

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

AN ADJUSTMENT OF THE)
RATES OF DELTA NATURAL) CASE NO. 2004-00067
GAS COMPANY, INC.)

SECOND AG DATA REQUEST
VOLUME 1 OF 1

FILED IN SUPPORT OF PROPOSED
CHANGES IN RATES

JUNE 22, 2004

RECEIVED

JUN 22 2004

PUBLIC SERVICE
COMMISSION

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

1. In the same format and detail as per page 112 of the Company's 2003 FERC Form 2, provide Delta Natural Gas Company's actual equity, long-term debt (including current portion) and short term debt balances for each month-end in 2004 through May 31, 2004. In addition, provide similar actual balances as of June 30, 2004 as soon as this has become available.

RESPONSE:

See attached.

SPONSORING WITNESS:

John F. Hall

The detail of the actual equity and long-term and short-term debt for January through April is detailed below. May and June numbers are not available at this time.

Line No.	<u>January 2004</u>	<u>February 2004</u>	<u>March 2004</u>	<u>April 2004</u>
1				
2				
3				
4				
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10				
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12				
13				
14				
15				
16				
17				

Proprietary Capital

Common Stock Issued 201

Premium on Capital Stock 207

Installments on Stock 1212

(Less: Capital Stock Expense 214)

Retained Earnings

Accumulated Other Comprehensive Income 1219

Total Proprietary

Long Term Debt

Bonds 221

Total Long Term Debt

Short Term Debt

3,188,646	3,189,925	3,193,877	3,195,767
43,947,929	43,980,953	44,079,555	44,124,500
72,034	81,843	91,653	101,463
-2,598,146	-2,598,000	-2,598,000	-2,598,000
3,186,557	4,622,312	4,435,632	5,224,826
<u>-2,050,636</u>	<u>-2,050,636</u>	<u>-2,050,636</u>	<u>-2,050,636</u>
45,746,384	47,226,397	47,152,081	47,997,920

53,158,000	53,143,000	53,133,000	53,133,000
<u>53,158,000</u>	<u>53,143,000</u>	<u>53,133,000</u>	<u>53,133,000</u>
16,289,191	11,189,448	6,008,349	4,148,000

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

2. With regard to the response to AG-1-4b, please specify how and where in the calculations of the pro forma annualized depreciation expense of \$4,045,073 on Hall WP-5.1, pages 1-3, the amortizations of the Tranex and Mt Olivet acquisition adjustments are reflected.

RESPONSE:

They are not reflected on this schedule but Delta agrees for comparability that they should have been.

See Revised Schedule 5 and Hall WP-5-1.

SPONSORING WITNESS:

John B. Brown

Delta Natural Gas Company, Inc.
Depreciation Adjustment
Test Year End 12/31/03

Line No

1	Depreciation Expense Hall WP-5.1	4,033,073
2	Per Books	<u>4,190,504</u>
3	Adjustment	<u><u>(157,431)</u></u>

DELTA NATURAL GAS COMPANY, INC

PLANT BALANCES AND CALCULATED DEPRECIATION EXPENSE
AS OF 12/31/03
PROPOSED RATES

ACCT NO	DESCRIPTION	DELTA 12/31/03	DEPR RATE	DEPR CALCULATED
		53,151	0.0%	0
301	ORGANIZATION	0	0.0%	0
302	FRANCHISE & CONSENT	<u>0</u>		<u>0</u>
	SUB TOTAL	<u>53,151</u>		<u>0</u>
	PRODUCTION			0
304	LAND & RIGHTS	35,377	0.00%	0
305	STRUCTURES & IMPROVEMENTS	0	2.20%	0
325	RIGHT OF WAYS	75,975	3.00%	2,279
327	COMP STAT STRUCTURES	42,950	3.00%	1,289
331	WELL EQUIPMENT - FULLY DEPR	7,795	4.00%	0
332	FIELD LINES	1,904,404	2.25%	42,849
333	COMPRESSOR STAT EQUIPMENT	823,368	4.00%	32,935
334	MEAS & REG STATIONS	<u>105,138</u>	2.72%	<u>2,860</u>
	SUB TOTAL	<u>2,995,007</u>		<u>82,212</u>
	STORAGE & PROCESSING			0
35001	STORAGE LAND	14,142	0.00%	0
35002	STORAGE RIGHT OF WAY	177,425	0.00%	0
35005	GAS RIGHTS WELL	1,495	0.00%	0
35006	GAS RIGHTS STOR	0	5.00%	0
351	STRUCTURES & IMPROVEMENTS	275,273	2.50%	6,882
352	STORAGE WELLS	360,583	2.78%	10,024
35201	STORAGE RIGHTS	860,396	2.78%	23,919
35202	STORAGE RESERVOIRS	1,881,731	2.78%	52,312
35203	NONRECOVERABLE NAT GAS	294,307	2.78%	8,182
353	STORAGE LINES	5,024,284	2.78%	139,675
354	STORAGE COMP STAT EQUIP	2,417,969	2.78%	67,220
355	STORAGE MEAS & REG EQUIP	361,994	2.78%	10,063
356	PURIFICATION EQUIPMENT	346,373	2.78%	9,629
357	STORAGE OTHER EQUIPMENT	<u>47,209</u>	3.33%	<u>1,572</u>
	SUB TOTAL	<u>12,063,181</u>		<u>329,478</u>
	TRANSMISSION			0
3651	LAND & RIGHTS	56,724	0.00%	0
3652	RIGHTS OF WAY	1,073,062	0.00%	0
3653	LAND RIGHTS CVPL	163,626	2.50%	4,091
366	STRUCTURES & IMPROVMENTS	173,215	2.00%	3,464
367	TRANSMISSION MAINS	35,592,709	2.22%	790,158
368	COMPRESSOR STAT EQUIPMENT	1,856,757	2.00%	37,135
369	MEAS & REG STAT EQUIPMENT	2,096,287	3.16%	66,243
371	OTHER EQUIP	<u>598,623</u>	2.00%	<u>11,972</u>
	SUB TOTAL	<u>41,611,003</u>		<u>913,063</u>

DELTA NATURAL GAS COMPANY, INC

PLANT BALANCES AND CALCULATED DEPRECIATION EXPENSE
AS OF 12/31/03
PROPOSED RATES

ACCT NO	DESCRIPTION	DELTA 12/31/03	DEPR RATE	DEPR CALCULATED
	DISTRIBUTION			0
374	LAND & RIGHTS	280,647	0.00%	0
375	STRUCTURES & IMPROVMENTS	116,064	2.75%	3,192
376	DISTRIBUTION MAINS	56,694,785	2.50%	1,417,370
378	MEAS & REG STAT - GENERAL	1,252,562	3.03%	37,953
379	MEAS & REG STAT - CITY GATE	398,371	2.96%	11,792
380	SERVICES	10,856,853	2.50%	271,421
381	METERS	8,426,711	2.25%	189,601
382	METER & REG INSTALLATION	2,865,091	4.17%	119,474
383	HOUSE REG	2,679,313	3.88%	103,957
385	INDUSTRIAL METER SETS	1,400,779	2.38%	33,339
387	OTHER EQUIP	0	3.00%	0
	SUB TOTAL	<u>84,971,176</u>		<u>2,188,099</u>
	GENERAL			0
389	LAND & RIGHTS	1,038,741	0.00%	0
390	STRUCTURES & IMPROVEMENTS	5,086,091	2.00%	101,722
391	OFFICE FURN & EQUIP-FULLY DEPR	383,973	0.00%	0
391	OFFICE FURN & EQUIP	259,494	2.23%	5,787
392	AUTOS & TRUCKS-FULLY DEPR	657,064	0.00%	0
392	AUTOS & TRUCKS	2,888,892	7.77%	224,467
393	STORES EQUIPMENT-FULLY DEPR	41,129	0.00%	0
393	STORES EQUIPMENT	14,885	5.00%	744
394	TOOLS & WORK EQUIP-FULLY DEPR	410,969	0.00%	0
394	TOOLS & WORK EQUIPMENT	177,464	5.00%	8,873
39401	COMP NG STAT & EQUIP-FULLY DEPR	283,352	0.00%	0
395	LABORATORY EQUIPM-FULLY DEPR	79,851	0.00%	0
395	LABORATORY EQUIPMENT	108,372	7.38%	7,998
396	POWER OPERATED EQUIP-FULLY DEPR	905,879	0.00%	0
396	POWER OPERATED EQUIPMENT	1,669,678	2.00%	33,394
397	COMMUNICATION EQUIP-FULLY DEPR	228,431	0.00%	0
397	COMMUNICATION EQUIP	322,540	6.56%	21,159
398	MISCELLANEOUS EQUIP-FULLY DEPR	78,767	0.00%	0
398	MISCELLANEOUS EQUIPMENT	16,011	5.00%	801
3991	OTHER TANG EQUIP-FULLY DEPR	430,596	0.00%	0
3991	OTHER TANG EQUIP	231,447	10.00%	23,145
3992	COMPUTER SOFTWARE-FULLY DEPR	1,450,628	0.00%	0
3992	COMPUTER SOFTWARE	577,538	20.00%	115,508
3993	COMPUTER HARDWARE-FULLY DEPR	603,319	0.00%	0
3993	COMPUTER HARDWARE	995,912	20.00%	199,182
	SUB TOTAL	<u>18,941,023</u>		<u>742,780</u>
	TOTAL A/C 101	<u>160,634,541</u>		<u>4,255,632</u>

DELTA NATURAL GAS COMPANY, INC

PLANT BALANCES AND CALCULATED DEPRECIATION EXPENSE
AS OF 12/31/03
PROPOSED RATES

ACCT NO	DESCRIPTION	DELTA 12/31/03	DEPR RATE	DEPR CALCULATED
110701	Constr Work In Progress at 12/31/03	12	3.00%	0
	Acct 325 CWIP			329
	Acct 351 CWIP	13,145	2.50%	26
	Acct 354 CWIP	940	2.78%	0
	Acct 36501 CWIP	250	0.00%	0
	Acct 36502 CWIP	62	0.00%	97
	Acct 366 CWIP	4,838	2.00%	31,160
	Acct 367 CWIP	1,403,612	2.22%	28
	Acct 369 CWIP	881	3.16%	138
	Acct 371 CWIP	6,908	2.00%	0
	Acct 374 CWIP	96	0.00%	3,475
	Acct 376 CWIP	138,988	2.50%	2
	Acct 378 CWIP	63	3.03%	150
	Acct 379 CWIP	5,062	2.96%	4
	Acct 380 CWIP	160	2.50%	476
	Acct 383 CWIP	12,263	3.88%	6
	Acct 385 CWIP	271	2.38%	2,601
	Acct 390 CWIP	130,036	2.00%	982
	Acct 394 CWIP	19,648	5.00%	192
	Acct 397 CWIP	2,928	6.56%	91
	Acct 398 CWIP	1,818	5.00%	3,405
	Acct 39902 CWIP	17,027	20.00%	4,140
	Acct 39903 CWIP	20,702	20.00%	
	WO 53010	(47,143)		
	TOTAL	<u>1,732,567</u>		<u>47,302</u>
	Acquisition Adjustment - Tranex 1.114	(1,045,704)		(58,800)
	Acquisition Adjustment - Mt Olivet 1.114.01	464,945		46,800
		<u>(580,759)</u>		<u>(12,000)</u>
	LESS:			
	TRANSPORTATION EQUIP			(224,467)
	POWER OPERATED EQUIP			(33,394)
				<u>(257,861)</u>
	TOTAL			<u>4,033,073</u>

Reconciliation to Financial Statement

<u>Reported Above</u>	
Plant 1.301 thru 1.399.03	160,634,541
Construction Work In Progress 1.107.01	1,732,567
Acquisition Adjustments	(580,759)
<u>Not included Above</u>	
Gas Stored Underground - 1.117	4,208,069
Total	<u>165,994,418</u>

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

3. With regard to the response to AG-1-13, explain why Delta was not eligible to file a consolidated Kentucky income tax return for the years 1999 through 2003 and why it is eligible starting in June 2004.

RESPONSE:

Delta was eligible to file consolidated Kentucky Tax returns for the years 1999 through 2003, but at the filing period for each year Delta thought it was more beneficial to not file consolidated returns as a corporation cannot switch back and forth each year. In Kentucky, a Corporation cannot amend filed returns to change the filing status. Delta's separate company returns have been filed through June 30, 2003. The June 30, 2004 return has not been filed so Delta is eligible to elect to file a consolidated June 30, 2004 return.

SPONSORING WITNESS:

John B. Brown

**DELTA NATURAL GAS COMPANY, INC.
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**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

4. With regard to the response to AG-1-36b, please clarify as to whether any portion of the GTIR&D costs are included in the pro forma annualized gas costs of \$33,364,884.

RESPONSE:

Yes. See PSC-3-4b.

SPONSORING WITNESS:

John F. Hall

**DELTA NATURAL GAS COMPANY, INC.
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**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

5. Please explain why Delta has only removed \$39,600 for Subsidiary allocations rather than the total amount of Subsidiary allocations and Merchandising of \$48,592.

RESPONSE:

Assuming the question relates to Capitalized Pro Forma Wages as shown on WP-2 of PSC 2-6 (a), this computation methodology is the same as was accepted in the prior rate case as detailed on page 15 of the Order dated December 27, 1999 relating to Case No. 99-176.

SPONSORING WITNESS:

John B. Brown

**DELTA NATURAL GAS COMPANY, INC.
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**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

6. It appears that the pro forma salary and wage amount of \$6,469,712 shown on page 4 of 4 of the response to PSC-2-6a is based on 156 full-time employees. In this regard, please provide the following information:
- a. Confirm the above. If not correct, please provide the correct information.
 - b. What is the basis for these 156 full-time employees and what are the comparable total full-time employee levels for each of the months in 2004 through May and as budgeted for the remainder of 2004?

RESPONSE:

- a. This is correct.
- b. There were 156 full-time employees on payroll at 12/31/03.

<u>2004</u>	<u>15th</u>	<u>31st</u>
January	156	156
February	156	156
March	156	156
April	156	156
May	156	156

Delta has budgeted for 156 full-time employees each pay period for the remainder of 2004.

SPONSORING WITNESS:

John B. Brown

**DELTA NATURAL GAS COMPANY, INC.
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**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

7. What represents the pro forma annual total amount of \$29,655 shown on page 4 of 4 of the response to PSC-2-6a for employee numbers 550, 1170, 1500 and 2080; what is the basis for this payroll estimate; and, what was the actual test year payroll expense for the comparable employees?

RESPONSE:

The \$29,655 pro forma annual amount consists of 1 new hire and 3 terminated employees in 2003. The new hire only included dollars for the portion of the year since the hire date. The terminated employees' amount only included dollars for the portion of the year paid prior to termination. The actual test year expense for the 4 employees is \$33,882.45.

