

S T O L L | K E E N O N | & | P A R K | L L P

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June 22, 2004

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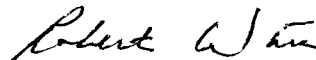
Hon. Elizabeth O'Donnell  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, KY 40601

Re: Delta Natural Gas Company, Inc.  
Case No. 2004-00067

Dear Ms. O'Donnell:

We enclose for filing an original and 8 copies of the Responses of Delta Natural Gas Company, Inc. to the Staff's Third Data Request and the Attorney General's Supplemental Data Request in the above-captioned case. Thank you for your attention to this matter. Best regards.

Sincerely,



Robert M. Watt, III

Rmw

Cc: Counsel of Record (w/encl.)  
Mr. John F. Hall (w/o encl.)

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

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

THIRD PSC DATA REQUEST  
VOLUME 1 OF 1

FILED IN SUPPORT OF PROPOSED  
CHANGES IN RATES

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COMMISSION

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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

1. Refer to Delta's Response to Commission Staff's Second Data Request dated May 11, 2004 ("Staff's Second Request"), Item 4. In Mr. Seelye's opinion, what accounts for the difference between the reconstructed billing and the actual revenue recorded by Delta?

**RESPONSE:**

The difference is primarily the result of corrections to billing and pro-rations of bills. An example of a correction is the misreading of a meter. Once the correct reading has been determined the correction may result in the pro-ration of the bill in following month. Once a customer's bill has been prorated it is not possible to apply the tariff rates to arrive at the amount per books. For the purpose of designing rates we are looking at the billing determinants in aggregate, not on an individual or monthly basis.

Another cause of pro-ration of bills is the start or end date of a customers bill. Many customers either move into or out of a home or business on a date other than the read date. As such, the customer charge is pro-rated to reflect the number of days with the billing cycle that a customer was taking service.

The theory underlying the use of a correction factor is that such differences will inevitably occur. The use of a correction factor insures that the same differences will be carried forward into the proposed rates. This is a common practice in the industry that has been used for decades in rate cases filed in Kentucky. As discussed in the response to Item 4 these differences are extremely small. Furthermore, the calculation of the correction factor in Tab No.26 can be found on Seelye Exhibit 9 page 1 of 4. Again, it is still further discussed on pages 23 and 24 of Mr. Seelye's testimony.

**SPONSORING WITNESS:**

W. Steven Seelye



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

**THIRD PSC DATA REQUEST  
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2. Refer to Delta's Response to the Staff's Second Request, Item 6, Workpaper WP-1.
- a. By employee number, identify whether the employee is salaried or hourly.
  - b. Is Delta aware that the Commission has routinely utilized a standard work year of 2,080 hours for wage and salary normalization adjustments?
  - c. Provide a recalculation of the labor adjustment and any other labor-related adjustments based on the wage and salary calculation using 2,080 hours. Include all assumptions, workpapers, and documents used to prepare the calculation.
  - d. For any salaried employee shown with overtime hours, provide an explanation of why a salaried employee is earning overtime.
  - e. Provide the number of terminations and new hires during the test year. Indicate on Workpaper WP-1 any employees terminated or hired during the test year.
  - f. For each new hire, indicate if Delta used a full year to calculate the pro forma salaries and wages. If a full year was not used, explain why a full year was not used to calculate the pro forma salaries and wages.

**RESPONSE:**

- a. See attached.
- b. Yes
- c. The original schedule showed 2,088 hours as the test year was a leap year. But, a recalculation is not necessary since Delta used a standard work year of 2,080 hours for the test year as all employees are salaried.

**DELTA NATURAL GAS COMPANY, INC.  
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- d. All full-time employees employed at Delta are considered salaried. All positions are divided into two categories, non-exempt and exempt. Positions that are considered non-exempt are paid overtime for all hours worked over 8 hours per day. Those jobs considered to be exempt positions are not paid any overtime.
- e. See attached.
- f. The new hires (full-time) only included dollars for the portion of the year since the hire date. The other portion is reflected in those who were terminated, which included dollars paid prior to termination.

SPONSORING WITNESS:

John B. Brown

Delta Natural Gas Company, Inc.  
Pro Forma Salaries and Wages  
Wages Effective 7/1/2003

Employee Number	Salaried/ Hourly	New Hire	Terminated	Wages		Hours Worked		Pro Forma Salaries and Wages		
				Effective 3/1/2003	Effective 7/1/2003	Regular	Overtime	Regular	Overtime	Total
60	Salaried			33,700	34,600	2088.0	44	34,600	1,098	35,698
70	Salaried			31,300	32,300	2088.0	237	32,300	5,520	37,820
80	Salaried			35,600	36,700	2088.0		36,700		36,700
100	Salaried			60,800	63,600	2088.0		63,600		63,600
130	Salaried			29,800	31,800	2088.0	263	31,800	6,031	37,831
140	Salaried			35,300	36,400	2088.0	120.5	36,400	3,163	39,563
200	Salaried			41,200	42,500	2120.5		42,500		42,500
210	Salaried			32,400	33,400	2088.0	307	33,400	7,394	40,794
220	Salaried			75,500	79,200	2105.0		79,200		79,200
250	Salaried			40,000	41,800	2088.0	343	41,800	10,339	52,139
280	Salaried			34,800	35,700	2088.0	100	35,700	2,575	38,275
290	Salaried			30,000	30,900	2088.0	102	30,900	2,273	33,173
290	Salaried			33,000	33,600	2088.0	233.5	33,600	5,658	39,258
320	Salaried			31,100	32,000	2088.0	159	32,000	3,669	35,669
400	Salaried			80,000	103,000	2088.0		103,000		103,000
405	Salaried			37,900	39,100	2088.0	181	39,100	5,104	44,204
420	Salaried			32,700	33,600	2088.0	83	33,600	2,011	35,611
440	Salaried			35,100	36,100	2088.0	67.5	36,100	1,757	37,857
450	Salaried			53,600	56,800	2134.0		56,800		56,800
500	Salaried			24,200	25,000	2088.0	201	25,000	3,624	28,624
518	Salaried			106,200	124,000	2088.0		124,000		124,000
520	Salaried			31,500	32,300	2088.0		32,300		32,300
580	Salaried			25,900	26,700	2088.0	292	26,700	5,622	32,322
585	Salaried			29,900	30,800	2088.0	182.5	30,800	4,054	34,854
590	Salaried			44,300	46,300	2270.0		46,300		46,300
600	Salaried			30,900	31,800	2088.0		31,800		31,800
620	Salaried			21,400	21,800	1293.0		13,575		13,575
625	Salaried	X		30,500	31,100	2088.0	246.5	31,100	5,528	36,628
660	Salaried			28,900	29,900	2088.0		29,900		29,900
680	Salaried			43,600	44,900	2088.0	174	44,900	5,634	50,534
700	Salaried			52,300	53,900	2134.5		53,900		53,900
720	Salaried			55,700	57,700	2088.0		57,700		57,700
760	Salaried			30,700	31,700	2088.0	92	31,700	2,103	33,803
770	Salaried			33,300	34,200	2088.0	136	34,200	3,354	37,554
800	Salaried			38,600	39,600	2100.5		39,600		39,600
820	Salaried			25,500	26,300	2088.0		26,300		26,300
850	Salaried			28,200	29,100	2088.0	213	29,100	4,470	33,570
855	Salaried			42,000	44,100	2088.0		44,100		44,100
880	Salaried			24,300	25,000	2088.0	97	25,000	1,749	26,749
965	Salaried			31,900	33,000	2088.0		33,000		33,000
980	Salaried			33,000	34,000	2088.0	261	34,000	6,399	40,399
1000	Salaried			34,700	35,800	2088.0	173	35,800	4,466	40,266
1010	Salaried			34,900	35,900	2088.0	70	35,900	1,812	37,712
1020	Salaried			34,900	35,900	2088.0	406	35,900	10,511	46,411
1040	Salaried			34,200	35,300	2127.5		35,300		35,300
1060	Salaried			48,500	50,100	2088.0		50,100		50,100
1080	Salaried			29,700	30,600	2088.0	272	30,600	6,002	36,602
1120	Salaried			30,800	32,200	2088.0		32,200		32,200
1130	Salaried									



Delta Natural Gas Company, Inc.  
Pro Forma Salaries and Wages  
Wages Effective 7/1/2003

