline and/or Columbia Gas Transmission for the 2004-05 heating season, Delta would contract to purchase up to approximately 560,000 Dth on TGP and up to approximately 260,000 Dth on the Columbia system on a forward-priced basis.

RESPONDENT:

George S. Billings

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4. Provide the volume of storage gas that Delta plans to purchase under forward contracts for the 2004-05 winter heating season.

RESPONSE:

No specific volumes can be determined, but it could be up to 100% of storage injections. The volume of forward-priced storage injections during the 2004 injection season for withdrawal during the 2004-05 heating season depends upon the criteria discussed in Response 2 herein. If, for example, the futures price for May, 2004 injections indicate prices much lower than August, 2004, Delta would likely forward-price a significant portion of May's purchases and would also plan to maximize injection volumes in May and minimize injections in August.

RESPONDENT:

George S. Billings

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5. Provide the volume of gas that Delta will need in total to serve customers during the 2004-05 winter heating season.

RESPONSE:

Delta's total estimated system requirements during a normal winter heating season total approximately 3,675,000 Dth.

RESPONDENT:

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6. If Delta were to enter into any forward priced contracts currently, at what price would it purchase gas?

RESPONSE:

Delta has not, at this point, determined a price for forward-pricing either summer storage injections or winter flowing gas. Those decisions depend on a number of factors as discussed in Response 2 herein.

RESPONDENT:

George S. Billings

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7. Provide a list of the counterparties that Delta anticipates it will use for any forward priced contracts during the 2004-05 winter heating season.

RESPONSE:

Although others could arise, at this point, Delta will likely contract with either Atmos Energy Marketing or M & B Gas Services for its forward-priced gas.

RESPONDENT:

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8. Provide any additional costs that Delta anticipates incurring in order to enter into forward contracts.

RESPONSE:

Delta does not anticipate incurring any additional costs as a result of forward-pricing any of its purchases.

RESPONDENT:

George S. Billings