SPONSORING WITNESS:

John B. Brown

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

8. It appears that the pro forma salary and wage amount of \$94,168 shown on page 4 of 4 of the response to PSC-2-6a is based on 22 part-time employees. In this regard, please provide the following information:
- a. Confirm the above. If not correct, please provide the correct information.
 - b. What is the basis for these assumed 22 part-time employees and their associated pro forma payroll costs?
 - c. What were the actual number of comparable part-time employees and the associated actual total part-time payroll cost for each of the years 2001, 2002 and 2003?
 - d. What are the actual number or comparable part-time employees for each month of 2004 through May and as budgeted for the remainder of 2004?

RESPONSE:

- a. This is correct.
- b. The 22 part-time employees listed were the actual number on payroll in 2003 along with the associated actual payroll cost.
- c. See attached.

d.	<u>2004</u>	<u>15th</u>	<u>31st</u>
	January	5	4
	February	4	3
	March	3	3
	April	4	5
	May	6	10

The employees above have worked 2,058.5 hours through May 31, 2004. Delta has also budgeted for 9,000 hours for part-time employees for the remainder of 2004.

SPONSORING WITNESS:

John B. Brown

Delta Natural Gas Company, Inc.
Case No. 2004-00067
AG Second Data Request Dated 6/09/04

2001 Part-time Employees					
Employee Number	Hours Worked		Regular	Overtime	Total
	Regular	Overtime			
3386	472.5	29	3,308	305	3,612
3391	600.0	5	4,200	53	4,253
3390	752.0	71	5,264	746	6,010
3367	912.0	30	6,384	315	6,699
3371	618.0		4,326		4,326
3379	568.0	1	3,976	11	3,987
3381	480.0	2	3,360	21	3,381
3349	232.0		1,624		1,624
3312	899.0		6,293		6,293
3389	617.0		4,319		4,319
3368	416.0		2,912		2,912
3385	919.0		6,433		6,433
3348	56.0		392		392
3383	602.0	1	4,214	11	4,225
3369	863.0	24	6,041	252	6,293
3388	912		6,384		6,384
3392	236		1,652		1,652
3364	854	7	5,978	74	6,052
3326	480	18	3,360	189	3,549
3394	91		637		637
3384	258	5	1,806	53	1,859
21 Part-time	11,837.50	193.0	82,863	2,027	84,889
2002 Part-time Employees					
Employee Number	Hours Worked		Regular	Overtime	Total
	Regular	Overtime			
3386	202.0		1,414		1,414
3400	856.0	107	6,496	1190	7,686
3405	854.0		6,680		6,680
3391	891.0	6	7,128	72	7,200
3390	856.0	1	6,384	12	6,396
3367	924.0	29	7,096	333	7,429
3412	375.5		3,004		3,004
3381	868.0		6,752		6,752
3349	247.0	3	1,729	32	1,761
3312	283.5	0.5	1,985	5	1,990
3403	389.5		2,959		2,959
3407	712.0		5,696		5,696
3413	712.0	18	5,696	216	5,912
3402	827.5	62	6,307	678	6,985
3408	267.0		2,136		2,136
3383	685.5		5,359		5,359
3406	952	13	7,464	156	7,620
3416	400	33	3,200	396	3,596
3404	404		3,040		3,040
2120	264	5	2,640	75	2,715
3410	120		960		960
3394	626	1	4,482	11	4,493
3384	139		1,112		1,112
23 Part-time	12,855.50	278.5	99,718	3,175	102,893

Delta Natural Gas Company, Inc.
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AG Second Data Request Dated 6/09/04

2003 Part-time Employees					
Employee Number	Hours Worked		Regular	Overtime	Total
	Regular	Overtime			
625	440.5		3,524		3,524
2120	480.0		4,800		4,800
3381	40.0		320		320
3391	448.0	14	3,584	168	3,752
3404	447.0	19	3,576	228	3,804
3405	208.0	1	1,664	12	1,676
3412	827.5		6,620		6,620
3413	1048.0	55	8,384	660	9,044
3416	120.0	2	960	24	984
3418	810.0	132.5	6,480	1590	8,070
3421	996.0		7,968		7,968
3422	735.0		5,880		5,880
3423	932.0		7,456		7,456
3424	308.0		2,464		2,464
3425	380.0		3,040		3,040
3426	796	9	6,368	108	6,476
3427	928	2	7,424	24	7,448
3428	352		2,816		2,816
3429	581		4,648		4,648
3430	120	11.5	960	138	1,098
3431	68		544		544
3432	208	6	1,664	72	1,736
22 Part-time	11,273.00	252.0	91,144	3,024	94,168

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

9. With regard to the pro forma salary and wage amount of \$6,469,712 shown on page 4 of 4 of the response to PSC-2-6a, please provide the following information:
- a. What is the average percentage salary/wage increase as of 7/1/2003 that has been reflected in the determination of the annualized pro forma salary and wage amount of \$6,469,712 for all employees other than employee numbers 405, 520, 1240, 1360 and 1560?
 - b. Identify the titles of employee numbers 405, 520, 1240, 1360, and 1560.

RESPONSE:

- a. The average percentage salary/wage increase as of 7/01/2003 excluding the five employees is 3.4%
- b. Employee 405 – Controller
Employee 520 – Vice President - Administration & Customer Service
Employee 1240 – Vice President - Finance, Secretary & Treasurer
Employee 1360 – Vice President - Operations & Engineering
Employee 1560 – President & Chief Executive Officer

SPONSORING WITNESS:

John B. Brown

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**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

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10. The response to PSC-1-46c indicates that of the total test year employee benefit cost of \$1,919,017, an amount of \$433,015 was capitalized, suggesting an O&M expense ratios of 77.4%. In this regard, please provide the following information:
- a. Does the \$433,015 include any employee benefits allocated to the subsidiaries? What would this amount be including allocations to subsidiaries?
 - b. What is the basis for the \$433,015? Provide any documentation in support of this actual test year number.
 - c. The response to AG-1-16 indicates that the actual test year payroll O&M expense ratio is 72.67%. Also, for ratemaking purposes, the Company has assumed a payroll O&M ratio of 72.9% (see AG-1-16) in this case. Please reconcile this payroll O&M ratio in the range of 72.7% - 72.9% to the suggested employee benefit ratio of 77.4% referred to in the response to PSC-1-46c.

RESPONSE:

- a. The \$433,015 does not include any employee benefits allocated to subsidiaries. The amount including allocations to subsidiaries would be \$435,620.
- b. See attached.
- c.

PSC 2-6a (WP-3)	Expense	\$4,683,924
	Total Salaries & Wages	\$6,445,729
	Total Year O & M Expense ratio	72.67%
PSC 2-6a (WP-2)	Pro Forma O & M Expense	\$4,804,621
	Pro Forma Salaries & Wages	\$6,593,535
		72.87%
PSC 1-46	Test Year Benefit Cost	\$1,919,017
	Test Year Actual Cost Capitalized(<u>433,015)</u>
		\$1,486,002
		\$1,919,017
		77.44%

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The difference in the employee benefit ratio is a result of the benefit allocation mechanism, as described in the responses to PSC 1 – 19 and AG 1 – 14(b).

SPONSORING WITNESS:

John B. Brown

Delta Natural Gas Company, Inc.
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AG Second Data Request Dated 6/09/04

Field	Capital Hours	Benefit Rate	Benefits Capitalized
January	1823.0	4.57	8,331
February	1231.5	4.57	5,628
March	3900.5	4.57	17,825
April	4198.5	4.57	19,187
May	5334.0	4.57	24,376
June	5697.0	4.57	26,035
June Entry 129			17,736
July	6118.5	4.26	26,065
Aug	6929.5	4.26	29,520
Sept	6589.0	4.26	28,069
Oct	6994.0	4.26	29,794
Nov	3903.0	4.26	16,627
Dec	2890.5	4.26	12,314
			261,508

Calc of Jan - June Benefit Rate

Pension, Medical, ET Al	960,816	
Hours	210,383	4.57

Calc of Capitalized from June Entry 129

Total Correction needed for benefits	35,401	
Pension, Medical, ET Al	1,099,325	
Total all Dollars	2,194,275	50.1%
Portion of correction relating to 926	17,736	

Administrative

January	13,651.23
February	13,651.23
March	13,651.23
April	13,651.23
May	13,651.23
June	13,651.23
July	14,933.19
Aug	14,933.19
Sept	14,933.19
Oct	14,933.19
Nov	14,933.19
Dec	14,933.19
	171,506.52

Calc of July - Dec Benefit Rate

Pension, Medical, ET Al	885,348	
Hours	207,668	4.26

Field	261,508
Administrative	171,507
Total	433,015

DETERMINATION OF ADM GEN OVERHEADS APPLICABLE TO CONSTRUCTION AND FIELD PAYROLL LOADING RATES

DELTA NATURAL GAS CO., INC.

ADMINISTRATIVE TO CONSTRUCTION	
ADMINISTRATIVE PAYROLL, BENEFITS ET AL	2,656,138
OTHER COSTS	
GENERAL OFFICE COSTS (921'S)	636,300
OUTSIDE SERVICES (923'S)	308,500
PUBLIC SERVICE COMMISSION (928)	134,400
GENERAL COMPANY COSTS (930'S)	477,200
GENERAL COMPANY COSTS (932'S)	192,700
DIRECTORS & OFFICERS LIAB INS	76,845
JANITORIAL COSTS WINCHESTER	28,000
DEPR ON BLDG (WIN ADM PART ONLY)	31,998
DEPR ON WIN OFFICE EQUIP	334,528
ADM TRANSPORTATION (15 UNITS AT \$5,800)	87,000
TOTAL	2,307,271
TOTAL OF ADMINISTRATIVE COSTS	4,963,409
TIME SPENT IN CONSTRUCTION	31.4%
ANNUAL AMOUNT	1,558,510
FIELD EMPLOYEES BENEFITS AND TAXES	2,066,600
20 PERCENT TO CONSTRUCTION	413,320
GENERAL ADMINISTRATIVE TO SUBS	10,800
TOTAL	1,962,630

EMPLOYEE BENEFITS	TOTAL AMT	/HR
PENSION, MEDICAL, ET AL	960,816	
LIABILITY INSURANCE	281,569	
VACATION & SICKNESS - PAYROLL COST	471,049	
VACATION & SICKNESS - PAYROLL TAXES	38,119	
TOTAL	1,751,553	8.326
PAYROLL TAXES		
F I C A	296,919	
UNEMPLOYMENT	18,128	
TOTAL	315,047	1.316
TRANSPORTATION (1.184.03)		
ACTUAL YEAR ENDED 12/31/02	850,274	
LESS ADMINISTRATION	87,000	
TOTAL	763,274	3.628
HOURS		
TOTAL ESTIMATED	239,349	
VACATION & SICKNESS (YE 12-31-02)	28,966	
TOTAL	210,383	
POWER OPERATED EQUIPMENT (1.184.08)		
ACTUAL YEAR ENDED 12/31/02	191,967	3.368
HOURS (YE 12-31-02)	5,829	
A/C 8871	51,173	
WORK ORDERS		
TOTAL	57,002	

521,703 x 31.4% = 163,814.74

163,814.74/12 = 13,651.23 monthly

CURRENT EST WORKMEN'S COMP		69,751 FROM 1,924 BUDGET SUPPORT		39,008 FROM 1,924 BUDGET SUPPORT		112,605 FROM 1,924 BUDGET SUPPORT							
CURRENT EST GENERAL LIAB													
LATEST PAID EXCESS LIABILITY													
TOTAL		281,569											
EMPLOYEE BENEFITS (926'S)		1,583,000											
NO. OF PEOPLE	DESCRIPTION	ANNUAL PAY	FICA	UNEMPLOY	EMPLOYEE BENEFITS	LIABILITY INSURANCE	TOTAL	HOURS	COST PER HOUR	TOTAL	DIRECT		
	ADMINISTRATION												
	OVER 87000	163,900	2,377		43,511		677,434	8,320	81,422	61,526			
4	1ST 87000	348,000	26,622	640	92,384		1,955,725	70,720	27,654	20,550			
34	UNDER 87000	1,453,300	111,177	5,440	385,808		10,765	324		30,825			
	OVERTIME EST	10,000	765				12,214	1,400		8,000			
	PARTTIME EST	11,200	857	157			2,656,138	80,764	32,888	24,595			
38	TOTAL	1,986,400	141,798	6,237	521,703	0							
	CASHIERS												
	UNDER 87000	354,400	27,112	2,080	94,083		477,615	27,040	17,665	13,107			
	OVERTIME EST		0				26,172	3,000		8,000			
	PARTTIME EST	24,000	1,896	336			503,847	30,040	16,773	12,597			
13	TOTAL	378,400	28,948	2,416	94,083	0							
	FIELD												
	UNDER 87000	3,619,300	276,876	17,120	960,816	281,569	5,155,681	222,560	23,165	16,262			
	OVERTIME EST	190,000	14,535				204,535	7,789		24,393			
	PARTTIME EST	72,000	5,508	1,008			78,516	9,000		8,000			
107	TOTAL	3,881,300	296,919	18,128	960,816	281,569	5,438,732	239,349	22,723	16,216			
	TOTAL COMPANY	6,246,100	467,665	26,781	1,576,602	281,569	8,598,717	350,153	24,557	17,838			
	PERCENTS	100.00%	7.49%	0.43%	25.24%	4.51%	137.67%						
	FICA ON MAX OF \$87000 AT		7.65%				\$160.00						
	UNEMPLOYMENT IS .8% ON \$7,000 FOR FEDERAL AND 1.3% ON \$8,000 FOR STATE												
	EMPLOYEE BENEFITS IS AS BUDGETED FOR ALL A/C 926'S EXCEPT A/C 9261 FOR THE YEAR END INDICATED												
	PL, PD, & WORKMEN'S COMP IS PRIMARILY APPLICABLE TO FIELD AND ARE ESTIMATED PREMIUMS FOR												
	THE YEAR BEGINNING 3-1-02												
	OVERTIME AND PARTTIME DATA IS AS BUDGETED FOR YEAR BEGINNING JULY 1, 2002												

DETERMINATION OF ADM GEN OVERHEADS APPLICABLE TO CONSTRUCTION AND FIELD PAYROLL LOADING RATES

DELTA NATURAL GAS CO., INC.