Employee Number	Salaried/ Hourly	New Hire	Terminated	Wages		Hours Worked		Pro Forma Salaries and Wages		
				Effective 3/1/2003	Effective 7/1/2003	Regular	Overtime	Regular	Overtime	Total
				24,600	25,600	2088.0	188	25,600	3,471	29,071
1140	Salaried			38,400	39,600	2088.0	141	39,600	4,027	43,627
1220	Salaried			105,700	127,000	2088.0		127,000		127,000
1240	Salaried			32,100	33,000	2088.0	102	33,000	2,427	35,427
1260	Salaried			28,900	29,800	2088.0	319.5	29,800	6,866	36,666
1320	Salaried			69,900	71,900	2088.0		71,900		71,900
1340	Salaried			120,000	138,000	2238.5		138,000		138,000
1360	Salaried			60,600	63,600	2166.5		63,600		63,600
1420	Salaried			32,100	33,100	2088.0	189	33,100	4,511	37,611
1480	Salaried			24,600	25,600	2088.0	186	25,600	3,434	29,034
1485	Salaried			34,200	35,100	2088.0	171	35,100	4,329	39,429
1540	Salaried			180,000	216,000	2346.0		216,000		216,000
1560	Salaried			32,800	33,800	2088.0	252	33,800	6,142	39,942
1580	Salaried			34,200	35,200	2088.0	232.5	35,200	5,902	41,102
1590	Salaried			52,700	54,700	2088.0		54,700		54,700
1600	Salaried			33,000	34,500	2088.0		34,500		34,500
1620	Salaried			30,700	31,600	2088.0	153	31,600	3,487	35,087
1680	Salaried			34,700	36,200	2008.0	17	36,200	444	36,644
1750	Salaried			32,900	33,900	2088.0	44	33,900	1,076	34,976
1760	Salaried			34,800	35,900	2088.0	198	35,900	5,126	41,026
1780	Salaried			31,500	32,500	2176.5		32,500		32,500
1843	Salaried			27,000	28,400	2088.0		28,400		28,400
1850	Salaried			29,500	30,700	2088.0	546	30,700	12,088	42,788
1855	Salaried			26,300	27,000	2088.0	226	27,000	4,400	31,400
1860	Salaried			32,100	33,100	2088.0	169.5	33,100	4,046	37,146
1895	Salaried			39,300	40,600	2088.0	310	40,600	9,076	49,676
1910	Salaried			46,300	47,600	2185.0		47,600		47,600
1925	Salaried			40,500	41,500	2088.0	141	41,500	4,220	45,720
1940	Salaried			30,400	31,400	2088.0	153	31,400	3,465	34,865
1950	Salaried			60,900	62,700	2252.5		62,700		62,700
1970	Salaried			29,700	30,700	2008.0	6	30,700	133	30,833
2005	Salaried			36,400	37,500	2088.0	262.5	37,500	7,099	44,599
2010	Salaried			30,200	31,200	2088.0	109	31,200	2,453	33,653
2013	Salaried			44,600	46,900	2088.0		46,900		46,900
2030	Salaried			32,300	33,200	2088.0	48	33,200	1,149	34,349
2160	Salaried			41,200	42,500	2088.0	278.5	42,500	8,535	51,035
2210	Salaried			55,700	57,300	2108.0		57,300		57,300
2220	Salaried			47,900	49,300	2229.0		49,300		49,300
2240	Salaried			33,200	34,700	2088.0	126	34,700	3,153	37,853
2280	Salaried			28,100	28,900	2088.0	230.5	28,900	4,804	33,704
2290	Salaried			48,800	52,200	2088.0		52,200		52,200
2340	Salaried			40,000	41,300	2088.0	247.5	41,300	7,371	48,671
2360	Salaried			60,600	63,600	2088.0		63,600		63,600
2420	Salaried			37,900	39,400	2137.5		39,400		39,400
2450	Salaried			74,300	78,300	2413.0		78,300		78,300
2460	Salaried			37,400	38,900	2088.0		38,900		38,900
2480	Salaried			40,400	41,600	2088.0	135	41,600	4,050	45,650
2550	Salaried			29,000	30,100	2092.0		30,100		30,100
2560	Salaried			28,300	29,200	2088.0	277	29,200	5,833	35,033
2615	Salaried			65,300	67,200	2092.0		67,200		67,200
2660	Salaried			24,600	25,400	2088.0		25,400		25,400
2675	Salaried									

Delta Natural Gas Company, Inc.  
Pro Forma Salaries and Wages  
Wages Effective 7/1/2003

Employee Number	Salaried/ Hourly	New Hire	Terminated	Wages		Hours Worked		Pro Forma Salaries and Wages		
				Effective 3/1/2003	Effective 7/1/2003	Regular	Overtime	Regular	Overtime	Total
				32,700	33,700	2088.0	219	33,700	5,322	39,022
2720	Salaried			41,300	43,100	2121.0		43,100		43,100
2735	Salaried			36,100	37,200	2088.0	266.5	37,200	7,149	44,349
2782	Salaried			30,200	31,100	2088.0	85	31,100	1,906	33,006
2800	Salaried			47,200	48,800	2101.0		48,800		48,800
2820	Salaried			35,800	36,900	2088.0	212	36,900	5,641	42,541
2840	Salaried			31,800	32,700	2088.0	1	32,700	24	32,724
2860	Salaried			26,600	27,500	2088.0	271	27,500	5,374	32,874
2865	Salaried			27,900	28,800	2088.0	144	28,800	2,991	31,791
2870	Salaried			33,600	34,500	2088.0	59	34,500	1,468	35,968
2880	Salaried			27,300	28,100	2088.0	7	28,100	142	28,242
2920	Salaried			31,800	32,800	2088.0		32,800		32,800
2940	Salaried			35,700	36,700	2088.0	117	36,700	3,097	39,797
2960	Salaried			41,900	44,000	2090.0		44,000		44,000
2980	Salaried			29,200	30,100	2088.0	98	30,100	2,127	32,227
2985	Salaried			30,300	31,200	2088.0	1	31,200	23	31,223
3000	Salaried			41,900	43,000	2088.0	26	43,000	806	43,806
3060	Salaried			29,500	30,300	2088.0	17	30,300	371	30,671
3160	Salaried			33,100	34,000	2088.0	139.5	34,000	3,420	37,420
3260	Salaried			32,100	33,100	2088.0	179.5	33,100	4,285	37,385
3301	Salaried			26,200	27,000	2088.0	248	27,000	4,829	31,829
3302	Salaried			30,500	31,400	2088.0	201.5	31,400	4,563	35,963
3309	Salaried			30,600	31,800	1948.0	12	31,800	275	32,075
3323	Salaried			30,700	31,600	2088.0	195	31,600	4,444	36,044
3324	Salaried			25,900	26,600	2088.0	259	26,600	4,968	31,568
3331	Salaried			27,400	29,100	2088.0	109	29,100	2,287	31,387
3336	Salaried			30,700	31,600	2088.0	179	31,600	4,079	35,679
3344	Salaried			25,900	26,700	1216.0	113	15,175	2,176	17,351
3343	Salaried		X	21,400	22,100	2088.0		22,100		22,100
3349	Salaried			26,400	27,200	2088.0	44	27,200	863	28,063
3358	Salaried			26,500	27,300	2088.0	78	27,300	1,536	28,836
3361	Salaried			29,500	30,400	2088.0	262.5	30,400	5,755	36,155
3363	Salaried			29,400	30,400	2008.0	14	30,400	307	30,707
3365	Salaried			23,600	24,300	2088.0	191	24,300	3,347	27,647
3367	Salaried			24,300	25,100	2088.0	203.5	25,100	3,684	28,784
3372	Salaried			24,300	25,000	2088.0	247	25,000	4,453	29,453
3373	Salaried			33,900	34,900	2088.0	214.5	34,900	5,398	40,298
3374	Salaried			27,600	28,400	2088.0	251.5	28,400	5,151	33,551
3375	Salaried			25,900	26,700	2088.0	96	26,700	1,848	28,548
3378	Salaried			26,200	27,100	2088.0	263	27,100	5,140	32,240
3382	Salaried			25,900	26,600	2088.0	383	26,600	7,347	33,947
3390	Salaried			21,600	22,300	2088.0		22,300		22,300
3393	Salaried			32,900	33,800	2039.5	251	33,800	6,118	39,918
3396	Salaried			25,900	26,400	2088.0	148.5	26,400	2,827	29,227
3397	Salaried			39,000	40,200	2088.0	251.5	40,200	7,291	47,491
3398	Salaried			28,500	29,400	2088.0	199	29,400	4,219	33,619
3399	Salaried			23,600	24,000	1824.0	222	20,850	3,842	24,692
3400	Salaried	X		21,400	22,200	2072.0	9	22,200	144	22,344
3401	Salaried			21,400	22,000	1904.0		19,917		19,917
3405	Salaried	X		25,900	26,700	2088.0	216	26,700	4,159	30,859
3409	Salaried			41,500	43,600	2088.0		43,600		43,600
3411	Salaried									





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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

3. Refer to Delta's Response to the Staff's Second Request, Item 6, Workpaper WP-9. Explain the purpose of the workpaper titled "Analysis of Administrative Hours." How does this analysis function in Delta's payroll system?

**RESPONSE:**

Delta's payroll system captures the hours that are charged to "Capitalized Time" from an Administrative employee's time report as well as other hours that are reported. The hours are then queried from the payroll system to arrive at the percentage of time that is charged to Construction for Administrative employees.

**SPONSORING WITNESS:**

John B. Brown



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

4. Refer to Delta's Response to the Staff's Second Request, Items 7(a) and (b).
- a. Provide a list of the Gas Technology Institute for Research and Development ("GTIR&D") projects that Delta believes it might use in the future.
  - b. Delta's contribution to GTIR&D has decreased every year since 2000. Explain why the amount has decreased each year.

**RESPONSE:**

- a. Delta is a member of GTIR&D and monitors its website for pertinent information applicable to Delta and its customers. As a member of GTIR&D Delta has access to a database that provides valuable information on employee health and safety operational matters. Although Delta has not identified any project at this time, Delta has access to all projects of GTIR&D and will incorporate in the future those that will benefit Delta and its customers.
- b. Interstate pipelines reached a settlement with the Federal Energy Regulatory Commission whereas the interstate pipelines would phase out their billing of GTIR&D surcharge to local distribution companies by the end of the year 2004. The decreased contributions were part of that settlement.

**SPONSORING WITNESS:**

John F. Hall





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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

5. Refer to Delta's Response to the Staff's Second Request, Item 8. Delta's response does not address the issues raised in the question. Provide the originally requested information.

**RESPONSE:**

In its response to Second Staff Data Request No. 8, Delta intended to convey the concept that both the asset and liability characteristics of customer deposits should be reflected in rate base since interest on customer deposits was included as an operating expense. The effect of Delta's approach described in the response to Second Staff Data Request No. 8 is to exclude the customer deposit cash balance from rate base because the liability to customers eliminates the cash balance asset. Thus, it would be appropriate for the interest on customer deposits to be recovered in operating expenses. While this approach is not the same as that approved in the order dated December 27, 1999, in Case No. 99-176, In the Matter of: An Adjustment of the Rates of Delta Natural Gas Company, Inc. at 9, it is consistent from a ratemaking standpoint. See, the order dated January 7, 2000, in Case No. 98-426, In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of its Rates and Service at 59, where the Commission said that it could exclude customer deposits from rate base and include interest on customer deposits in operating expenses.

**SPONSORING WITNESS:**

John F. Hall



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

6. Refer to Delta's Response to the Staff's Second Request, Item 10(b). Will Delta be able to decrease its debt rather than increase the number of shares of common stock?

**RESPONSE:**

Delta has no plans at this point to repay its long-term debt except as it matures under the terms of the debt instruments. If Delta did repay such debt, it would be replaced with other debt. For example, future interest rate fluctuations could lead Delta to refinance debt if it is advantageous to do so. Reducing the overall level of long term debt is not possible at this point. Delta's equity ratio is still lower than industry averages and Delta plans to increase that ratio more in line with others by (i) retaining a portion of earnings not paid out as dividends, (ii) investment by Delta's shareholders through our dividend reinvestment and stock purchase plan, (iii) gradual reduction of long-term debt in accordance with the underlying debt investments and (iv) possible future public offerings of common equity, although there are no current plans for this.

**SPONSORING WITNESS:**

Glenn R. Jennings



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

7. Refer to Delta's Response to the Staff's Second Request, Item 13.
- a. Provide a list of incentives that are available for electric customers.
  - b. Explain whether incentives are available for natural gas customers and, if so, provide a list of them.
  - c. Explain which party bears the expense of an incentive; i.e., the retailer, the utility, or a third party.
  - d. The first page of the Fama and French article is obscured. Provide a legible copy.

**RESPONSE:**

- a. We do not necessarily know about all incentives offered, but only those that come to our attention. We know of the programs attached to this response.
- b. We offer incentives to try to compete with those in (a). Our program details are attached to this response.
- c. Delta expenses these incentives as incurred.
- d. A clean copy is attached to this response.

**SPONSORING WITNESS:**

Glenn R. Jennings (a-c)  
Martin Blake (d)

## Company Correspondence

To: Johnny Caudill

Fr: Jeff Steele

Dt: June 14, 2004

Re: Electric Competition Incentive Programs

### Bluegrass Energy:

1. Button Up Program - \$25.00 rebate for every 1,000 Btu saved by adding insulation, up to \$500.00 per home.
2. Heating System Tune Up - \$300 value performed for \$25.00
3. Geothermal Incentive - \$165 per ton for new installation or conversion.
4. Heat Pump Conversion - \$300.00 per home to convert from natural gas.
5. Water Heater Rebate - For new homes and conversion from natural gas or propane \$100.00 to \$215.00
6. All-Seasons Comfort Geothermal - Must meet certain insulation guidelines and receive \$330.00 per ton.
7. All-Seasons Comfort Heat Pump - Must meet certain insulation guidelines and be in natural gas service area to receive \$300.00 per home.

### Kentucky Utilities:

1. Button Up Program - Free caulking installed on new homes in Lexington market for going all-electric quoted as a \$750.00 value.
2. Energy Audits - Energy survey and recommendations under DSM program for only \$15.00 per house.

### Clark Energy:

1. Heat Pump Incentive - \$250.00 per house.
2. Geothermal Incentive - \$400.00 per house.
3. Water Heater Incentive - \$100.00 per unit.

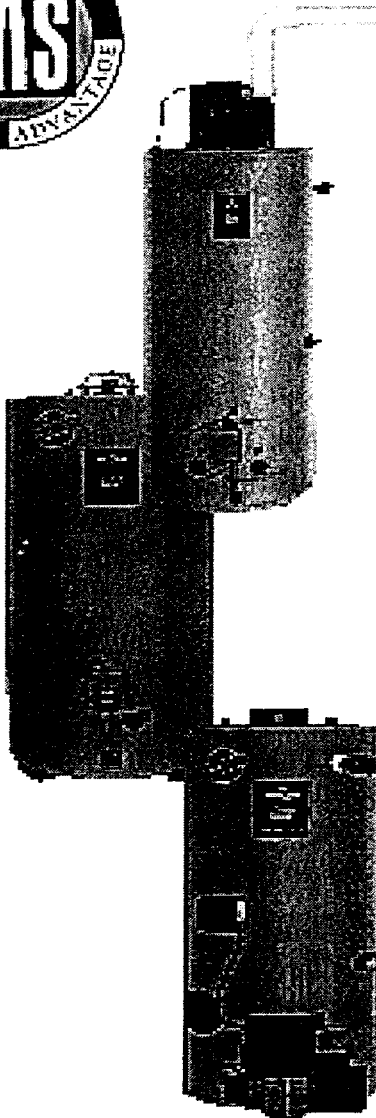
### Cumberland Valley RECC:

1. Heat Pump Incentive - \$300.00 per house.
2. Water Heater Incentive - \$150.00 per house.

### Jackson Energy:

1. Heat Pump Incentive - \$100 per ton for both new construction and conversion.
2. Water Heater Incentive - \$200.00 per unit if 50 gallon.