549,688 x 32.6% = 179,198.28

179,198.28 / 12 = 14,933.19 monthly

ADMINISTRATIVE TO CONSTRUCTION		EMPLOYEE BENEFITS	
		TOTAL AMT	/HR
ADMINISTRATIVE PAYROLL, BENEFITS ET AL	2,934,093	885,348	
OTHER COSTS		310,732	
GENERAL OFFICE COSTS (921'S)	541,400	457,301	
OUTSIDE SERVICES (923'S)	311,200	36,512	
PUBLIC SERVICE COMMISSION (928)	129,200		
GENERAL COMPANY COSTS (930'S)	524,800		
GENERAL COMPANY COSTS (932'S)	138,100		
DIRECTORS & OFFICERS LIAB INS	33,692		
JANITORIAL COSTS WINCHESTER	29,100		
DEPR ON BLDG (WIN ADM PART ONLY)	33,233		
DEPR ON WIN OFFICE EQUIP	239,006		
ADM TRANSPORTATION (15 UNITS AT \$5,900)	88,500		
TOTAL	2,128,231	1,689,893	8.137
TOTAL OF ADMINISTRATIVE COSTS	5,062,324		
TIME SPENT IN CONSTRUCTION	32.6%		
ANNUAL AMOUNT	1,650,318		
FIELD EMPLOYEES BENEFITS AND TAXES	1,998,412	293,087	
20 PERCENT TO CONSTRUCTION	399,682	15,432	
GENERAL ADMINISTRATIVE TO SUBS	39,600		
TOTAL	2,089,600	308,519	1.31
		TOTAL	
		796,798	3.837
		LESS ADMINISTRATION	
		88,500	
		885,298	
		ACTUAL YEAR ENDED 06/30/03	
		27,872	
		TOTAL ESTIMATED	
		235,540	
		VACATION & SICKNESS (YE 06/30/03)	
		207,668	
		TOTAL	
		POWER OPERATED EQUIPMENT (1.184.08)	
		199,136	3.509
		ACTUAL YEAR ENDED 06/30/03	
		4,728	
		HOURS (YE 06-30-03)	
		A/C 8871	
		52,019	
		WORK ORDERS	
		TOTAL	
		56,747	

DELTA NATURAL GAS COMPANY, INC.
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SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL

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11. In the response to AG-1-27, Delta has provided its most recent actuary report in which the actuary has determined, based on market conditions existing in mid-2003, that Delta's Net Periodic Pension Expense for the annual period July 1, 2003 – June 30, 2004 is \$725,434. As shown on the cover letter attached to the response, at the time the actuary determined the pension costs for Delta to be \$725,434, the actuary also determined that a Minimum Pension Liability (accumulated OCI) had to be recognized at that time at a total amount of \$3,386,436. Both the Minimum Pension Liability and the large increase in the Company's SFAS 87 pension costs are largely due to the decline in the equity markets.

As confirmed by Delta in its response to AG-1-1, for ratemaking purposes in this case the Company has assumed that the accumulated OCI balance will be gone by June 30, 2004. In this regard, Delta states in its response to AG-1-1 that "Once the [pension] Plan's assets rebound (which has already occurred), the [accumulated OCI] entry is simply reversed, as if it never had been recorded. We expect the actuary analysis performed for our June 30, 2004 year end to support reversing the entry at that point.

Given the above facts, why is it reasonable to assume that the OCI balance will have been eliminated as a result of an upswing in the equity markets and a rebound in the pension plan's assets, while not at the same time reflecting the impact of this assumption on the Company's expected actuary determination of the Company's Net Periodic Pension Expense as of June 30, 2004?

RESPONSE:

As of 3/31/03, as shown on AG 1 Item 27, the Plan had an Unrecognized Net Loss of \$4,858,741, primarily due to the equity markets performing below expectations for the preceding years. Of that, only \$262,483 is included in the \$725,434 of annual expense due to the amortization period rules of SFAS 87. Therefore, there are \$4,596,258 of these losses yet to be amortized.

The actual return on plan assets was \$1,774,000 (preliminary number). The expected return on plan assets was \$671,000. Therefore, \$1,103,000 will likely be available to reduce the unrealized losses, bringing them down to \$3,493,000. The annual amortization of this amount will be around \$170,000 in fiscal 2005, a \$90,000 reduction from fiscal 2004 amortization of \$262,483.

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ATTORNEY GENERAL**

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To summarize, it is true that the assets have made an impressive turn around which will likely allow the company to reverse the Minimum Pension Liability and OCI balances per SFAS 87, as suggested on page 2 of our response to AG 1 #1. Regardless of whether the Minimum Pension Liability and OCI balances reverse, we reassert our conclusion in that response that the OCI balance should be excluded from the capital structure computation. This conclusion agrees with the FERC's letter dated March 29, 2004 in Docket No. AI04-2-000 (attached). See the revised capital structure computation at PSC 3-12b.

The fact remains that despite the increase in fair value of the assets, due to the level of unrealized losses from previous years, the gains seen through 2004 will show as only a \$90,000 decrease in Net Pension Expense for 2005 and on a going forward basis.

While these calculations are not complete, the \$90,000 annual reduction in Unrecognized Net Loss will be offset by an increase in Interest Cost due to the continuing growth of the Projected Benefit Obligation and to a lesser extent, an increase in Service Cost, due to increasing salaries.

We believe that due to these factors, the 2005 Net Pension Expense should be within 10% of the 2004 Net Pension Expense of \$725,434.

SPONSORING WITNESS:

John B. Brown

106 FERC ¶ 62,230

In Reply Refer To:
OED-DRAP
Docket No. AI04-2-000

March 29, 2004

Recognition of a Regulatory Asset for Minimum Pension Liability

TO ALL JURISDICTIONAL PUBLIC UTILITIES AND LICENSEES, NATURAL GAS COMPANIES, AND OIL PIPELINE COMPANIES

The generally lower interest rate environment of recent years and decline in value of assets set aside to meet pension obligations has resulted in many FERC jurisdictional entities recognizing a minimum liability for employee pension obligations. The Commission has received a number of requests for guidance on whether a regulatory asset should be recognized for some or all of the charge to other comprehensive income that is made at the time the minimum pension obligation is recognized. The following discussion responds to these requests.

Facts: An entity provides pension benefits to its employees under a defined pension benefit plan and recognizes pension expense (i.e. net periodic pension cost) for financial accounting and reporting purposes in accordance with Statement of Financial Accounting Standards No 87. (SFAS No. 87).¹ The rates the entity charges for services provided by a segment of its business are regulated by a third party regulator and are determined on the basis of the entity's costs. Development of the rates to be charged for services provided by this business segment include an allowance for employee pension benefits and the amount of that allowance is based on net periodic pension cost determined in accordance with SFAS No. 87. As a result of a decline in the value of its pension fund assets and an increase in the accumulated pension benefit obligation due to lower interest rates used to estimate that obligation on a present value basis, the entity determines that its accumulated pension benefit obligation exceeds the fair value of the assets set aside to meet that obligation. Consistent with the requirements of SFAS No. 87, the entity records a minimum pension liability for the amount of such excess.

¹ Financial Accounting Standards Board Statement of Financial Accounting Standards No 87, Employer's Accounting for Pensions

Question: At the time the entity recognizes its minimum pension liability in accordance with SFAS No. 87, should it recognize a regulatory asset for the amount of the liability otherwise chargeable to accumulated other comprehensive income that relates to its cost based rate-regulated business segment?

Response: The cost of pension benefits provided to employees under a defined pension benefit plan are recognized as an expense at the time the employee provides related employment services. SFAS No. 87 contains a delayed recognition feature. This means that changes in the pension obligation and the value of assets set aside to meet these obligations are not recognized when they occur but are recognized systematically and gradually over subsequent periods.² An entity that determines its pension allowance included in its costs based regulated rates on the basis of SFAS No. 87 adopts that same delayed recognition feature for ratemaking purposes. That is, changes in the pension obligation and assets set aside to meet those obligations are not included in rates when they occur but rather are included in rates systematically and gradually in subsequent periods. The recognition of a minimum pension liability which would otherwise be charged to accumulate other comprehensive income therefore constitutes a measurement of the changes in pension obligations and the value of plan assets that are to be included in the determination of rates in subsequent periods in so far as they relate to the cost based rate regulated segment of the entity.

Under the Commission's accounting requirements regulatory assets are to be established for those charges that would have been included in net income or accumulated other comprehensive income determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services.

Therefore, in the circumstances described above and provided that it is probable that the pension allowance to be included in rates in future periods will continue to be calculated on the basis of SFAS No. 87, entities shall recognize a regulatory asset for the minimum pension liability otherwise chargeable to accumulated other comprehensive income related to its cost based rate regulated business segments.

² Ibid. (See: Summary - Fundamentals of Pension Accounting)

Further, the minimum pension liability, as well as, any related regulatory asset is not amortized over future periods. At each measurement date, the entry recorded for the previous measurement date is reversed and the computation redone. A new minimum liability and related regulatory asset would be recognized, if required, at the new measurement date.

This guidance is for accounting purposes only and does not limit the Commission from reviewing the reasonableness of the elements of pension expense included in future rate proceedings before the Commission.

John M. Delaware
Deputy Executive Director
And Chief Accountant

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

12. Please update the response to PSC-1-51 by providing the actual rate case expenses booked for this rate case through 5/31/04.

RESPONSE:

This will be provided to all parties at the end of each month.

SPONSORING WITNESS:

John B. Brown

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

13. With reference to Page 1 (Account 1.921.07) of the response to AG-1-45a, explain the nature and purpose of the \$2,000 (\$1,000, \$750 and \$250) membership items for Mr. Jennings – Vendor No. 1260.

RESPONSE:

This is for a membership for Glenn Jennings in the Lexington Club. Mr. Jennings uses the facilities for various meetings related to Delta's business.

SPONSORING WITNESS:

John B. Brown

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

14. With regard to the response to AG-1-38, please provide the following information:
- a. What do the \$20,538 Stock expense, the \$51,440 Cash Supplement, and the \$2,282 Cash In Lieu of Stock represent, and how are these 3 items distinguishable from one another?
 - b. Reconcile each of the fee and expense items for 2003 adding to \$225,369 to the corresponding fee and expense items for 2003 adding to \$225,369 in the response to PSC-2-25 cc.

RESPONSE:

- a. The \$20,538 was for 100 shares of Delta common stock provided to each director. One director received cash in lieu of that stock and the \$2,282 was the value of the 100 shares provided to the others. The \$51,440 was additional cash compensation paid to directors that was supplemental to the retainers.
- b. Delta's response to PSC-2-25 indicated total Directors Fees and Expenses of \$225,032 in the 2003 test year. This was a typographical error. The total should have been \$225,369, which is the same total as reflected in Delta's response to AG-1-38. The detail in AG-1-38 is the correct detail breakout of the \$225,369.

SPONSORING WITNESS:

Glenn R. Jennings

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

15. Follow-up to Item 146. This response shows that only about half of the customers that were disconnected for non-payment were eventually reconnected to the Delta system. To the extent that the company maintains information on customers who do not reconnect:
- a. Please provide an explanation as to why these other customers were never reconnected.
 - b. Please provide information on how these customers received service for heating after they left the Delta system.

RESPONSE:

The information is not available.

SPONSORING WITNESS:

John F. Hall

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

16. Follow-up to Item 148 and 2-PSC-7.
- a. Why is this tariff not being applied to off-system transportation and interruptible customers?
 - b. 2-PSC-7(e) shows that this charge has diminished significantly over the last 5 years.
 - i) Why has this fee gone down so significantly in recent years?
 - ii) Does Delta expect this fee to continue to decrease in future years? If so, by how much?
 - c. 2-PSC-7(a) on page 10 of 28 shows that only \$128 million of the \$5,509 million in benefits went to residential customers:
 - i) Please provide what portion of this charge will be collected from each of the classes identified in the Cost of Service Study.
 - ii) Does this exhibit show that Industrial customers will receive \$884 million in benefits from this research, about 7 times as much as the residential customers.
 - iii) Does this exhibit show that Delta's large industrial customers will not pay into this research fund, as proposed in the Delta tariff?

RESPONSE:

- a. We buy gas for our retail customers and not our transportation customers. The current charge is embedded in FERC approved transportation rates.
- b. See the response to PSC-3-4b.
- c.
 - i) Each retail customer class will be charged \$0.003 per Mcf
 - ii) Yes or approximately 6.9 times.
 - iii) No. This exhibit shows the benefits of GTIR&D results that have been placed in commercial use from 1998 through 2002.

SPONSORING WITNESS:

John F. Hall

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

17. Follow-up to Item 149. This response stated that Tab 8 was incorrect and was being corrected. Is it correct that there is no problem with Tab 8, but it is Tab 26 that is in error and is being corrected?

RESPONSE:

Yes.

SPONSORING WITNESS:

W. Steven Seelye

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

18. Follow-up to Item 159. This question asked for the analysis to determine the customer/demand split for the distribution system in Delta's last two cases but the response only provided this analysis for Delta's most recent case. Please provide the analysis for the other case requested.

RESPONSE:

The Prime Group, LLC, did not prepare the cost of service study in the second preceding rate case. Attached is the exhibit showing the derivation of the customer/demand split from the cost of service study filed in that proceeding.

SPONSORING WITNESS:

W. Steven Seelye

DELTA NATURAL GAS COMPANY
SUPPORT FOR CLASSIFICATION

LINE CATEGORY	TOTAL	CUSTOMER	DEMAND	COMMODITY	DIRECT
1 374.10 LAND-TB	\$240,847	\$98,747	\$142,100		
2 374.20 LAND OTHER	\$0	\$0	\$0		
3 374.30 RIGHTS OF WAY	\$0	\$0	\$0		
4 375.10 STRUCTURES & IMPR	\$97,007	\$39,773	\$57,234		
5 375.03 IMPROVEMENTS	\$0	\$0	\$0		
6 375.20 LAND RIGHTS	\$0	\$0	\$0		
7 376.00 MAINS	\$38,749,252	\$15,887,193	\$22,862,059		
8 378.10 MEAS. & REG GENERAL	\$802,092	\$328,658	\$473,234		
9 379.30 MEAS. & REG OTHER	\$388,040	\$159,096	\$228,944		
10 380.00 SERVICES	\$6,017,698	\$6,017,698			
11 381.00 METERS	\$4,574,419	\$4,574,419			\$0
12 381.20 GAUGES	\$0	\$0			
13 382.00 METER INSTALLATIONS	\$2,054,732	\$2,054,732			
14 383.00 HOUSE REGULATORS SERVICE	\$1,783,283	\$1,783,283			
15 383.20 HOUSE REGULATOR RELIEF	\$0	\$0			
16 384.00 HOUSE REGULATOR INSTALLATIONS	\$0	\$0			\$1,063,029
17 385.00 MEAS & REG INDUST	\$1,063,028	\$0			\$1,063,029
18					
19 TOTAL DIST PLANT	\$55,770,399	\$30,943,800	\$23,763,570		\$1,063,029
20 % OF TOTAL	100.00%	55.48%	42.61%		1.91%
21					
22 PERCENT OF TOTAL CLASSIFICATION IN ACCOUNTS:					
23					
24 376.00 MAINS			51.34%	96.21%	
25 380.00 SERVICES			19.45%	0.00%	
26 381.00 METERS			14.78%	0.00%	
27 ALL OTHERS			14.43%	3.79%	
28					
29 TOTAL			100.00%	100.00%	
30					
31					
32 RATE BASE - CLASSIFICATION PERCENTAGE					
33					
34 GAS COST				DEMAND	
35 STORAGE				100.00%	
36 DISTRIBUTION				50.00%	
37 TRANSMISSION				42.61%	
38 PRODUCTION				100.00%	
39 TOTAL RATE BASE				100.00%	59.41%
40					
		TOTAL	CUSTOMER	DEMAND	
		100.00%	0.00%	100.00%	
		100.00%	0.00%	50.00%	
		100.00%	55.48%	42.61%	
		100.00%	0.00%	100.00%	
		100.00%	0.00%	100.00%	
		100.00%	38.90%		

**DELTA NATURAL GAS COMPANY, INC.
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**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

19. Follow-up to Item 163. The answer to this question was not responsive. Please provide:
- a. The Special Contract fixed price contracts referred to by Mr. Seelye.
 - b. Please state whether these contracts forbid the Commission from raising these customers' rates.