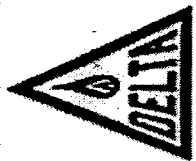
# Switch To A Natural Gas Water Heater And Receive A \$200.00 Rebate



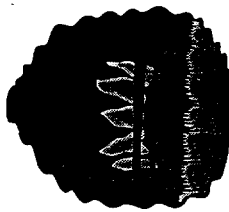
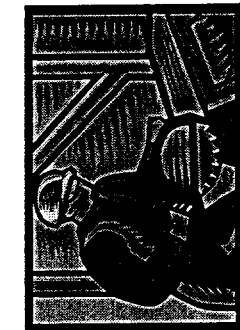
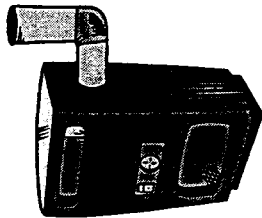
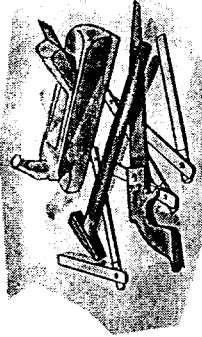
- **High Recover Rate** - Since there is not an element to heat up, a gas water heater will reheat water faster.
- **Longer Life Of Water Heater** - Due to the nature of a gas burner, a gas water heater will last longer and maintain its efficiency at the same time.
- **Gas Works During Power Outage** - Conventionally vented gas water heaters require no electricity and still operate during outages.
- **Environmentally Friendly** - Natural gas is the cleanest of all burning fossil fuels.
- **Easier Installations** - Direct vent and Power-vented gas water heaters can be vented horizontally and located in basements or confined spaces when installed to manufacturers requirements. Delta offers a \$300.00 rebate for direct or power-vented models.
- **Operating Cost** - Natural Gas heats hot water at a very reasonable cost and can save money on your family's energy bill.
- **FOR MORE INFORMATION CALL YOUR LOCAL DELTA NATURAL GAS OFFICE:**
- **OWINGSVILLE - 606-674-2213**
- **BEREA - 859-986-4291**
- **NICHOLASVILLE - 859-885-4141**
- **MIDDLESBORO - 606-248-1845**
- **CORBIN - 606-528-3611**
- **ENJOY THE ADVANTAGES OF OTHER GAS APPLIANCES:**  
**GAS LOGS, GAS RANGES, GAS SPACE HEATERS, GAS DRYERS, GAS LIGHTS, GAS POOL HEATERS**



**Delta Natural Gas Company, Inc.**



# Delta Natural Gas Company, Inc.



### ■ Builder Program

■ Make a House a Home with Warm Comfortable Natural gas

■ **Must have Gas Heat and Gas Water Heat to Qualify =**

■ **\$150.00** valid through 12/30/04

■ \$50.00 for Each additional Gas

Appliance (gas logs, gas grill, gas dryer, gas light, gas range or gas cook top, gas pool heater)- valid through 12/30/04

■ 100 feet of service line installed at no cost

■ Must have R-30 in ceilings, R-13 in walls, R-11 in Floors

■ For more information contact **Jeff Steele at 1-800-262-2012 Ext. 141 or cell 859-749-0097.**  
**Jsteele@deltagas.com**

## Feel Right At Home

## With Natural Gas



## The Cross-Section of Expected Stock Returns

EUGENE F. FAMA and KENNETH R. FRENCH\*

### ABSTRACT

Two easily measured variables, size and book-to-market equity, combine to capture the cross-sectional variation in average stock returns associated with market  $\beta$ , size, leverage, book-to-market equity, and earnings-price ratios. Moreover, when the tests allow for variation in  $\beta$  that is unrelated to size, the relation between market  $\beta$  and average return is flat, even when  $\beta$  is the only explanatory variable.

THE ASSET-PRICING MODEL OF Sharpe (1964), Lintner (1965), and Black (1972) has long shaped the way academics and practitioners think about average returns and risk. The central prediction of the model is that the market portfolio of invested wealth is mean-variance efficient in the sense of Markowitz (1959). The efficiency of the market portfolio implies that (a) expected returns on securities are a positive linear function of their market  $\beta$ s (the slope in the regression of a security's return on the market's return), and (b) market  $\beta$ s suffice to describe the cross-section of expected returns.

There are several empirical contradictions of the Sharpe-Lintner-Black (SLB) model. The most prominent is the size effect of Banz (1981). He finds that market equity, ME (a stock's price times shares outstanding), adds to the explanation of the cross-section of average returns provided by market  $\beta$ s. Average returns on small (low ME) stocks are too high given their  $\beta$  estimates, and average returns on large stocks are too low.

Another contradiction of the SLB model is the positive relation between leverage and average return documented by Bhandari (1988). It is plausible that leverage is associated with risk and expected return, but in the SLB model, leverage risk should be captured by market  $\beta$ . Bhandari finds, however, that leverage helps explain the cross-section of average stock returns in tests that include size (ME) as well as  $\beta$ .

Stattman (1980) and Rosenberg, Reid, and Lanstein (1985) find that average returns on U.S. stocks are positively related to the ratio of a firm's book value of common equity, BE, to its market value, ME. Chan, Hamao, and Lakonishok (1991) find that book-to-market equity, BE/ME, also has a strong role in explaining the cross-section of average returns on Japanese stocks.

\*Graduate School of Business, University of Chicago, 1101 East 58th Street, Chicago, IL 60637. We acknowledge the helpful comments of David Booth, Nai-fu Chen, George Constantinides, Wayne Ferson, Edward George, Campbell Harvey, Josef Lakonishok, Rex Sinquefeld, René Stulz, Mark Zmijewski, and an anonymous referee. This research is supported by the National Science Foundation (Fama) and the Center for Research in Security Prices (French).



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

**THIRD PSC DATA REQUEST**  
**DATED 6/09/04**

8. Refer to Delta's Response to the Staff's Second Request, Item 14.
- a. Provide the amount of the under-recovery of gas costs for the test period.
  - b. Provide the amount of the under-recovery that Delta had to finance during the test period, as well as the amount of interest paid and the interest rate of the loans.
  - c. If Delta updated its gas cost adjustment in its tariff to include a carrying cost on under-recoveries, provide the carrying cost that Delta would use.

**RESPONSE:**

- a. At December 31, 2003, Delta had a balance of \$7,364,853.

b.

<u>Test Year</u>	<u>Interest</u>	<u>Month End Amount</u>	<u>Interest</u>
January	2.38	7,915,195	\$ 15,698
February	2.34	5,717,776	11,150
March	2.3375	5,966,068	11,621
April	2.30	5,173,054	9,915
May	2.31438	4,027,252	7,767
June	2.32	4,291,825	8,298
July	2.12	4,734,410	8,364
August	2.1125	4,060,208	7,148
September	2.12	5,345,353	9,443
October	2.12	5,748,367	10,155
November	2.12	5,818,446	10,279
December	2.17	7,364,853	<u>13,318</u>

\$123,157

- c. Delta's interest rate on its short-term borrowings is an index rate that changes monthly. Delta would describe the index rate in the text of the tariff and would use the applicable rate times the month end under-recovery balance.

**SPONSORING WITNESS:**

John F. Hall



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

9. Refer to Delta's Response to the Staff's Second Request, Item 16. Part of the copy of the Value Line page for AGL Resources is obscured. Provide a legible copy.

**RESPONSE:**

See attached.