RESPONSE:

- a. These contracts are attached. Confidential treatment was granted for two of the contracts and they are attached in redacted form.
- b. The contracts, which were approved by the Commission, established fixed prices (not subject to modification) for the duration of the contracts.

SPONSORING WITNESS:

W. Steven Seelye
Glenn R. Jennings

RECEIVED

Page 1 of 1

AGREEMENT

PUBLIC SERVICE
COMMISSION

THIS AGREEMENT is made and entered into this the 1st day of April, 2002, by and between DELTA NATURAL GAS COMPANY, INC. (Delta), a Kentucky corporation, and

W I T N E S S E T H:

THAT WHEREAS, [redacted] intends to purchase certain quantities of natural gas from a supplier to be designated (Supplier); and

WHEREAS, [redacted] desires to have said quantities of natural gas purchased from Supplier transported and delivered to [redacted] Kentucky, by Delta; and

WHEREAS, Delta, subject to the terms and conditions set forth herein, desires to transport and deliver to [redacted] that quantity of natural gas purchased by [redacted] from Supplier and delivered by Supplier to Delta at a certain designated point;

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE 1. DEFINITIONS.

Unless this Agreement provides otherwise, the following definitions shall apply:

1.1. "Natural Gas" or "Gas" shall mean any mixture of hydrocarbons or hydrocarbons and non-combustible gases in a gaseous state, consisting essentially of methane.

1.2. "Delivery Point" shall mean the point of interconnection between the pipeline facilities of Delta and the metering facilities of

at or near _____ County, Kentucky and/or _____ at or near _____ County, Kentucky or other points which may be agreed to through mutual written agreement of the parties hereto.

1.3. "Redelivery Point" shall mean the point of interconnection between the pipeline facilities of Delta and the metering facilities of Delta for

1.4. "Supplier Contract Gas" shall mean the volumetric quantity of natural gas delivered at the Delivery Point to Delta by Supplier for the account of

1.5. "Excess Gas" shall mean the amount or quantity of natural gas delivered by Delta to _____ at the Redelivery Point in excess of or in addition to the Supplier Contract Gas (after adjustment for Delta's retainage for losses [1%]). Excess Gas shall not include Supplier Contract Gas delivered to correct an imbalance by mutual agreement of the parties.

1.6 "Distributor" shall mean that entity which provides the service of either transporting natural gas or selling Excess Gas from an interstate or intrastate pipeline facility to

1.7. "Mcf" shall mean the quantity of gas occupying a volume of one thousand (1,000) cubic feet at a pressure base of 14.73 pounds per square inch absolute (14.73 psia) and a temperature base of 60 degrees Fahrenheit (60° F).

ARTICLE 2. TERM.

2.1. Subject to the terms and conditions herein, the term of this Agreement shall commence on _____ and shall continue in full force and effect for a term of _____ and _____

ARTICLE 3. TRANSPORTATION AND DELIVERY OF GAS.

3.1. Subject to the terms and conditions herein, to the extent that Delta is able to deliver, Delta shall be the exclusive Distributor of natural gas to _____ while the Agreement is in effect.

3.2. Subject to the provisions of Article 6 hereof and subject to available capacity and the daily needs of _____ Delta shall accept from Supplier on behalf of _____ all daily Supplier Contract Gas which is delivered by Supplier to the Delivery Point, up to a daily maximum of _____ Mcf.

3.3. Delta shall transport and deliver to _____ in _____ Kentucky, natural gas in quantities which are equivalent to the amount of Supplier Contract Gas less one percent (1%) by volume for line loss.

3.4. Volumes of Supplier Contract Gas nominated by _____ and transported and delivered by Delta as provided in Article 3.2 herein shall be as closely balanced on a daily basis as is reasonable and practical. Should an imbalance

exist at any time during the term of this Agreement or upon the termination of this Agreement, such imbalance will be corrected within thirty (30) days unless an extension is mutually agreed upon by the parties herein. If, at any time during the term hereof, Excess Gas (as defined in paragraph 1.5 hereof) is delivered to _____ then Delta will notify _____ to correct such imbalance. If _____ fails to promptly take action to correct such imbalance, then Delta, upon providing reasonable notice to _____ may adjust deliveries to _____ until Supplier has delivered a quantity of gas to Delta sufficient to balance deliveries from Supplier with redeliveries to _____. _____ shall purchase any Excess Gas delivered by Delta to _____ in accordance with Articles 4 and 5 of this Agreement.

3.5. Delta's transportation obligation hereunder shall be to provide interruptible service to _____ Supplier Contract Gas transported hereunder for _____ will be subject to interruption in accordance with normal interruption procedures applicable to the Interruptible Rate schedule of Delta on file with the Kentucky Public Service Commission, as same may be changed from time to time. Without limiting the generality of the foregoing, Delta shall have the right at any time to curtail or interrupt the receipt, transportation or delivery of gas hereunder when, in its judgment, such curtailment or interruption is necessary to enable Delta to maintain delivery to customers of higher priority, to respond to any emergency or to minimize or

eliminate excessive imbalance of deliveries under this Agreement. Upon notification by Delta of the necessity to interrupt or curtail the use of gas, shall reduce or curtail its gas usage in accordance with Delta's notification and cause deliveries of Supplier Contract Gas to Delta's facilities to reduce accordingly. Delta shall promptly advise as soon as conditions indicate curtailment or interruption of service to is imminent and also promptly notify as soon as full usage can resume. In this respect, Delta shall use its best efforts to notify of pending interruption four (4) hours prior to interruption.

3.6. Delta shall not be responsible for any and/or transportation or storage costs, including related line loss, compressor fuel, any penalties, transition costs or any other costs associated with the transportation of Supplier Contract Gas.

ARTICLE 4. PRICE.

4.1. Subject to the terms and conditions herein, shall pay Delta the following rates per Mcf for the gas transported by Delta and received by under the terms of this Agreement:

through

If Delta does not receive and transport a total volume of _____ Mcf of gas during any billing month after any twelve consecutive billing periods during which Delta has not transported or delivered for _____ a total of _____ Mcf of gas, then _____ if Delta so requests, shall pay Delta for transportation during such billing month at Delta's then effective transportation rates for On-System Transportation as set forth in Delta's tariffs on file with the Kentucky Public Service Commission, as same may be changed from time to time.

4.2. For any Excess Gas delivered or sold by Delta to _____ shall pay Delta the applicable Interruptible Service Rate of Delta (Base Rate plus Gas Cost Recovery Rate and any other charges), as set forth in Delta's tariffs on file with the Kentucky Public Service Commission, as same may be changed from time to time.

4.3. Notwithstanding the terms and conditions herein, at any time during the term of this Agreement _____ may, at its option, elect to obtain the service(s) provided hereunder pursuant to Delta's then effective transportation rate(s) for such service(s) on file with the Kentucky Public

Service Commission. In the event _____ elects to obtain the service(s) provided hereunder pursuant to Delta's then effective transportation rate(s) for such service(s) and provided that such rate(s) are lower than those set forth in Article 4.1 hereof, _____ and Delta agree to renegotiate in good faith the terms or conditions of this Agreement, it being expressly understood that neither party to such renegotiation has any obligation to revise any terms or conditions of this Agreement, but only to engage in such negotiations in good faith.

4.4. Subject to the terms and conditions herein, during the term of this Agreement, either party may request renegotiation of any terms or conditions of this Agreement if performance of this Agreement results in significant adverse economic impact upon the party requesting renegotiation. In the event a request for renegotiation is made, the parties hereto agree to negotiate in good faith the terms or conditions of this Agreement in an effort to ameliorate such significant adverse economic impact, it being expressly understood that neither party to such renegotiation has any obligation to revise any terms or conditions of this Agreement, but only to engage in such negotiations in good faith.

ARTICLE 5. STATEMENTS AND PAYMENTS.

5.1. Statements shall be rendered by Delta as appropriate to _____ each month showing the amounts due to

Delta for services rendered by Delta for _____ during the preceding billing month.

5.2. Each statement required to be furnished shall be mailed to the address set forth in this Agreement. Payment by check payable to the order of Delta Natural Gas Company, Inc. shall be made by _____ by mailing same within fifteen (15) days after receipt of the bill. _____ agrees to pay interest at the rate of one and one-half percent (1 1/2%) per month on any outstanding balance which is due Delta under the terms of this Agreement and which is not paid within the time period previously set forth.

ARTICLE 6. QUALITY.

6.1. All gas delivered hereunder shall at all times be in compliance with the gas quality specifications set forth in _____ approved gas tariff, as same may be changed from time to time.

ARTICLE 7. MEASUREMENT

7.1. Meters and other related equipment installed and maintained by or on behalf of Delta shall be the exclusive method and means of determining the quantity of gas redelivered to _____ or delivered to Delta by Supplier for the account of _____ Reading, calibration and adjustment of Delta's meters and related measurement equipment shall be performed solely by Delta using generally accepted procedures. Delta shall read said meters at regular intervals and the cost of reading, calibrating, adjusting

and otherwise maintaining said meters, excluding repair of damage due to the negligence or willful misconduct of shall be borne by Delta. Delta shall test the accuracy of any Delta-owned meter in use under this Agreement in accordance with its standard practices.

7.2. If _____ challenges the accuracy of any meters maintained by Delta and requests to have the meters tested, Delta shall test the meters in the presence of _____ or its representatives, if _____ exercises the right to be present or represented at such test. If the test shall prove the meter to be accurate within plus or minus two percent ($\pm 2\%$), the cost of testing the same shall be borne by the party requesting the test, but if the test proves the meter to be in error by more than plus or minus two percent ($\pm 2\%$), then the cost of testing and repairing the same shall be borne by Delta. Meter measurements found to be in error more than plus or minus two percent ($\pm 2\%$) shall be corrected and the accounts for the period during which the meter error existed shall be adjusted accordingly. In the event the period during which the meter error existed is unknown, then the accounts shall be adjusted for one-half of the elapsed time since the last previous test but in no event for a period of more than sixty (60) days.

ARTICLE 8. DELIVERY POINTS AND TITLE.

8.1. Supplier Contract Gas. The point of delivery from Supplier to Delta for the account of _____ shall be that Delivery Point herein described in Paragraph 1.2.

While Delta is in control and possession of the Supplier Contract Gas, it shall be responsible for any damage, claim, liability or injury caused by the gas.

8.2. Excess Gas. The title to the Excess Gas sold by Delta to _____ hereunder shall pass to _____ at the Redelivery Point. Before the Excess Gas passes the Redelivery Point, Delta shall be in control and possession thereof.

8.3. After delivery at the Redelivery Point of the Supplier Contract Gas and the Excess Gas sold by Delta to _____ hereunder, _____ shall be deemed in control and possession thereof and shall be responsible for any damage, claim, liability or injury caused by the gas.

ARTICLE 9. TAXES AND FRANCHISE FEES.

Delta may collect from _____ any taxes and franchise fees, including, but not limited to, sales tax, school tax and gross receipts tax, which, by its tariff or by law, may be collected from _____ and is being collected from other similarly situated Delta customers and which are not otherwise paid by _____ whether such tax is now in existence or hereinafter promulgated or applied. The obligation to pay such taxes shall be in addition to the obligation to pay the appropriate rate set forth in Article 4 of this Agreement.

ARTICLE 10. FORCE MAJEURE.

10.1. Suspension of Obligations. If by reason of force majeure any party hereto is rendered unable, wholly or

in part, to carry out its obligations under this Agreement, and if such party gives notice and reasonably full particulars of such force majeure, by an express means of written communication, to the other party within a reasonable time after the occurrence of the force majeure relied on, the party giving such notice, to the extent that it is affected by such force majeure, shall not be in default of its obligations hereunder or liable in damages during the continuation of any inability so caused. The party claiming suspension due to force majeure shall use due diligence to put itself again in position to carry out all of the obligations which it assumes in this Agreement.

10.2. Force Majeure. The term "force majeure" as used herein means any cause not reasonably in the control of the party claiming suspension, including but not limited to, acts of God or a public enemy, strikes, riots, injunctions or other interference through legal proceedings, breakage or accident to machinery, equipment or pipelines not due to negligence or willful misconduct of the party invoking force majeure, wash-outs, earthquakes, storms, freezing of lines or wells, blowouts, shutdowns to make emergency or unexpected repairs to machines, equipment or pipelines, and compliance with any statute or regulation, either State or Federal, or with any order of the Federal government of any branch thereof, or of the government of the Commonwealth of Kentucky.

10.3. Obligation to Pay. Notwithstanding the foregoing provisions of this Article, may not claim suspension, by reason of force majeure, of its obligations under Articles 4 and 9 of this Agreement to pay Delta for transportation service previously rendered [including applicable taxes and franchise fees] which Delta may collect from

ARTICLE 11. GOVERNMENTAL REGULATION.

11.1. This Agreement shall be subject to all applicable and valid statues, rules, orders and regulations of any federal, state or local governmental authority or agency having jurisdiction over the parties, their facilities or gas supply, this Agreement or any provision thereof. The parties agree that should any state, federal or local governmental authority or agency with jurisdiction over the parties to this Agreement or transactions herein require approval for the sale or transportation of gas hereunder, then each party shall make all necessary applications or filings and shall submit any records or data required by such governmental authority or agency.

11.2. Neither party shall be liable for failure to perform hereunder if such failure is due to compliance with rules, regulations, laws, orders or directives of any state, federal or local governmental regulatory authority or agency.

11.3. If at any time during the term of this Agreement, the Kentucky Public Service Commission, the

Federal Energy Regulatory Commission or their successor agencies shall take action [a] whereby Delta will be prohibited or prevented from receiving in full all amounts and monies which has agreed to pay Delta for service rendered, or, [b] which action in the reasonable judgment of either party, would cause performance of this Agreement to be unduly burdensome, the effected party may cancel and terminate this Agreement as of the date on which such action would so prevent, prohibit or unduly burden that party. Notification, in writing, of such cancellation and termination and the reason therefor shall be as soon as is practicable. The non-terminating party shall have seven (7) business days to assist in alleviating, to the other's satisfaction, such prevention, prohibition or burden, after which time such cancellation and termination shall be effective at the terminating party's discretion.

11.4. Nothing in this Agreement shall prevent any party from contesting the validity of any law, order, rule, regulation or directive of any state, federal or other governmental regulatory authority or agency, nor shall anything in this Agreement be construed to require any party to waive its right to assert the lack of jurisdiction of such regulatory body, governmental entity, or agency over this Agreement or any party thereto.

11.5. This Agreement shall not be effective in whole or in part until and unless all necessary regulatory approvals or authorizations shall have been obtained to the

satisfaction of each of the parties hereto. In the event any such approval or authorization is withdrawn or expires (and any renewal is refused by the appropriate regulatory authority), this Agreement may be canceled at the option of any party hereto.

11.6. Except as otherwise provided herein, this Agreement is subject to the terms and conditions of Delta's Rates, Rules and Regulations, as set forth in Delta's tariffs on file with the Kentucky Public Service Commission, as same may be changed from time to time.

ARTICLE 12. CONFIDENTIALITY.

Except as otherwise provided herein, Delta and shall maintain the confidentiality of the terms and conditions of this Agreement, and Delta and agree not to divulge same to any third party except to the extent required for to purchase Supplier Contract Gas or as may be required by law, court order or the order or regulation of any administrative agency having jurisdiction over either party.

ARTICLE 13. GOVERNING LAW.

This Agreement was entered into under and, to the extent permitted by law, shall be construed in accordance with the laws of the Commonwealth of Kentucky.

ARTICLE 14. NOTICES.

Any notice, request, demand, statement, bill, payment, or other communication from any party to any other shall be in writing and shall be delivered to the addresses listed

below or at such other address as the receiving party may designate in writing:

To DELTA: Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391
Attention: George S. Billings

To

ARTICLE 15. ASSIGNMENT.

Either party may assign this Agreement or any of its rights or obligations hereunder provided the assigned party has the ability to perform.

ARTICLE 16. SUCCESSORS.

Subject to the terms and conditions of this Agreement, this Agreement shall extend to and be binding upon the successors and assigns of the parties hereto.

ARTICLE 17. WAIVER.

A waiver by any party of any one or more defaults by any other party in the performance of any provision of this Agreement, shall not operate as a waiver of any future default.

ARTICLE 18. SEVERABILITY.

Except as otherwise provided herein, any provision of this Agreement declared or rendered unlawful by a statute, court of law or regulatory agency with jurisdiction over the parties or either of them, shall not otherwise affect the other obligations of the parties under this Agreement.

ARTICLE 19. HEADINGS.

The headings of the provisions of this Agreement are used for convenience only and shall not be deemed to affect the meaning or construction of such provisions.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands this the day and year first above written.

DELTA NATURAL GAS COMPANY, INC.

By Glenn R. Jennings

Title President & CEO

By

Title

MAY 13 1998

AGREEMENT

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

THIS AGREEMENT is made and entered into this the _____ day of March, 1998, by and between DELTA NATURAL GAS COMPANY, INC. (Delta), a Kentucky corporation, and

W I T N E S S E T H:

THAT WHEREAS, _____ intends to purchase certain quantities of natural gas from a supplier to be designated (Supplier); and

WHEREAS, _____ desires to have said quantities of natural gas purchased from Supplier transported and delivered to _____ in _____ Kentucky, by Delta; and

WHEREAS, Delta, subject to the terms and conditions set forth herein, desires to transport and deliver to said quantities of natural gas purchased by _____ from Supplier and delivered by Supplier to Delta at certain designated points;

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE 1. DEFINITIONS.

Unless this Agreement provides otherwise, the following definitions shall apply:

1.1. "Natural Gas" or "Gas" shall mean any mixture of hydrocarbons or hydrocarbons and non-combustible gases in a gaseous state, consisting essentially of methane.

1.2. "Delivery Point" shall mean each of the following points (i) the point of interconnection between the pipeline facilities of Delta and the metering facilities of

Kentucky, (ii) the interconnection between the pipeline facilities of Delta and

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Kentucky or (iii) other points which may be agreed to through mutual written agreement of the parties hereto.

PURSUANT TO 807 KAR 5.011,
SECTION 9(1)

1.3. "Redelivery Point" shall mean the point of interconnection between the pipeline facilities of Delta and the metering facilities of Delta for

BY: Stephan O. Bell
SECRETARY OF THE COMMISSION

1.4. "Supplier Contract Gas" shall mean the volumetric quantity of natural gas delivered at the Delivery Points to Delta by Supplier for the account of

1.5. "Excess Gas" shall mean the amount or quantity of natural gas delivered by Delta to at the Redelivery Point in excess of or in addition to the Supplier Contract Gas (after adjustment for Delta's 2% retainage for losses.) Excess Gas shall not include Supplier Contract Gas delivered to correct an imbalance by mutual agreement of the parties.

1.6 "Distributor" shall mean that entity which provides the service of either transporting natural gas or selling Excess Gas from an interstate or intrastate pipeline facility to

1.7. "Mcf" shall mean the quantity of gas occupying a volume of one thousand (1,000) cubic feet at a pressure base

of 14.73 pounds per square inch absolute (14.73 psia) and a temperature base of 60 degrees Fahrenheit (60 F).

ARTICLE 2. TERM.

2.1. Subject to the terms and conditions herein, the Preliminary Term of this Agreement shall commence on the date service is required by and shall continue in full force and effect until the date full production of its manufactured product begins by at its premises in Kentucky.

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PURSUANT TO 807 KAR 5.011,
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BY: Stephan O. Bell
SECRETARY OF THE COMMISSION

ARTICLE 3. TRANSPORTATION AND DELIVERY OF GAS.

3.1. Subject to the terms and conditions herein, Delta shall be the exclusive Distributor of natural gas to while the Agreement is in effect.

3.2. Subject to the provisions of paragraphs 3.4 and 6.1 herein and the daily needs of Delta shall accept from Supplier on behalf of all daily Supplier Contract Gas which is delivered by Supplier to the Delivery Points, up to a daily maximum of Mcf.

3.3. Delta shall transport and deliver to _____ in
Kentucky, natural gas in quantities which _____
equivalent to the amount of Supplier Contract Gas less two
percent (2%) by volume for losses.

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3.4. Volumes of Supplier Contract Gas nominated by _____
and transported and delivered by Delta as provided in _____
paragraph 3.2 herein shall be as closely balanced on a daily
basis as is reasonable and practical, provided, however,
that from November through March _____ shall have the right to
maintain a positive balance of up to ten percent (10%) of
normal monthly requirements. If at any time during the term
of this Agreement or upon the termination of this Agreement,
Delta experiences either underdeliveries or overdeliveries
of Supplier Contract Gas, and Delta notifies _____ that action
needs to be taken to correct such underdelivery or
overdelivery, such underdelivery or overdelivery shall be
corrected by _____ as soon as possible, but no later than
within ten (10) days from the date of notice, unless an
extension is mutually agreed upon by the parties herein. If
Delta so requests, _____ shall purchase any Excess Gas
delivered by Delta to _____ in accordance with Articles 4 and
5 of this Agreement.

PURSUANT TO 807 KAR 5011
SECTION 9(1)
BY: Stephan O Bell
SECRETARY OF THE COMMISSION

3.5. Delta's transportation obligation hereunder shall
be to provide firm service to _____ as defined in the General
Service Rate schedule of Delta on file with the Kentucky
Public Service Commission, as same may be changed from time
to time.

3.6. Delta shall not be responsible for any interstate pipeline transportation or storage costs, including related line loss, compressor fuel, any penalties, transition costs or any other costs associated with the transportation of Supplier Contract Gas to the Delivery Points.

ARTICLE 4. PRICE.

4.1. During the Preliminary Term of this Agreement, for the services described herein, shall pay Delta rates as set forth in Delta's tariffs on file with the Kentucky Public Service Commission as same may be changed from time to time.

4.2.

4.3.

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SECTION 9(1)

BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

4.4.

a)

b)

4.5.

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PURSUANT TO 807 KAR 5.011,
SECTION 9 (1)

BY: Stephan J. Bee
SECRETARY OF THE COMMISSION

a)

b)

4.6.

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SECTION 9 (1)

BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

4.7. For any Excess Gas delivered or sold by Delta to
shall pay Delta the applicable General Service Rate
of Delta (Base Rate plus Gas Cost Recovery Rate and any
other charges), as set forth in Delta's tariffs on file with
the Kentucky Public Service Commission, as same may be
changed from time to time.

4.8. In any billing month in which rebuilds its
furnace or experiences an emergency repair situation at its
plant in Kentucky the applicable rate for
transportation shall be the transportation rate in effect
during the billing month immediately preceeding the furnace
rebuild or the emergency repair situation provided, however,
that any such special rate consideration shall not be in
effect for a period of time exceeding one hundred (100)
days.

ARTICLE 5. STATEMENTS AND PAYMENTS.

5.1. Statements shall be rendered by Delta as
appropriate to each month showing the amounts due to
Delta for services rendered by Delta for during the
preceding billing month.

5.2. Statements rendered by Delta shall reflect the rates established in Articles 4 and 9 of this Agreement.

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PURSUANT TO 807 KAR 5:011,
SECTION 9(1)

5.3. Each statement required to be furnished ^{BY: Stephan D. Bell} ~~shall be~~ mailed to the address set forth in this Agreement. Payment by check payable to the order of Delta Natural Gas Company, Inc. shall be made by by mailing same within twenty (20) days after receipt of the bill. agrees to pay interest at the rate of one and one-half percent (1 1/2%) per month on any outstanding balance which is due Delta under the terms of this Agreement and which is not paid within the time period previously set forth.

SECRETARY OF THE COMMISSION

ARTICLE 6. QUALITY.

6.1. All gas delivered hereunder shall at all times be in compliance with the gas quality specifications as set forth in Federal Energy Regulation Commission approved tariffs, as same may be amended from time to time.

ARTICLE 7. MEASUREMENT

7.1. Meters and other related equipment installed and maintained by or on behalf of Delta shall be the exclusive method and means of determining the quantity of gas redelivered to or delivered to Delta by Supplier for the

account of . Reading, calibration and adjustment of Delta's meters and related measurement equipment shall be performed solely by Delta using generally accepted procedures. Delta shall read said meters at regular intervals and the cost of reading, calibrating, adjusting and otherwise maintaining said meters, excluding repair of damage due to the negligence or willful misconduct of , shall be borne by Delta. Delta shall test the accuracy of any Delta-owned meter in use under this Agreement in accordance with its standard practices and timely communicate the test results to .

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7.2. If challenges the accuracy of any meters maintained by Delta and requests to have the meters tested, Delta shall test the meters in the presence of representatives, if exercises the right to be present or represented at such test. If the test shall prove the meter to be accurate within plus or minus two percent (2%), the cost of testing the same shall be borne by , but if the test proves the meter to be in error by more than plus or minus two percent (2%), then the cost of testing and repairing the same shall be borne by Delta. Meter measurements found to be in error more than plus or minus two percent (2%) shall be corrected and the accounts for the period during which the meter error existed shall be adjusted accordingly. In the event the period during which the meter error existed is unknown, then the accounts shall be adjusted for one-half of the elapsed time since the last

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SECTION 9(1)

BY: Stephen D. Bell
SECRETARY OF THE COMMISSION

previous test but in no event shall the accounts be adjusted for a period of more than one hundred and eighty (180) days.

ARTICLE 8. DELIVERY POINTS AND TITLE.

8.1. Supplier Contract Gas. The point of delivery from Supplier to Delta for the account of shall be those Delivery Points herein described in Paragraph 1.2. While Delta is in control and possession of the Supplier Contract Gas, it shall be responsible for any damage, claim, liability or injury caused by the gas.

8.2. Excess Gas. The title to the Excess Gas sold by Delta to hereunder shall pass to at the Redelivery Point. Before the Excess Gas passes the Redelivery Point, Delta shall be in control and possession thereof.

8.3. After delivery at the Redelivery Point of the Supplier Contract Gas and the Excess Gas sold by Delta to hereunder, shall be deemed in control and possession thereof and shall be responsible for any damage, claim, liability or injury caused by the gas.

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ARTICLE 9. TAXES AND FEES.

Delta may collect from any taxes and franchise fees, including, but not limited to, sales tax, and gross receipts tax, which, by regulatory authority or by law, are generally collected by utilities or other providers of the services which are the subject of this Agreement from customers based upon the services rendered, whether such tax is now in existence or hereinafter promulgated or applied. The obligation to pay such taxes shall be in addition to the

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SECTION 9(1)
BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

obligation to pay the appropriate rates set forth in Article 4 of this Agreement.

ARTICLE 10. FORCE MAJEURE.

10.1. Suspension of Obligations. If by reason of force majeure any party hereto is rendered unable, wholly or in part, to carry out its obligations under this Agreement, and if such party gives notice and reasonably full particulars of such force majeure, by an express means of written communication, to the other party within a reasonable time after the occurrence of the event of force majeure relied on, the party giving such notice, to the extent that it is affected by such event of force majeure, shall not be in default of its obligations hereunder or liable in damages during the continuation of any inability so caused. The party claiming suspension due to force majeure shall use due diligence to put itself in a position to carry out all of the obligations which it assumes in this Agreement.

PUBLIC SERVICE COMMISSION
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10.2. Force Majeure. The term "force majeure" used herein means any cause not reasonably in the control of the party claiming suspension, including but not limited to, acts of God or a public enemy, strikes, riots, injunctions or other interference through legal proceedings, breakage or accident to machinery, equipment or pipelines not due to negligence or willful misconduct of the party invoking force majeure, wash-outs, earthquakes, storms, freezing of lines

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BY: Stephan Bui
SECRETARY OF THE COMMISSION

or wells, blowouts, shutdowns to make emergency or unexpected repairs to machines, equipment or pipelines.

10.3. Obligation to Pay. Notwithstanding the foregoing provisions of this Article, may not claim suspension, by reason of force majeure, of its obligations under Articles 4 and 9 of this Agreement to pay Delta for transportation service previously rendered, including applicable taxes and franchise fees, which are permitted to collect from hereunder.

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ARTICLE 11. GOVERNMENTAL REGULATION.