**SPONSORING WITNESS:**

Martin Blake

<b>AGL RESOURCES NYSE-ATG</b>			RECENT PRICE <b>28.80</b>	P/E RATIO <b>14.2</b> (Trailing: 13.8 Median: 14.0)	RELATIVE P/E RATIO <b>0.77</b>	DIV'D YLD <b>3.9%</b>	VALUE LINE <b>459</b>		
<b>TIMELINESS</b> 4 Lowered 12/19/03 <b>SAFETY</b> 2 New 7/27/90 <b>TECHNICAL</b> 3 Lowered 4/4/03 BETA .75 (1.00 = Market)			High: 19.5 21.3 19.4 20.0 22.0 21.6 23.4 23.4 23.2 Low: 15.1 17.0 14.6 14.9 17.1 17.8 17.7 15.6 15.5						Target Price Range 2006 2007 2008 64 48 40 32 24 20 16 12 8 6
<b>2006-08 PROJECTIONS</b> Price Gain Return High 40 (+40%) 11% Low 30 (+5%) 5%			<b>Insider Decisions</b> J F M A M J J A S to Buy 0 0 0 0 0 0 0 0 0 to Sell 0 0 0 0 2 0 0 0 1 to Hold 0 1 0 0 0 0 0 0 0		<b>Institutional Decisions</b> to Buy 103 95 72 to Sell 50 77 97 Held (%) 34681 35889 34745		% TOT. RETURN 1YRS This STOCK INDEX 1 yr. 23.0 34.9 3 yr. 45.0 40.0 5 yr. 60.5 65.3		
<b>CAPITAL STRUCTURE as of 9/30/03</b> Total Debt \$1257.4 mil. Due in 5 Yrs 504.1 mil. LT Debt \$1130.2 mil. LT Interest \$65.0 mil. (Inc. \$228.3 million in interest preferred securities) (Total interest coverage: 2.5x) Leases, Uncapitalized Annual rentals \$29.1 mil. Pension Assets \$1202-\$207.8 mil. Oblig. \$290 mil. Rfd Stock None			1130.3 1199.9 1063.0 1220.2 1287.6 1338.6 1068.6 607.4 1049.3 868.9 975 1025 57.5 63.2 74.3 75.6 76.6 80.6 52.1 71.1 82.3 103.0 125 135 32.9% 35.2% 38.9% 38.6% 37.9% 32.5% 33.1% 34.3% 40.7% 38.0% 36.0% 36.0% 5.1% 5.3% 7.0% 6.2% 5.9% 6.0% 4.9% 11.7% 7.8% 11.9% 12.9% 13.1% 40.5% 49.0% 47.4% 46.2% 48.7% 47.5% 45.3% 45.9% 61.3% 58.3% 53.0% 51.0% 53.1% 45.8% 47.6% 48.9% 45.9% 47.1% 49.2% 48.3% 38.7% 41.7% 47.0% 49.0% 925.7 1131.5 1170.3 1201.3 1356.4 1388.4 1345.8 1286.2 1281.3 1297.4 1350.3 1415.4 1496.6 1534.0 1598.9 1637.5 8.6% 7.5% 8.2% 8.0% 7.3% 7.6% 5.7% 7.4% 6.5% 8.1% 6.5% 6.5% 10.4% 11.0% 12.1% 11.7% 11.0% 11.1% 7.1% 10.2% 12.3% 14.5% 13.5% 13.5% 10.8% 11.3% 12.5% 12.1% 11.3% 12.3% 7.9% 11.5% 12.3% 14.5% 13.5% 13.5% 4% 3.0% 4.6% 3.8% 3.2% 4.4% NMF 3.2% 4.2% 7.0% 6.0% 6.0% 96% 75% 66% 71% 74% 64% 101% 72% 65% 52% 57% 54%					Revenues per sh \$18.45 Cash Flow per sh 4.05 Earnings per sh 2.25 Div'ds Decl'd per sh 1.12 Cap'l Spending per sh 2.60 Book Value per sh 19.50 Common Shs Outst'g 65.00 Avg Ann'l P/E Ratio 15.0 Relative P/E Ratio 1.00 Avg Ann'l Div'd Yield 3.3% Revenues (\$/sh) 1200 Net Profit (\$/sh) 150 Income Tax Rate 36.0% Net Profit Margin 12.3% Long-Term Debt Ratio 51.0% Common Equity Ratio 49.0% Total Capital (\$/mil) 2265 Net Plant (\$/mil) 2900 Return on Total Cap'l 6.0% Return on Shr. Equity 11.5% Return on Com. Equity 11.5% Retained to Com Eq 6.0% All Div'ds to Net Prof 49%	
<b>CURRENT POSITION 2001 2002 9/30/03</b> (in \$ MILL.) Cash Assets 2.8 8.4 1.0 Other 214.6 578.0 550.2 Current Assets 217.4 586.4 551.2 Acc'ts Payable 82.4 91.1 298.5 Debt Due 348.4 418.6 127.2 Other 155.8 506.1 290.3 Current Liab 586.6 1015.8 716.0 F'd Chg. Cov. 241% 242% 245%			<b>BUSINESS:</b> AGL Resources, Inc. is a public utility holding company. Its distribution subsidiaries are Atlanta Gas Light, Chattanooga Gas, and Virginia Natural Gas. The utilities have around 2 million customers in Georgia, primarily Atlanta, Virginia, and in southern Tennessee. Also engaged in nonregulated natural gas marketing and other allied services. Also wholesales and retails propane.					<b>Nonregulated subsidiaries:</b> Georgia Natural Gas Services markets natural gas at retail. Acquired Virginia Natural Gas, 10/00. Sold Utilipro, 3/01. Officers/directors own 1.5% of outstanding common shares (3/03 Proxy). President & CEO: Paula Rospol, Incorporated. Georgia. Address: 303 Peachtree St., N.E., Atlanta, GA 30308. Telephone: 404-584-9470. Internet: www.aglresources.com.	
<b>ANNUAL RATES</b> Past 5 Yrs Past 10 Yrs Est'd '00-'02 of change (per sh) Revenues -3.0% -6.5% 3.5% Cash Flow 4.0% 5.5% 4.0% Earnings 4.0% 2.5% 6.5% Dividends 5.0% 5% 1.5% Book Value 12.5% 12.5% 8.5%			<b>The share price of AGL Resources continues to edge higher.</b> The stock has advanced a little over 2% since our last report in September, and is trading near record highs on a split-adjusted basis. The gains have been backed by solid earnings and a favorable operating environment. Share net of \$1.54 for the first nine months of 2003 marked an increase of over 20% from the prior year. Meantime, low interest rates and the government's move to lower dividend taxes have added to the appeal of dividend-paying stocks, thus providing added lift to AGL shares.					<b>been more than offset this year, though, by greater EBIT</b> from nonregulated businesses. EBIT from Wholesale Services rose 356% to \$21.9 million, while EBIT from the Energy Investments unit rose 47% to \$26.6 million. In 2004, we expect earnings to continue to improve from non-regulated businesses as AGL further develops these relatively new segments for the company. Also, we anticipate incremental growth from AGL's utility operations, following a full year of absorbing higher overhead costs. The segment should benefit from an expanding customer base and higher gas usage per customer.	
<b>QUARTERLY REVENUES (\$/sh)</b> Fiscal Year Ends: Dec 31, Mar 31, Jun 30, Sep 30, Full Fiscal Year 2000 182.3 160.1 131.8 133.2 607.4 2001 294.8 330.6 175.7 228.2 1049.3 2002 269.3 159.2 190.7 249.7 868.9 2003 351.4 188.6 166.9 270.7 975 2004 330 220 180 296 1025			<b>The near-term earnings picture looks good for AGL Resources.</b> We are leaving our full-year EPS estimates unchanged at \$2.00 and \$2.10 for 2003 and 2004, respectively. The company should reach our 2003 target with ease, given its earnings strength through the first nine months. Ironically, earnings before interest and taxes (EBIT) from AGL's core gas distribution operations are down slightly this year as a result of greater overhead expenses, including higher leasing costs, and increased insurance and benefit costs. Lower earnings from its gas utilities have					<b>AGL Resources is exiting the retail propane business.</b> It agreed to sell its interest in Heritage Propane Partners for \$29 million in a transaction expected to close at yearend. The move is consistent with the company's goal to shed non-strategic operations and to build its financial position.	
<b>EARNINGS PER SHARE</b> Fiscal Year Ends: Dec 31, Mar 31, Jun 30, Sep 30, Full Fiscal Year 2000 .30 .47 .26 .32 1.29 2001 .41 .83 .17 .09 1.50 2002 .89 .21 .17 .55 1.82 2003 1.98 .29 .27 .46 2.00 2004 .95 .35 .25 .55 2.10			<b>This is a good-quality income stock.</b> It offers a decent yield with excellent share-price stability. Investors should note that further share-price gains appear limited.					Michael P. Maloney December 19, 2003	
<b>QUARTERLY DIVIDENDS PAID</b> Calendar: Mar 31, Jun 30, Sep 30, Dec 31, Full Year 1999 .27 .27 .27 .27 1.08 2000 .27 .27 .27 .27 1.08 2001 .27 .27 .27 .27 1.08 2002 .27 .27 .27 .27 1.08 2003 .27 .28 .28 .28			Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. This publication is strictly for subscriber's own, non-commercial, internal use. No part of this publication may be printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.					<b>Company's Financial Strength</b> B++ <b>Stock's Price Stability</b> 100 <b>Price Growth Persistence</b> 30 <b>Earnings Predictability</b> 60	

To subscribe call 1-800-833-0046.

DELTA NATURAL GAS		NDG-DGAS	9.81	RECENT PRICE 20.41	TRADING P/E RATIO 14.8	RELATIVE P/E RATIO 0.75	DIVID YIELD 5.0%	VALUE LINE 3431				
<b>RANKS</b>		18.75	19.50	19.50	19.25	19.00	19.62	20.99	23.08	24.10	21.00	High
		15.50	15.50	16.00	16.44	14.19	13.63	17.69	18.50			Low
<b>PERFORMANCE</b>	<b>3</b> Average											
<b>Technical</b>	<b>3</b> Average											
<b>SAFETY</b>	<b>2</b> Above Average											
<b>BETA</b>	.45 (1.00 = Market)											
<b>Financial Strength</b>	B+											
<b>Price Stability</b>	100											
<b>Price Growth Persistence</b>	25											
<b>Earnings Predictability</b>	70											

© 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	22.71	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	
DIV'D 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 ANNL P/E RATIO	16.8	12.0	23.7	16.9	19.5	10.9	12.3	14.1	14.5	
RELATIVE P/E RATIO	1.12	.75	1.37	.88	1.11	.71	.63	.77	.84	
AVG ANNL DIV'D YIELD	6.4%	6.6%	6.4%	6.5%	6.5%	7.3%	6.3%	5.7%	5.6%	
SALES (\$MILL)	31.8	36.6	42.2	44.3	36.7	45.9	70.8	55.9	68.4	
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%	35.6%	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)	99.5	7	11.6	5.2	99.3	112.3	112.6	115.3	121.2	
LONG-TERM DEBT (\$MILL)	23.7	24.5	38.1	52.6	51.7	50.7	49.3	48.6	50.8	
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	109%	79%	NMF	110%	NMF	80%	78%	80%	81%	

\*No. of analysts covering firm: 1 up, 0 down, consensus 5-year earnings growth 4.0% per year. Based on 10/10/02 analyst estimates. © Copyright 2003 Value Line Publishing, Inc.

ANNUAL DATA		1995	1996	1997	1998	1999	2000	2001	2002	2003
of change (per share)		5.1%	1.1%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Sales		5.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Cash Flow		6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%
Earnings		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Dividends		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Book Value		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
<b>QUARTERLY SALES (\$MILL)</b>										
Fiscal Year		19	20	21	22	23	24	25	26	27
06/30/01		67	73	78	83	88	93	98	103	108
06/30/02		73	78	83	88	93	98	103	108	113
06/30/03		78	83	88	93	98	103	108	113	118
06/30/04		83	88	93	98	103	108	113	118	123
<b>EARNINGS PER SHARE</b>										
Fiscal Year		19	20	21	22	23	24	25	26	27
06/30/00		1.04	1.41	0.75	1.04	0.90	1.42	1.47	1.45	1.49
06/30/01		1.04	1.41	0.75	1.04	0.90	1.42	1.47	1.45	1.49
06/30/02		1.04	1.41	0.75	1.04	0.90	1.42	1.47	1.45	1.49
06/30/03		1.04	1.41	0.75	1.04	0.90	1.42	1.47	1.45	1.49
06/30/04		1.04	1.41	0.75	1.04	0.90	1.42	1.47	1.45	1.49
<b>QUARTERLY DIVIDENDS PAID</b>										
Fiscal Year		19	20	21	22	23	24	25	26	27
2000		285	285	285	285	285	285	285	285	285
2001		285	285	285	285	285	285	285	285	285
2002		29	29	295	295	295	295	295	295	295
2003		295	295	295	295	295	295	295	295	295

**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 predominantly 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 Degasco, 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>.

**December 19, 2003**

**TOTAL SHAREHOLDER RETURNS**  
 Dividends plus appreciation as of 11/30/2003

	3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
3 Mos.	2.03%	0.73%	20.91%	48.88%	100.95%

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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

10. Refer to Delta's Response to the Staff's Second Request, Item 20. Footnote 3 states that the Clerical & Office Expense for supplies is depreciation for office equipment not included. Provide a list of the office equipment included in this category and the calculations used to determine the depreciation.

**RESPONSE:**

As footnote 3 indicates, depreciation for office equipment is not included on this schedule and refers to the line above Supplies. Even though there are costs associated with the use of office equipment (computers, copiers, etc.) and are applicable to the cost of a reconnection fee, these were not included.

Supplies on this schedule refer to office supplies such as paper, pencils, ink, cost of printing, etc.

The amount used for Supplies on this schedule has not increased since Delta's previous rate case.

**SPONSORING WITNESS:**

John B. Brown



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

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11. Refer to Delta's Response to the Staff's Second Request, Item 22.
- a. When Delta complied with the Federal Energy Regulatory Commission's ("FERC") Order 631, was a transition adjustment required? If yes, provide the amounts and the corresponding accounts.
  - b. Explain how Delta complied with each applicable section of FERC Order 631.

**RESPONSE:**

- a. The "Transition Adjustment" per FERC Order 631 is labeled "ENTRY AT ADOPTION" at the bottom of our response to PSC 2 Item 41a. Amounts and the corresponding accounts are shown there. Per paragraph 15 of FERC Order 631, "for rate regulated entities the cumulative effect adjustment amounts will be recognized as a regulatory asset or liability....". Delta complied with this by recording the \$30,133 in regulatory asset account 1.186.03 as discussed in PSC 2 Item 22b and PSC 2 Item 41b.
- b.
  - A. Accounting for the Cumulative Effect Adjustment  
See response a. above.
  - B. Recognition of Regulatory Assets and Liabilities  
See response a. above.
  - C. Authority to Adjust Accumulated Depreciation (Accounts 108 and 110)  
Delta did not have "excess amounts" accrued in accumulated depreciation for these storage tanks.
  - D. Accounting for Cost of Removal That Does Not Constitute a Legal Obligation

**DELTA NATURAL GAS COMPANY, INC.  
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As mentioned in Paragraph 37 of Order 631, "The Commission is aware that there is an ongoing discussion in the accounting community as to whether the cost of removal should be considered as a component of depreciation". Subsequent to the release of Order 631, the SEC has determined that cost of removal that does not constitute a legal obligation should be classified as a regulatory liability. Delta began complying with this financial reporting requirement beginning with its 3/31/04 Form 10Q.

**E. Accounts Established for Recording Accretion of Asset Retirement Obligations and Depreciation of Asset**

Per PSC 2 Item 22b, Delta has established and is using account 1.411.10 Accretion Expense and account 1.403.10 Depreciation Expense for Asset Retirement Obligations in accordance with Paragraph 40 of Order 631.

**F. Accounts for Recording Asset Retirement Costs**

Per PSC 2 Item 41b, Delta recorded Asset Retirement Costs together with 1.333 Plant, consistent with paragraph 49 of Order 631 which dictates that Asset Retirement Costs be classified "within the utility plant function associated with the actual plant assets that give rise to the legal retirement obligations".

**G. Accounting for Gains and Losses for the Settlement of Asset Retirement Obligations Related to Electric and Gas Utility Plant**

Delta settled no Asset Retirement Obligations during the test year, but will appropriately follow this section when they occur.

**H. Accounting for Gains and Losses for the Settlement of Asset Retirement Obligations Related to Nonutility Plant.**

Delta settled no Asset Retirement Obligations during the test year, but will appropriately follow this section when they occur.

**SPONSORING WITNESS:**

W. Steven Seelye  
John B. Brown



**DELTA NATURAL GAS COMPANY, INC.**  
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12. Refer to Delta's Response to the Staff's Second Request, Item 25.
- a. Refer to page 7 of 10, Item 25(u). The response indicates that \$163,328 of the Sarbanes-Oxley expenses is non-recurring. Should the non-recurring expenses be excluded for rate-making purposes? Explain the response.
  - b. Refer to page 8 of 10, Item 25(y). The response indicates that a revision should be made to an adjustment related to the bonus removed on Hall WP-4.1 of the application. Provide a revised version of Hall WP-4.1 and all other schedules affected by the revision.
  - c. Refer to page 9 of 10, Item 25(z). Identify the actuary. Also, the response states, "The most recent Actuary's study for the 12 months ended June 30, 2004 projects annual net pension expense to be \$725,434...." Explain how a projected amount can be known prior to the end of the study period.
  - d. Refer to page 9 of 10, Item 25(aa). Provide the calculations supporting the estimated expense of \$156,727 and a detailed explanation of the recurring 401K expenses that are included in the estimated amount.

**RESPONSE:**

- a. Approximately \$163,000 of the specific Sarbanes-Oxley expenses in the test year are non-recurring as detailed on PSC 2 Item 25 U.

The estimated \$80,000 annually of recurring Sarbanes-Oxley audit costs which will begin in 2005 is also noted on PSC 2 Item 25 U.

The net of these numbers (approximately \$83,000) is the non-recurring portion of the Sarbanes Oxley project. This amount (\$83,748) is listed in AG 1 Item 9 as a net Non-Recurring Amount.

The Company believes that all in all, the test year expenses are representative in all material respects for rate-making purposes. If the Commission desires to eliminate non-recurring expenses such as this \$83,000, it should apply the same theory to each line item on AG 1 Item 9, regardless if the item increases or decreases expenses in the test year.