MAY 13 1998

11.1. This Agreement shall be subject to all applicable and valid statutes, rules, orders and regulations of any federal, state or local governmental authority or agency having jurisdiction over the parties, their facilities or gas supply, this Agreement or any provision thereof. The parties agree that should any state, federal or local governmental authority or agency with jurisdiction over the parties to this Agreement or transactions herein require approval for the sale or transportation of gas hereunder, then each party shall make all necessary applications or filings and shall submit any records or data required by such governmental authority or agency.

PURSUANT TO 807 KAR 5.011,
SECTION 9(1)
BY: Stephen O. Bell
SECRETARY OF THE COMMISSION

11.2. Neither party shall be liable for failure to perform hereunder if such failure is due to compliance with rules, regulations, laws, orders or directives of any state, federal or local governmental regulatory authority or agency.

11.3. Nothing in this Agreement shall prevent any party from contesting the validity of any law, order, rule, regulation or directive of any state, federal or other governmental regulatory authority or agency, nor shall anything in this Agreement be construed to require any party to waive its right to assert the lack of jurisdiction of such regulatory body, governmental entity, or agency over this Agreement or any party thereto.

11.4. This Agreement shall not be effective in whole or in part until and unless all necessary regulatory approvals or authorizations shall have been obtained to the satisfaction of each of the parties hereto. In the event any such approval or authorization is withdrawn or expires (and any renewal is refused by the appropriate regulatory authority), this Agreement may be canceled at the option of any party hereto. Delta shall seek the appropriate regulatory approvals in a manner calculated to allow for service to

11.5. Except as otherwise provided herein, this Agreement is subject to the terms and conditions of Delta's Rates, Rules and Regulations "Regs", as set forth in Delta's tariffs on file with the Kentucky Public Service Commission, as same may be changed from time to time. (Delta shall provide a copy of the "Regs" to).

**PUBLIC SERVICE COMMISSION
OF KENTUCKY
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PURSUANT TO 807 KAR 5.011,
SECTION 9 (1)

BY: Stephan O Bell
SECRETARY OF THE COMMISSION

ARTICLE 12. CONFIDENTIALITY.

Except as otherwise provided herein, Delta and shall maintain the confidentiality of the terms and conditions of Articles 2 and 4 of this Agreement, and Delta and agree not to divulge same to any third party except to the extent required for to purchase or monitor Supplier Contract Gas or as may be required by law, court order or the order or regulation of any administrative agency having jurisdiction over either party.

ARTICLE 13. GOVERNING LAW.

This Agreement was entered into under and shall be construed in accordance with the laws of the Commonwealth of Kentucky.

PUBLIC SERVICE COMMISSION
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ARTICLE 14. NOTICES.

Any notice, request, demand, statement, bill, ^{payment} or other communication from any party to any other shall be in writing and shall be delivered to the addresses listed below or at such other address as the receiving party may designate in writing:

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: Stephen Bui
SECRETARY OF THE COMMISSION

To DELTA: Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391
Attention: George S. Billings

To :

Copies to:

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

MAY 13 1998

PURSUANT TO 807 KAR 5011,
SECTION 9(1)

BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

ARTICLE 15. ASSIGNMENT.

Either party may assign this Agreement or any of its rights or obligations hereunder with the express written consent of the other party which shall not be unreasonably withheld provided that Delta may assign this Agreement or any of its rights or obligations hereunder to another entity affiliated with or controlled by Delta.

ARTICLE 16. SUCCESSORS.

Subject to the terms and conditions of this Agreement, this Agreement shall extend to and be binding upon the successors and assigns of the parties hereto.

ARTICLE 17. WAIVER.

A waiver by any party of any one or more defaults by any other party in the performance of any provision of this Agreement, shall not operate as a waiver of any future default.

ARTICLE 18. SEVERABILITY.

Except as otherwise provided herein, any provision of this Agreement declared or rendered unlawful by a statute, court of law or regulatory agency with jurisdiction over the

parties or either of them, shall not otherwise affect the other obligations of the parties under this Agreement.

ARTICLE 19. HEADINGS.

The headings of the provisions of this Agreement are used for convenience only and shall not be deemed to affect the meaning or construction of such provisions.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands this the day and year first above written.

DELTA NATURAL GAS COMPANY, INC.

By Robert C. Hozelung
Title VP Public and Consumer Affairs

By _ _
Title _

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

MAY 13 1998

PURSUANT TO 807 KAR 5.011,
SECTION 9(1)

BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

FILED

AUG 30 1989

PUBLIC SERVICE
COMMISSION

AGREEMENT

THIS AGREEMENT, made and entered into this 29th day of August 1989, by and between DELTA NATURAL GAS COMPANY, INC. (Delta), a Kentucky Corporation, and SIPPLE BRICK, INC. (End User), a Kentucky Corporation.

W I T N E S S E T H :

THAT, WHEREAS, End User desires to purchase certain quantities of natural gas from a supplier to be designated (Supplier) and Supplier intends to sell the same to End User; and

WHEREAS, End User desires to have said quantities of natural gas purchased from Supplier transported and delivered to End User in Stanton, Kentucky, by Delta; and

WHEREAS, Delta, subject to the terms and conditions set forth herein, desires to transport and deliver to End User that quantity of natural gas purchased by End User from Supplier and delivered by Supplier to Delta at a certain designated point;

NOW THEREFORE, the parties agree to as follows:

ARTICLE 1. DEFINITIONS

Unless this Agreement provides otherwise, the following definitions shall apply:

1.1. "Natural Gas" or "Gas" shall mean any mixture of hydrocarbons or hydrocarbons and non-hydrocarbons in a gaseous state, consisting essentially of methane.

1.2. "Delivery Point" shall mean the point of interconnection between the pipeline facilities of Delta and the

AUG 30 1989
SECTION 9 (1)
BY: [Signature]
PUBLIC SERVICE COMMISSION MANAGER

metering facilities of Columbia Gas Transmission Corporation (Columbia Gas) at or near Stanton, Kentucky or other points which may be agreed to through mutual written agreement of the parties hereto.

1.3. "Redelivery Point" shall mean the point of interconnection between the pipeline facilities of Delta and the metering facilities of Delta for End User.

1.4. "Supplier Contract Gas" shall mean the volumetric quantity of natural gas delivered at the Delivery Point to Delta by Supplier for the account of End User.

1.5. "Excess Gas" shall mean the amount or quantity of natural gas delivered by Delta to End User at the Redelivery Point in excess of or in addition to the Supplier Contract Gas (as adjusted for Delta's retainage of two percent (2%) for losses).

1.6. "Mcf" shall mean the quantity of gas occupying a volume of one thousand (1,000) cubic feet at a pressure base of 14.73 pounds per square inch absolute (14.73 psia) and a temperature base of 60 degrees Fahrenheit (60 F).

ARTICLE 2. TERM.

2.1. Subject to the terms and conditions herein, the term of this Agreement shall commence effective the date transportation commences under the Columbia Gas and Columbia Gulf Transmission Company (Columbia Gulf) agreements contemplated herein, but not later than October 1, 1989, and shall continue in full force and effect for a primary term of three (3) years and thereafter for any additional period which may be agreed to through mutual written agreement of the parties hereto. This agreement shall

PUBLIC SERVICE COMMISSION
OF KENTUCKY
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become null and void in the event End User, Delta or an affiliate are unsuccessful in entering into agreements with Supplier, Columbia Gas and Columbia Gulf prior to October 1, 1989. End User and Delta shall each further have the right to terminate this Agreement in the second and third years if End User is unsuccessful in securing a transportation rate from Columbia Gas and Columbia Gulf that is acceptable to End User.

ARTICLE 3. TRANSPORTATION AND DELIVERY OF CONTRACT GAS.

3.1. Subject to the provisions of Article 6 hereof and subject to available capacity and the daily needs of End User, Delta shall accept from Supplier on behalf of End User all daily Supplier Contract Gas which is delivered by Supplier to the Delivery Point, up to a daily maximum of one thousand (1,000) Mcf.

3.2. Delta shall transport and deliver to End User in Stanton, Kentucky, natural gas in quantities which are equivalent to the amount of Supplier Contract Gas less two percent (2%) by volume for line loss.

3.3. Volumes transported and delivered by Delta to End User as provided in Article 3.1 herein shall be balanced on a daily basis as nearly as possible. Should such an imbalance exist upon the termination of this Agreement, such imbalance will be corrected within thirty (30) days of such termination. If, at any time during the term hereof, Excess Gas (as defined in paragraph 1.5 hereof) is delivered to End User, then Delta will notify End User to promptly correct such imbalance. If End User fails to promptly correct such imbalance, then Delta may adjust deliveries to End User until Supplier has delivered a quantity of gas to

PUBLIC SERVICE COMMISSION
OF KENTUCKY
AUG 5 1989
SECTION 9.11
BY: _____
GENERAL SERVICE COMMISSION MANAGER

Delta sufficient to balance deliveries from Supplier with redeliveries to End User. End User shall purchase from Delta the Excess Gas delivered to End User in accordance with Articles 4 and 5 of this Agreement.

3.4. Delta's transportation obligation hereunder shall be to provide interruptible service to End User. Supplier Contract Gas transported hereunder for End User will be subject to interruption in accordance with normal interruption procedures applicable to the Interruptible Rate schedule of Delta or of any intermediate transporters of Supplier Contract Gas. Delta shall have the right at any time to curtail or interrupt the receipt, transportation or delivery of gas hereunder when, in its sole judgment, such curtailment or interruption is necessary to enable Delta to maintain delivery to customers of higher priority, to respond to any emergency or to minimize or eliminate any imbalance of deliveries under this Agreement.

3.5. Delta shall not be responsible for paying any transportation or related costs of intermediate transporters, including related line loss, compressor fuel, gas inventory charges and any penalties or other costs.

ARTICLE 4. PRICE.

4.1. Subject to the provisions of Article 3.1, End User shall pay Delta Forty-eight cents (\$.48) per Mcf during the three year term of this Agreement for the services of Delta in transporting to End User under the terms of this Agreement the natural gas in amounts equal to or less than the amount of

PUBLIC SERVICE COMMISSION
OF NEW JERSEY
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Supplier Contract Gas (minus two percent (2%) by volume for line loss).

4.2. For any Excess Gas delivered or sold by Delta to End User, End User shall pay Delta the applicable Interruptible Service Rate of Delta (Base Rate plus Gas Cost Recovery Rate), as set forth in Delta's tariffs on file with the PSC, as same may be changed from time to time.

4.3. To the extent that Supplier Contract Gas is available at the Redelivery Point, natural gas shall supply End User's full requirements and there shall be an annual minimum usage of 100,000 Mcf by End User. If End User fails to use at least 100,000 Mcf during any twelve month period under this Agreement, the amount paid for all gas transported during said twelve month period shall be a minimum of \$48,000.

ARTICLE 5. STATEMENTS AND PAYMENTS.

5.1. Statements shall be rendered by Delta as appropriate to End User each month showing the amounts due to Delta for services rendered by Delta for End User during the preceding billing month.

5.2. Each statement required to be furnished shall be mailed to the address set forth in this Agreement. Payment by check payable to the order of Delta Natural Gas Company, Inc. shall be made by End User by mailing same within fifteen (15) days after receipt of the bill. End User agrees to pay interest at the rate of one and one-half percent (1 1/2%) per month on any outstanding balance which is due Delta under the terms of this

PUBLIC SERVICE COMMISSION

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PURSUANT TO KAN. STAT. § 807 KAN. STAT. § 8011,

SECTION 9 (1)

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Agreement and which is not paid within the time period previously set forth.

ARTICLE 6. QUALITY.

6.1. All Supplier Contract Gas and all gas delivered to End User hereunder shall at all times be merchantable and be free from gasoline, oil, water, salt, gum, dust and other foreign substances that might interfere with the marketability of the gas. The gas delivered by Supplier shall contain not less than 1,000 Btu per cubic foot (as determined by calorimeter test at 60 degrees Fahrenheit (60 F) and saturated with water vapor), and a utilization factor of 1,300 plus or minus 6% (U.F. = heating value (BTU) divided by the square root of gravity). The gas delivered shall not contain more than:

- (a) Seven (7) pounds of water per million cubic feet measured at 14.7 psia and 60 degrees Fahrenheit on an approved dew point apparatus;
- (b) Three percent (3%) by volume of carbon dioxide;
- (c) Twenty-five hundredths (0.25) grain of hydrogen sulfide per one hundred (100) cubic feet; or
- (d) Ten (10) grains of total sulphur per one hundred (100) cubic feet.

6.2. The requirement that the natural gas tendered by Supplier to Delta on behalf of End User conform with the foregoing specifications is a condition precedent to the performance by Delta of the obligation to transport gas to End User imposed by this Agreement.

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OF KENTUCKY
REGULATORY

AUG 30 1969

PURSUANT TO 807 KAR 3.011,
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ARTICLE 7. MEASUREMENT.

7.1. Meters and other related equipment installed and maintained by or on behalf of Delta shall be the exclusive method and means of determining the quantity of gas redelivered to End User or delivered to Delta by Supplier for the account of End User. Reading, calibration and adjustment of Delta's meters and related measurement equipment shall be performed solely by Delta using generally accepted procedures. Delta shall read said meters at regular intervals and the cost of reading, calibrating, adjusting and otherwise maintaining said meters, excluding repair of damage due to the negligence or willful misconduct of End User, shall be borne by Delta. Delta shall test the accuracy of any Delta-owned meter in use under this Agreement in accordance with its standard practices as filed with the Kentucky Public Service Commission (Practices 0-8.1 and 0-8.2) for such testing.

7.2. If End User challenges the accuracy of any meters maintained by Delta and requests to have the meters tested, Delta shall test the meters in the presence of End User or its representatives, if End User exercises the right to be present or represented at such test. If the test shall prove the meter to be accurate within plus or minus two percent (+ or - 2%), the cost of testing the same shall be borne by the party requesting the test, but if the test proves the meter to be in error by more than plus or minus two percent (+ or - 2%), then the cost of testing and repairing the same shall be borne by the party who benefitted from the inaccuracy. Meter measurements found to be in error more than plus or minus two percent (+ or - 2%) shall be corrected and the

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OFFICE
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accounts for the period during which the meter error existed shall be adjusted accordingly. In the event the period during which the meter error existed is unknown, then the accounts shall be adjusted for one-half of the elapsed time since the last previous test but in no event for a period of more than sixty (60) days.

ARTICLE 8. DELIVERY POINTS AND TITLE.

8.1. Supplier Contract Gas. The point of delivery from Supplier to Delta for the account of End User shall be that Delivery Point herein described in Paragraph 1.2. End User shall retain title to the gas from the Delivery Point to the Redelivery Point. While Delta is in control and possession of the Supplier Contract Gas, it shall be responsible for any damage, claim, liability or injury caused by the gas and shall be responsible for the gas itself.