**DELTA NATURAL GAS COMPANY, INC.  
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- b. See the attached schedules. They reflect the revision to the bonus applicable to Delta and the associated payroll taxes. The revised schedules also reflect Delta's response to PSC-3-5 of this data request concerning customer deposits and AG-2-11 and AG-1-1 concerning other comprehensive income removal from Delta's capital structure as explained in AG-2-11.
- c. Delta's actuary is Hand Benefits & Trust, Inc. See AG 1 Item 27 for a copy of the Actuarial Report referred to in PSC 2 Item 25(z).

Per SFAS 87, Net Periodic Pension Expense is determined based on census data prior to the beginning of the fiscal year. Any difference in actual experience from the projection is deferred and recognized in subsequent years. The Net Periodic Pension Expense of \$725,434 for the fiscal year ended June 30, 2004 was determined based on March 31, 2003 census data. We received the valuation from the actuary in July 2003.

- d. The estimated expense of \$156,727 is comprised of two components. First, is the employer contributions during the test year of \$124,651. The second is the \$32,076 of trustee fees and billed expenses which relate to the test year. The attached spreadsheet details the invoices included in this \$32,076 total.

The estimate is conservative, as employer contributions in subsequent years will likely be larger due to increased pay rates.

**SPONSORING WITNESS:**

John B. Brown (a, c & d)  
John F. Hall (b)

Application  
Tab 27  
Schedule 1

DELTA NATURAL GAS COMPANY, INC  
Cost of Service—Revenue Deficiency  
Test Period Ended 12/ 31/03

Line Number				
1	Cost of Gas	Schedule 3	\$	33,364,884
2	O & M Expense	Schedule 4	\$	10,409,416
3	Depreciation Expense	Schedule 5	\$	4,045,073
4	Taxes Other Than Income	Schedule 6	\$	1,509,727
5	Return	Schedule 7	\$	9,525,351
6	Income Tax	Schedule 8	\$	3,334,746
7	Total Cost of Service		\$	<u>62,189,197</u>
8	Revenues at Present Rates	Schedule 2	\$	57,709,949
9	Revenue Deficiency		\$	<u><u>4,479,248</u></u>



Delta Natural Gas Company, Inc.  
O & M Adjustments  
Test Year End 12/31/03

Payroll Expenses	\$	120,697	Hall WP-4.1
Bonus		(317,865)	Hall WP-4.1
Rate Case Expense-Amortize over 3 years		83,333	Hall WP-4.2
Customer Deposits \$559,231*6%		33,554	
Adjust for lobbying expenses-other A/C's		(15,280)	Hall WP -4.3
A/C 913 Advertising		(2,204)	
A/C 930.1 Public and Community Relations		(25,645)	
A/C 930.12 Lobbying		(783)	
A/C 930.04 Marketing		(15,239)	
Total	\$	(139,432)	
Per Books		10,548,848	
O & M Adjusted		10,409,416	

**DELTA NATURAL GAS COMPANY, INC.**  
**Payroll Adjustment**

Line Number

1	Annualized Salaries and Wages	\$6,593,535
2	Pro Forma Capitalized Wages and Subsidiary Allocation	<u>1,788,914</u>
3	Pro Forma Salary and Wage Expense	4,804,621
4	Actual 2003 Test Year Salary and Wage Expense	<u>4,683,924</u>
5	Pro Forma Payroll Adjustment	120,697
6	Bonus Excluded	<u>(317,865)</u>
7	Total Payroll Adjustment	<u>\$ (197,168)</u>

**DELTA NATURAL GAS COMPANY, INC.**  
**Payroll Tax Adjustment**

Line Number

1	Direct Total Payroll for 12 Months Ended 12/31/03	\$6,559,613
2	Payroll Taxes (A/C 1.408.03)	496,228
3	Payroll Taxes Percent of Payroll	7.56%
4	Pro Forma Payroll Adjustment	<u>120,697</u>
5	Pro Forma Payroll Tax Increase	9,125
6	Bonus Taxes	<u>(20,628)</u>
7	Total Payroll Tax Adjustment	\$ (11,503)
8	Other Taxes Per Books	<u>\$1,521,230</u>
9	Other Taxes as Adjusted	<u>\$1,509,727</u>

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Application  
Tab 27  
Schedule 7

DELTA NATURAL GAS COMPANY INC.  
RATE BASE  
TEST YEAR ENDED 12/31/03

Line No		
1	Plant in Service	\$ 165,994,418
2	Depreciation Reserve	\$ (52,964,026)
3	Net Plant in Service	\$ 113,030,392
4	Cash Working Capital (1/8 of O & M)	\$ 1,301,177
5	Prepayments-13 mo av	\$ 351,876
6	Material and Supplies-13 mo av	\$ 478,139
7	Gas in Storage- 13 mo av	\$ 6,363,748
8	Accumulated Def Income Taxes	\$ (14,697,866)
9	Unamortized Debt Expense	\$ 4,185,070
	Customer Deposits	\$ (559,231)
10	Advances in Construction	\$ (105,692)
11	Depreciation Adjustments	\$ 145,431
12	Unrecovered SFAS 143 Adoption Costs	\$ 30,133
13	TOTAL NET RATE BASE	\$ 110,523,177
14	Return @ 8.618%	\$ 9,525,351

Delta Natural Gas Company Inc.  
Computation of Income Taxes  
Test Year End 12/31/03

Line No

1	After Tax Return	\$	9,525,351
2	Interest Deduction	\$	4,241,905
3	Equity Portion of Return	\$	5,283,447
4	Application of Tax Rate to Equity Return 39.445%	\$	2,084,056
5 7	ITC Amortization	\$	(39,200)
6 8	Amortization of Excess Deferred Tax	\$	(25,500)
7		\$	2,019,356
8	Tax Expansion Factor		1.6513913
9	Total Income Tax Liability	\$	3,334,746

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Application  
Tab 27

Schedule 8  
Page 2 of 3

Delta Natural Gas Company Inc.  
Income Tax Adjustment  
Test Year End 12/31/03

Line No

1	Operating Revenues	\$ 57,709,948	
2	Operating Expense w/o income tax	\$ 49,329,100	\$ 110,523,177 3.838%
3	Interest Expense	\$ 4,241,905	----- \$ 4,241,905 =====
4	Taxable Income	\$ 4,138,944	
5	Combined State & Federal Tax Rate	39.445%	
6	Income taxes	\$ 1,632,606	
7	ITC Amortization	\$ (39,200)	
8	Amortization of Excess Deferred Tax	\$ (25,500)	
9	Adjusted Net Income Taxes	\$ 1,567,906	----- =====

Item 12b  
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 Application  
 Tab 27  
 Schedule 9

Line No	Delta Natural Gas Company Inc. Capital Structure	Test Period End 12/31/2003	Adjusted Capital Structure	Eliminate Subs	Ratios	Cost Rates	Weighted Cost of Capital
1	Per Books Consolidated at 12/31/03						
4	Equity	\$ 46,080,957	\$ 44,915,682	\$ (1,165,275)	38.24%	12.500%	4.780%
5	LT Debt	\$ 54,824,000	\$ 54,824,000	\$	46.68%	7.422%	3.464%
6	ST Debt	\$ 17,707,889	\$ 17,707,889	\$	15.08%	2.478%	0.374%
7	Total	\$ 118,612,846	\$ 117,447,571	\$ (1,165,275)	100.00%		8.618%
	7.000% Debentures		20,000,000			1,400,000	
	6.625% Debentures		10,894,000			721,728	
	7.150% Debentures		23,930,000			1,710,995	
	Unamortized Debt Expense		54,824,000			236,200	
	L/T Debt Cost					4,068,923	
						7,421,799	
	2.100% S/T Debt	\$	17,707,889	\$		371,866	
	0.30% Unused Line of Cr	\$	22,292,111	\$		66,876	
	S/T Debt Cost	\$	17,707,889	\$		438,742	
						2,478%	