8.2. Excess Gas. The title to the Excess Gas sold by Delta to End User hereunder shall pass to End User at the Redelivery Point. Before the Excess Gas passes the Redelivery Point, Delta shall be in control and possession thereof and shall be responsible for the gas itself.

8.3. After delivery at the Redelivery Point of the Supplier Contract Gas and the Excess Gas sold by Delta to End User hereunder, End User shall be deemed in control and possession thereof and shall be responsible for any damage, claim, liability or injury caused by the gas.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

ARTICLE 9. TAXES AND FRANCHISE FEES. AUG 30 1989

Delta may collect from End User any taxes and franchise fees, including, but not limited to, sales tax, school tax and

SECTION 5
PUBLIC SERVICE COMMISSION MANAGER

gross receipts tax, which, by law, may be collected from End User and which are not otherwise paid by End User, whether such tax is now in existence or hereinafter promulgated or applied. The obligation to pay such taxes shall be in addition to the obligation to pay the appropriate rate set forth in Article 4 of this Agreement.

ARTICLE 10. FORCE MAJEURE.

10.1. Suspension of Obligations. If by reason of force majeure any party hereto is rendered unable, wholly or in part, to carry out its obligations under this Agreement, and if such party gives notice and reasonably full particulars of such force majeure, by an express means of written communication, to the other party within a reasonable time after the occurrence of the force majeure relied on, the party giving such notice, to the extent that it is affected by such force majeure, shall not be in default of its obligations hereunder or liable in damages during the continuation of any inability so caused. The party claiming suspension due to force majeure shall use due diligence to put itself again in position to carry out all of the obligations which it assumes in this Agreement.

10.2. Force Majeure. The term "force majeure" as used herein means any cause not reasonably in the control of the party claiming suspension, including but not limited to, actions of God or a public enemy, strikes, riots, injunctions or other interference through legal proceedings, breakage or accident to machinery, equipment or lines of pipe not due to negligence or willful misconduct of the party invoking force majeure, washouts,

PLANNED TO, DAMAGED BY
OF KENTUCKY
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BY
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earthquakes, storms, freezing of lines or wells, blowouts, shutdowns to make emergency or unexpected repairs to machines, equipment or lines of pipe, and compliance with any statute or regulation, either State or Federal, or with any order of the Federal government of any branch thereof, or of the government of the Commonwealth of Kentucky.

10.3. Obligation to Pay. Notwithstanding the foregoing provisions of this Article, End User may not claim suspension, by reason of force majeure, of its obligations under Article 4 and 9 of this Agreement to pay Delta for transportation service rendered and those taxes and franchise fees which Delta may collect from End User.

ARTICLE 11. GOVERNMENTAL REGULATION.

11.1. This Agreement shall be subject to all applicable and valid statutes, rules, orders and regulations of any federal, state or local governmental authority or agency having jurisdiction over the parties, their facilities or gas supply, this Agreement or any provision thereof. The parties agree that should any state, federal or local governmental authority or agency with jurisdiction over the parties to this Agreement or transactions herein require approval for the sale of gas hereunder, then each party shall make all necessary applications or filings and shall submit any records or data required by such governmental authority or agency.

11.2. Delta shall not be liable for failure to perform hereunder if such failure is due to compliance with rules,

PUBLIC SERVICE COMMISSION
EFFECTIVE
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BY: [Signature]
COMMISSION MANAGER

regulations, laws, orders or directives of any state, federal or local governmental regulatory authority or agency.

11.3. If at any time during the term of this Agreement, any federal, state or local governmental authority, agency or regulatory body shall take any action whereby Delta will be prohibited or prevented from receiving in full all amounts and monies which End User has agreed to pay Delta or Delta shall be subjected to terms, conditions or restraints that in the reasonable judgment of Delta would cause performance of this Agreement to be unduly burdensome to Delta, Delta may cancel and terminate this Agreement as of the date on which such action would so prevent, prohibit or unduly burden Delta. Delta shall notify End User, in writing, of such cancellation and termination and the reason therefor as soon as is practicable. End User shall have seven (7) business days to assist Delta in alleviating, to Delta's satisfaction, such prevention, prohibition or burden, after which time such cancellation and termination shall be effective at Delta's discretion.

11.4. Nothing in this Agreement shall prevent any party from contesting the validity of any law, order, rule, regulation or directive of any state, federal or other governmental regulatory authority or agency, nor shall anything in this Agreement be construed to require any party to waive its right to assert the lack of jurisdiction of such regulatory body, governmental entity, or agency over this Agreement nor any party thereto.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
AUG 30 1969
SECTION 9
EY: [Signature]
PUBLIC SERVICE COMMISSION MANAGER

11.5. This Agreement shall not be effective in whole or in part until and unless all necessary regulatory approvals or authorizations shall have been obtained to the satisfaction of each of the parties hereto. In the event any such approval or authorization is withdrawn or expires (and any renewal is refused by the appropriate regulatory authority), this Agreement may be cancelled at the option of any party hereto. This Agreement may be terminated by Delta at any time during the term hereof if performance of this Agreement would subject Delta to the jurisdiction of the Federal Energy Regulatory Commission (FERC) or its successor. To the extent that Delta is aware of impending jurisdiction by FERC, Delta shall notify End User, in writing, of such impending action and the reason therefor thirty (30) days prior to termination.

11.6. Except as otherwise provided herein, this Agreement is subject to the terms and conditions of Delta's Rates, Rules and Regulations, as set forth in Delta's tariffs on file with the PSC, as same may be changed from time to time.

ARTICLE 12. GOVERNING LAW.

This Agreement was entered into under and, to the extent permitted by law, shall be construed in accordance with the laws of the Commonwealth of Kentucky.

ARTICLE 13. NOTICES.

Any notice, request, demand, statement, payment, or other communication from any party to any other shall be in writing and shall be delivered to the addresses listed below or at

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EXECUTIVE

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such other address as the receiving party may designate in writing:

To Delta: Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, Kentucky 40391
ATTN: George S. Billings

To End User: Sipple Brick, Inc.
P.O. Box 567
Stanton, Kentucky 40380
Attention: Wm. F. Harrison, Jr.

ARTICLE 14. ASSIGNMENT.

This Agreement nor any of the rights or obligations hereunder may be assigned without mutual written consent of the parties hereto.

ARTICLE 15. SUCCESSORS.

Subject to the terms and conditions of this Agreement, this Agreement shall extend to and be binding upon the successors and assigns of the parties hereto.

ARTICLE 16. WAIVER.

A waiver by any party of any one or more defaults by any other party in the performance of any provision of this Agreement, shall not operate as a waiver of any future default.

ARTICLE 17. SEVERABILITY.

Except as otherwise provided herein, any provision of this Agreement declared or rendered unlawful by a statute, court of law or regulatory agency with jurisdiction over the parties or either of them, shall not otherwise affect the other obligations of the parties under this Agreement.

RECEIVED BY THE COMMISSION
OF KENTUCKY
AUG 30 1989
BY: *[Signature]*
PUBLIC SERVICE COMMISSION MANAGER

ARTICLE 18. HEADINGS.

The headings of the provisions of this Agreement are used for convenience only and shall not be deemed to affect the meaning or construction of such provisions.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands this the day and year first above written.

DELTA NATURAL GAS COMPANY, INC.

By Glenn R. Jennings
Title President

SIPPLE BRICK, INC.

By W. F. Harrison, Jr.
Title V. PRES. & GEN. MGR.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
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AUG 30 1989

PUBLIC SERVICE COMMISSION
SECTION 9
BY: [Signature]
PUBLIC SERVICE COMMISSION MANAGER

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067

SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL

20. Follow-up to 2-PSC-21.
- a. Is this just an opinion of Mr. Seelye or is there some analysis that supports his position? If he has relied on some analysis, please provide that analysis.
 - b. Please provide the number of Delta residential customers that use natural gas for space heating.
 - c. Please provide the number of Delta residential customers that do not use natural gas for space heating.
 - d. Please provide the number of Delta small commercial customers that use natural gas for space heating.
 - e. Please provide the number of Delta small commercial customers that do not use natural gas for space heating.
 - f. Please provide the number of Delta residential customers that have left the Delta system in the last 5 years that used natural gas for space heating.
 - g. Please provide the number of Delta residential customers that have left the Delta system in the last 5 years that did not use natural gas for space heating.
 - h. Please provide the number of Delta small commercial customers that have left the Delta system in the last 5 years that used natural gas for space heating.
 - i. Provide Please the number of Delta small commercial customers that have left the Delta system in the last 5 years that did not use natural gas for space heating

RESPONSE:

- a. Mr. Seelye's response was based on discussions with Delta employees.
- b-i The requested information is not available.

SPONSORING WITNESS:

W. Steven Seelye

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2004-00067**

**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

21. Please refer to the Value Line sheets provided in response to Staff Data Request, Set 2, No. 16 and to Attorney General's Data Request No. 128. Where, on the page for Delta Gas, is found the 6.5 percent 5 year forecast earnings growth used by Dr. Blake in his Exhibit MJB-7?

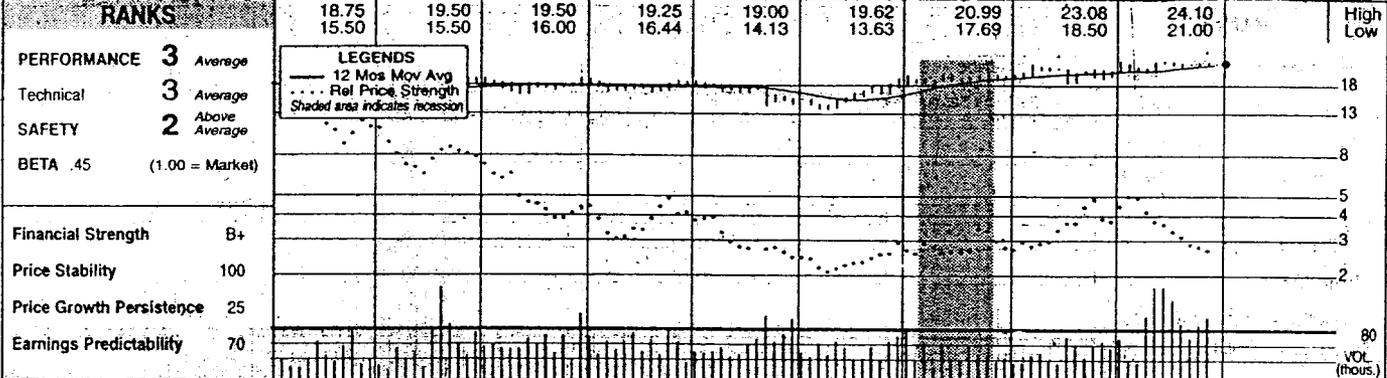
RESPONSE:

The 6.5 percent 5 year forecast can be found in the box labeled "Annual Rates". This box is on the left hand side of the page about midway down the page. It has been marked with an arrow and an underline on the attached document.

SPONSORING WITNESS:

Martin Blake

DELTA NAT GAS NDO-DGAS RECENT PRICE **23.41** TRAILING P/E RATIO **14.8** RELATIVE P/E RATIO **0.75** DIVD YLD **5.0%** VALUE LINE **3431**



© VALUE LINE PUBLISHING, INC.	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/2005
SALES PER SH	17.04	19.22	18.00	18.64	16.02	18.68	28.36	22.11	21.54	
"CASH FLOW" PER SH	2.19	2.72	1.99	2.61	2.52	3.27	3.08	3.16	2.65	
EARNINGS PER SH	1.04	1.41	.75	1.04	.90	1.42	1.47	1.45	1.49	1.46 ^A /1.15 ^C
DIV'DS DECL'D PER SH	1.12	1.12	1.14	1.14	1.14	1.14	1.14	1.16	1.18	
CAP'L SPENDING PER SH	4.35	7.02	7.11	4.71	3.31	3.58	2.83	3.72	2.90	
BOOK VALUE PER SH	12.05	12.41	12.58	12.55	12.39	12.73	13.12	13.51	14.46	
COMMON SHS OUTST'G (MILL)	1.87	1.90	2.34	2.38	2.41	2.46	2.50	2.53	3.17	
AVG ANN'L P/E RATIO	16.8	12.0	23.7	16.9	19.5	10.9	12.3	14.1	14.5	16.0/20.4
RELATIVE P/E RATIO	1.12	.75	1.37	.88	1.11	.71	.63	.77	.84	
AVG ANN'L DIV'D YIELD	6.4%	6.6%	6.4%	6.5%	6.5%	7.3%	6.3%	5.7%	5.5%	
SALES (\$MILL)	31.8	36.6	42.2	44.3	38.7	45.9	70.8	55.9	68.4	<i>Bold figures are consensus estimates and using the recent prices P/E ratios.</i>
OPERATING MARGIN	26.2%	28.8%	24.4%	29.6%	34.0%	34.9%	23.2%	29.3%	24.7%	
DEPRECIATION (\$MILL)	2.2	2.5	2.9	3.8	3.9	4.6	4.0	4.4	4.5	
NET PROFIT (\$MILL)	1.9	2.7	1.7	2.5	2.2	3.5	3.6	3.6	3.9	
INCOME TAX RATE	35.1%	37.0%	35.8%	36.4%	36.6%	37.4%	38.0%	38.2%	38.0%	
NET PROFIT MARGIN	6.0%	7.3%	4.1%	5.5%	5.6%	7.5%	5.1%	6.5%	5.8%	
WORKING CAP'L (\$MILL)	d9.5	.7	d11.6	d5.2	d9.3	d12.3	d12.6	d15.3	d.2	
LONG-TERM DEBT (\$MILL)	23.7	24.5	38.1	52.6	51.7	50.7	49.3	48.6	53.4	
SHR EQUITY (\$MILL)	22.5	23.6	29.5	29.8	29.9	31.3	32.8	34.2	45.9	
RETURN ON TOTAL CAP'L	6.2%	7.5%	4.8%	5.0%	5.0%	6.6%	6.7%	6.6%	5.9%	
RETURN ON SHR. EQUITY	8.5%	11.3%	5.8%	8.2%	7.2%	11.1%	11.1%	10.6%	8.6%	
RETAINED TO COM EQ	NMF	2.3%	NMF	NMF	NMF	2.2%	2.5%	2.1%	1.6%	
ALL DIV'DS TO NET PROF	108%	79%	NMF	110%	NMF	80%	78%	80%	81%	

*No. of analysts changing own est. in last 6 days: 1 up, 0 down, consensus 5-year earnings growth 4.0% per year. ^ABased upon one analyst's estimate. ^BBased upon one analyst's estimate.

ANNUAL RATES				ASSETS (\$mill.)		
of change (per share)	5 Yrs.	1 Yr.	Yr.	2002	2003	9/30/03
Sales	5.0%	-2.5%		2	1.4	2
"Cash Flow"	4.0%	-16.0%		2.9	4.6	3.9
Earnings	6.5%	3.0%		5.7	5.6	5.4
Dividends	0.5%	1.5%		4.5	4.8	13.2
Book Value	2.0%	7.0%		13.3	16.4	22.7

Fiscal Year	QUARTERLY SALES (\$mill.)	Full Year
	1Q 2Q 3Q 4Q	Year
06/30/01	6.7 17.0 32.3 14.8	70.8
06/30/02	7.3 12.6 25.1 10.9	55.9
06/30/03	7.2 15.5 31.2 14.5	68.4
06/30/04	10.1	

Fiscal Year	EARNINGS PER SHARE	Full Year
	1Q 2Q 3Q 4Q	Year
06/30/00	d.33 .28 1.39 .10	1.42
06/30/01	d.42 .31 1.60 d.02	1.47
06/30/02	d.31 .24 1.49 .03	1.45
06/30/03	d.36 .27 1.66 d.08	1.49
06/30/04	d.27	

Cal-endar	QUARTERLY DIVIDENDS PAID	Full Year
	1Q 2Q 3Q 4Q	Year
2000	.285 .285 .285 .285	1.14
2001	.285 .285 .29 .29	1.15
2002	.29 .29 .295 .295	1.17
2003	.295 .295 .295 .295	1.18

INDUSTRY: Natural Gas (DIV)

BUSINESS: Delta Natural Gas Company, Inc. provides natural gas distribution to retail customers; and gas transportation service to industrial customers. It operates through two segments: regulated and non-regulated. The regulated segment sells natural gas to 40,000 retail customers in 23 predominately rural communities in central and southeastern Kentucky. This segment transports gas to industrial customers on Delta's system who purchase gas in the open market. It also transports gas on behalf of local producers and customers not on the company's distribution system. The unregulated segment, through its wholly owned subsidiaries, Delta Resources, Inc. and Delgasco, Inc., purchases gas from gas marketers and Kentucky producers; and resells the gas to industrial customers on Delta's system, and to others not on Delta's distribution system. Another wholly owned subsidiary of this segment, Enpro, Inc., produces natural gas and oil that is sold in the unregulated market. Has 156 employees. Chairman: Harrison D. Peet, Inc.: KY. Address: 3617 Lexington Road, Winchester, KY 40391. Tel.: (859) 744-6171. Internet: <http://www.deltagas.com>. L.Y.

December 19, 2003

INSTITUTIONAL DECISIONS			
	1Q'03	2Q'03	3Q'03
To Buy	5	4	4
To Sell	3	3	3
Hld's (000)	183	240	248

TOTAL SHAREHOLDER RETURN	
Dividends plus appreciation as of 11/30/2003	
	(45% of Cap'l)
3 Mos.	2.03%
6 Mos.	0.73%
1 Yr.	20.91%
3 Yrs.	48.88%
5 Yrs.	70.99%

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 11/30/2003

3 Mos. 2.03% 6 Mos. 0.73% 1 Yr. 20.91% 3 Yrs. 48.88% 5 Yrs. 70.99%

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22. Please refer to the Company's response to Attorney General's Data Request No. 133, and specifically the report on Delta by Stifel, Nicolaus & Company. At pages 3 and 9 of their report, Stifel, Nicolaus report that Delta's debt percentage of total capitalization is 52 percent. There being no preferred stock, this implies an equity percentage of 48 percent. Please reconcile these observations with the 34 percent equity proportion shown for Delta on Dr. Blake's Exhibit MJB-2. Then, reconcile both percentages with the 37.15 percent equity shown on Schedule 9 in the Company's response to 807 KAR 5:001, Section 10(6)(h).

RESPONSE:

Stifel, Nicolaus & Company issued its report dated June 13, 2003 just after Delta's public stock sale. It had data available for the quarter ended March 31, 2003. Delta believes that Stifel, Nicolaus made a pro forma adjustment to reflect the stock sale in the quarter-ended March 31, 2003, results and did not include the short term debt.

Dr. Blake's information includes data from Edward Jones' summary that included data from Delta's September 30, 2003 quarter end and included short-term debt.

Schedule 9 information was from data at December 31, 2003, the end of the test period, and included short-term debt.

SPONSORING WITNESS:

John F. Hall

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23. Please identify the column headings in the attachment to the response to Attorney General's Data Request No. 137.

RESPONSE:

A/C 191 Unrecovered Purchased Gas Cost

A/C 192 Actual Adjustment Gas Costs

A/C 193 Balance Adjustment Gas Costs

Total

SPONOSRING WITNESS:

John F. Hall

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24. Please refer to the attachment to the Company's response to the Attorney General's Data Request No. 139, and specifically the \$1,010,147 payable from Delta Resources to Delta Natural Gas and the \$2,429,865.
- a. Describe fully the cause and nature of these payables.
 - b. State whether these amounts should be construed as loans from Delta Natural Gas to the affiliated entities and if not, why not.
 - c. Identify the terms of the repayment of these payables.

RESPONSE:

- a. The cause of the payables is primarily the net cash paid to third parties on behalf of the subsidiaries. In addition, payables to Delta are booked when administrative expenses allocable to the subs and the interest owed are recorded.
- b. See response to Item (c) below.
- c. There are no specific terms or schedule for the repayment of these payables as none is required. They are currently payable (or receivable) as intercompany transactions and are eliminated in consolidation. All cash is used by the parent company, Delta Natural Gas, and appropriate intercompany accounts and expenses are allocated and recorded.

SPONSORING WITNESS:

John B. Brown

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25. The Company's response to the Attorney General's Data Request No. 138 states that the financial data in response to Staff Data Request No. 9 was for Delta Natural Gas, the regulated entity, as is the attachment to the response to Data Request No. 138. The Attorney General's data request sought corresponding schedules for the combined company, inclusive of the unregulated entities. Please provide the requested information.

RESPONSE:

AG-1 Item 138a requests "schedules submitted in response to PSC staff Data Request No. 9 exclusive of the assets, liabilities, revenues, expenses and cash flows of the subsidiaries," and that is what was provided in the response.

The financial statements inclusive of the unregulated entities, can be found behind tab 38 in the Filing Requirements, Delta's Consolidated Annual Report and 10K.

SPONSORING WITNESS:

John B. Brown

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26. The Company's response to Attorney General's Data Request No. 138 shows short term debt as of December 31, 2002 and 2003. Please provide the average amount of short-term debt outstanding at the conclusion of each month between December 31, 2002 and December 31, 2003.

RESPONSE:

<u>MONTH</u>	<u>AMOUNT</u>
December 2002	28,563,130
January 2003	27,087,328
February 2003	16,545,318
March 2003	6,858,511
April 2003	14,335,364
May 2003	3,766,663
June 2003	1,387,240
July 2003	3,337,140
August 2003	7,551,545
September 2003	11,628,595
October 2003	15,803,168
November 2003	17,392,479
December 2003	17,604,889

SPONOSRING WITNESS:

John B. Brown

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27. What is Delta's investment in its subsidiary Companies? Is that investment treated as equity investment?

RESPONSE:

See Delta's Schedule 9 in the Application, under Tab 27, for the amount. Delta's investment in subsidiary companies represents the subsidiaries' net income after tax, offset by any dividends declared by the subs. This is treated as an equity investment.

SPONSORING WITNESS:

John B. Brown

**DELTA NATURAL GAS COMPANY, INC.
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28. Does the equity component of Delta's capital structure include customer deposits? If so, what is the amount of these deposits?

RESPONSE:

No.

SPONSORING WITNESS:

John F. Hall

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29. Follow-up to Question 52. Pages 362 and 363 appear to provide the plant and reserve balances as of December 31, 2002. These balances match the balances shown on Appendix B of the depreciation study, where they are labeled "As of June 30, 2002." They also match the balances in Appendix C of the depreciation study. Please reconcile these two data sources and explain the inconsistency in labeling.

RESPONSE:

The appendix was mislabeled. It should have been labeled "As of December 31, 2002". In the study, calendar-year data was used, not fiscal year data, as stated in the report.

SPONSORING WITNESS:

W. Steven Seelye

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30. Follow-up to Question 71. Please provide all information Delta is aware of concerning the existing depreciation rates. For instance, are the existing rates remaining life rates?

RESPONSE:

All information Delta is aware of concerning the existing depreciation rates was provided in response to 1-AG-71. Delta could not locate a copy of the study (or studies) used to develop the current depreciation rates, and is unaware of the assumptions made to develop those rates.

SPONSORING WITNESS:

W. Steven Seelye:
John B. Brown

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31. Follow-up to Question 72. Please provide the parameters (including survivor curve and net salvage ratio) underlying the existing depreciation rates. For instance, the response to Question 117 states that the existing rate for account 1.333 does not include a provision for net salvage. This would indicate some knowledge of the existing parameters. Please provide this information to the maximum extent possible; i.e., if not every account is known, please provide the information where it is known.

RESPONSE:

See response to 2-AG-30. The response to 1-AG-117 (b) does not refer to the net salvage provisions reflected in the development of the current depreciation rates; rather, it refers to the net salvage percentages used by Delta in connection with its implementation of SFAS 143. These net salvage percentages, which were provided by The Prime Group last year, were subsequently used in the development of the proposed depreciation rates and are shown in the depreciation study.

SPONSORING WITNESS:

W. Steven Seelye
John B. Brown

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**SUPPLEMENTAL DATA REQUESTS
ATTORNEY GENERAL**

32. Follow-up to Question 87. Please provide the 2005 budget mentioned as being attached to the response.

RESPONSE:

The referenced capital budget was inadvertently omitted. It is attached.

SPONSORING WITNESS:

Glenn R. Jennings

**Fiscal 2005 - 2009 Capital
By Capital Budget Account**

Agent	2005 Proposed	2006 Projected	2007 Projected	2008 Projected	2009 Projected
ALH	4,798,500	4,816,500	4,647,000	4,687,000	4,687,000
1325 GATHERING LAND & RIGHTS	612,800	674,500	551,000	591,000	591,000
1327 GATHERING COMP STAT STRUCTURES	0	2,000	0	0	0
1332 GATHERING LINES	0	4,500	0	0	0
1333 GATH COMP STAT EQUIPMENT	10,000	32,000	10,000	10,000	0
1334 GATH MEAS & REG STAT EQUIPMENT	0	80,000	0	0	0
135002 STORAGE RIGHT OF WAY	0	5,000	0	0	0
1351 STOR STRUCTURES & IMPROVEMENTS	0	15,000	0	0	0
1354 STORAGE COMPRESSOR STAT EQUIP	0	0	0	0	0
136501 TRANSM LAND & LAND RIGHTS	35,000	0	0	0	0
136502 TRANSM RIGHTS OF WAY	5,000	0	0	0	0
1366 TRANSM STRUCTURES & IMPROVMENTS	0	0	0	0	0
1367 TRANSMISSION MAINS	48,000	0	0	0	0
1368 TRANSM COMPRESSOR STAT EQUIPMT	0	0	0	0	0
1369 TRANSM MEASURING & REG EQUIPMT	60,000	60,000	50,000	50,000	50,000
1371 TRANSMISSION OTHER EQUIPMENT	16,000	16,000	16,000	16,000	16,000
1381 DISTRIBUTION METERS	236,900	250,000	250,000	250,000	250,000

	2005 Proposed	2006 Projected	2007 Projected	2008 Projected	2009 Projected
1383 DISTRIBUTION REGULATORS	147,600	150,000	160,000	170,000	180,000
1385 DIST INDUSTRIAL METER SETS	50,000	55,000	60,000	65,000	70,000
1395 LABORATORY EQUIPMENT	4,300	5,000	5,000	5,000	5,000
5117 ENPRO CUSHION GAS	0	0	0	25,000	20,000
GRJ	230,000	230,000	220,000	220,000	220,000
139909 CONTINGENCY	230,000	230,000	220,000	220,000	220,000
JFH	373,800	400,000	400,000	400,000	400,000
139902 COMPUTER SOFTWARE	244,800	200,000	200,000	200,000	200,000
139903 COMPUTER HARDWARE	129,000	200,000	200,000	200,000	200,000
JLC	3,581,900	3,512,000	3,476,000	3,476,000	3,476,000
1374 DISTRIBUTION LAND & ROW	6,000	6,000	6,000	6,000	6,000
1375 DIST STRUCTURES & IMPROVEMENTS	5,000	5,000	5,000	5,000	5,000
1376 DISTRIBUTION MAINS	1,920,000	1,900,000	1,900,000	1,900,000	1,900,000
1378 DIST GENERAL REG STATIONS	65,000	60,000	60,000	60,000	60,000
1379 DIST CITY GATE REG STATIONS	25,000	25,000	0	0	0
1380 DISTRIBUTION SERVICES	730,000	700,000	700,000	700,000	700,000
1382 DIST METER & REG INSTALLATION	114,000	114,000	114,000	114,000	114,000
1389 GEN LAND & LAND RIGHTS	0	0	0	0	0
1390 GEN STRUCTURES & IMPROVEMENTS	50,000	50,000	50,000	50,000	50,000
1391 OFFICE FURNITURE & EQUIPMENT	25,000	36,000	25,000	25,000	25,000
1392 TRANSPORTATION EQUIPMENT	490,000	450,000	450,000	450,000	450,000
1393 STORES EQUIPMENT	2,500	2,000	2,000	2,000	2,000
1394 TOOLS, SHOP & GARAGE EQUIPMENT	53,900	36,000	36,000	36,000	36,000
1396 POWER OPERATED EQUIPMENT	75,000	100,000	100,000	100,000	100,000
1397 COMMUNICATION EQUIPMENT	18,000	25,000	25,000	25,000	25,000
1398 MISCELLANEOUS EQUIPMENT	2,500	3,000	3,000	3,000	3,000

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33. Follow-up to Question 96. Please refer to the page of the attachment entitled "Memo re CPR's". Please describe what was done regarding the two recommendations on this page.

RESPONSE:

First Recommendation:

Work has been done to identify all assets by taxing districts and year of installation on Delta's CPR's. All of Delta's assets are identified by taxing districts now and most all are identified by year of installation except for gathering lines, transmission mains and some distribution mains. Plastic distribution mains have been identified by year of installation and steel will be completed by the end of 2004 along with gathering and transmission lines.

Second Recommendation:

No action has been taken. Delta retires mass property on a first in - first out basis. Therefore, over-depreciation is kept to a minimum because the oldest assets are retired first. The formulation of rates in the depreciation study assumes the consistent application of Delta's historical depreciation and retirement accounting procedures.

SPONSORING WITNESS:

John B. Brown

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34. Follow-up to Question 111. Please provide the spreadsheet in electronic format (Excel), with all formulae intact, as originally requested. If any amounts are "hard coded" in the spreadsheet, please provide the source of those amounts.

RESPONSE:

See attached.

SPONSORING WITNESS:

John B. Brown