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Pa. 9 of 9

		DELTA NATURAL GAS CO. INC			
		INCOME STATEMENT			
		TEST YEAR END 12/31/03			
	Per Books 12/31/03	Adjustments	As Adjusted	Required Increase	Proposed
Adjusted for bonus to subs of 86000 and taxes applicable to subs of 4263 excludes cus deposit in rate base 559231 include OCI in equity 2050636					
Operating Revenues	\$ 52,085,352	\$ 5,624,596	\$ 57,709,948	\$ 4,479,249	\$ 62,189,197
Operating Expenses					
Purchased Gas	\$ 27,846,732	\$ 5,518,152	\$ 33,364,884		\$ 33,364,884
O & M Expenses	10,548,848	(139,432)	10,409,416		10,409,416
Depreciation	4,190,504	(145,431)	4,045,073		4,045,073
Other Taxes	1,521,230	(11,503)	1,509,727		1,509,727
Income Taxes	1,291,201	276,705	1,567,906		1,567,906
Total Operating Expenses	\$ 45,388,515	\$ 5,498,491	\$ 50,887,006	\$ 1,766,840	\$ 3,334,746
Operating Income	\$ 6,686,837	\$ 126,105	\$ 6,812,942	\$ 2,712,409	\$ 9,525,351
Interest Expense	4,562,696	(55,031)	4,507,665		4,507,665
Net Income	2,124,141	181,136	2,305,277	\$ 2,712,409	\$ 5,017,687
Return on Equity	4.73%		5.13%		11.17%



THIRD PSC DATA REQUEST  
DATED 6/9/04

Detail of Trustee Fees and Other Billable Expenses for 401k Plan during Calendar 2003

Hand Benefits & Trust	Invoice 22310004	Trustee Fees 1/1/03 to 6/30/03 (semi-annual based on net assets)	11,030.54
Hand Benefits & Trust	Invoice 120021	Preparation of 5500 Issued Feb 03	577.50
Hand Benefits & Trust	Invoice 31110036	Trustee Fees 1/1/03 to 3/31/03 (quarterly base fee plus fixed participant charge)	2,885.20
Hand Benefits & Trust	Invoice 31110036	Credit adjustment for new Trustee Fee rates	(2,778.77)
Hand Benefits & Trust	Invoice 120088	Preparation of 5500 Issued Feb 03	453.75
Hand Benefits & Trust	Invoice 32030001	Trustee Fees 4/1/03 to 6/30/03 (quarterly base fee plus fixed participant charge)	3,003.20
Internal Revenue Service		Plan filing fee June 03	125.00
Hand Benefits & Trust	Invoice 33390017	Trustee Fees 7/1/03 to 9/30/03 (quarterly base fee plus participant charge)	2,727.20
Hand Benefits & Trust	Invoice 120324	Consulting Aug 03	750.00
Hand Benefits & Trust	Invoice 100623	Annual Disclosure Preparation Aug 03	500.00
Hand Benefits & Trust	Invoice 40650003	Trustee Fees 7/02/03 to 12/30/03 (semi-annual based on net assets)	10,195.77
Hand Benefits & Trust	Invoice 40370001	Trustee Fees 10/01/03 to 12/31/03 (quarterly base fees plus participant charge)	<u>2,605.00</u>
			32,074.39



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13. Refer to Delta's Response to the Staff's Second Request, Item 28.
- a. Refer to Item 28(a). The second paragraph of the response appears to be missing information. Resubmit the response with any omitted information included.
  - b. Refer to Item 28(b). State whether this expense will be recurring.
  - c. Refer to Item 28(c). The response did not provide all of the originally requested information. Explain why this expense should be included for rate-making purposes.

**RESPONSE:**

- a. This was a typographical mistake and the end of that paragraph was inadvertently omitted. The second paragraph of that response should read "Our directors do not receive per diems or meeting fees. We provide monthly retainers and the monthly retainers in effect during the test year were changed effective June 1, 2003. Prior to June 1, 2003, monthly retainer fees were Chairman- \$4,000 per month; Vice Chairman-\$1,000 per month; all other board members-\$700 per month, plus \$100 per month for each committee of service and \$100 per month for chairing a committee. From June 1, 2003 forward the compensation was Chairman-\$4,200 per month; Vice Chairman- \$1,000 per month; all other board members- \$700 per month, plus \$200 per month for each committee of service and \$200 per month for chairing a committee".
- b. Delta's Nominating and Compensation Committee reviewed board compensation and changed it further effective March 1, 2004. The retainers were increased to \$4,700 per month for the Chairman; \$1,500 per month for the Vice Chairman; \$900 per month for all other board members plus \$300 per month for each committee of service and \$300 per month for chairing a committee or being named the Company's financial expert on the Board. This change thus built into the retainer compensation structure the items reflected in response to 28(b), and will be recurring. Thus, the current director retainer fees on an annualized basis are \$205,200, and this does not include any stock or other compensation or expenses.

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- c. Delta has meetings with Directors from time to time relating to Board functions. In this case, this Board dinner meeting was in conjunction with a Board meeting, and the small gift provided commemorated the dinner and the year. Usually something like this is done once a year and thus is recurring. It is felt that this is an appropriate cost for rate making as it is a meeting with the Board and does relate directly to service on Delta's Board. It assists in keeping the Board informed and working together as a cohesive group, and thus is beneficial to the Company and its customers.

SPONSORING WITNESS:

Glenn R. Jennings



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

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14. Refer to Delta's Response to the Staff's Second Request, Item 30. The response did not provide all of the originally requested information. Explain why these expenses should be included for rate-making purposes.

**RESPONSE:**

PSC 2-30 asked the company to "describe the nature and purposes of these expenses and explain why these expenses should be included for ratemaking purposes"

To answer the question, each expenditure was categorized into one of five categories. The category total was disclosed, along with a discussion of the "nature" of the category of expenditures. Then a purpose for the category was specifically given. The statement "Expenses of \$16, 822 in account 1930050 are used as an important tool to promote good company relations between Delta and its employees thus reducing costly turnover of employees" was intended to serve as the company's justifications for "why these expenses should be included for ratemaking purposes".

The company believes that these responses have provided the originally requested information. For clarity, the response to PSC 1-27 lines 227-277 is attached with the addition of a code denoting to which category each line relates.

All the expenses are recurring and are necessary to Delta's operations. They all are beneficial to Delta's operations and Delta's customers. Thus, all should be included for rate-making purposes.

**SPONSORING WITNESS:**

John B. Brown

DELTA NATL AS COMPANY, INC.  
CASE NO. 2004-00067  
PSC DATA REQUEST DATED June 9, 2004

Item 14. - Attachment

NOTE - "Category No." column refers to the Staffs Second Request - Item 30

LINE NO	VENDOR	CK #	GL ACCOUNT NO	DATE	AMOUNT	SUB TOTAL	ITEM DESCRIPTION	OTHER DESCRIPTION	CATEGORY NO.
227	BARBOURVILLE FLORIST	201082	1930050000000000	2003-01-23	30.00		Miscellaneous	Company Relations	3
228	ST AGATHA ACADEMY - ATH	201145	1930050000000000	2003-01-28	45.00		Miscellaneous	Company Relations	3
231	ALLEN'S FLOWERS & GREEN	201199	1930050000000000	2003-01-31	54.00		Miscellaneous	Company Relations	3
232	HOSPICE EAST	210604	1930050000000000	2003-02-21	50.00		Miscellaneous	Company Relations	3
233	ESTES, KATHY	211334	1930050000000000	2003-03-28	30.00		Miscellaneous	Company Relations	3
235	COURT VIEW FLOWERS	211462	1930050000000000	2003-03-31	45.40		Miscellaneous	Company Relations	3
236	FLOWERS BY CHARLES RAY	212006	1930050000000000	2003-04-25	42.40		Miscellaneous	Company Relations	3
237	BETTY'S FLOWERS	212280	1930050000000000	2003-04-30	50.00		Miscellaneous	Company Relations	3
238	CORBIN FLOWER SHOP	212302	1930050000000000	2003-04-30	55.12		Miscellaneous	Company Relations	3
243	ALLEN'S FLOWERS & GREEN	212958	1930050000000000	2003-05-31	43.40		Miscellaneous	Company Relations	3
244	CORBIN FLOWER SHOP	213206	1930050000000000	2003-05-31	55.12		Miscellaneous	Company Relations	3
245	COURT VIEW FLOWERS	212997	1930050000000000	2003-05-31	56.00		Miscellaneous	Company Relations	3
247	STANTON FLORIST	213070	1930050000000000	2003-05-31	53.00		Miscellaneous	Company Relations	3
249	B & T BANKCARD CORP	214842	1930050000000000	2003-07-25	40.00		Miscellaneous	Company Relations	3
251	MCGEILL BLOSSOM SHOPPE	214923	1930050000000000	2003-07-31	50.35		Miscellaneous	Company Relations	3
252	LAUREL FLORIST INC	215688	1930050000000000	2003-09-04	42.40		Miscellaneous	Company Relations	3
253	COURT VIEW FLOWERS	216375	1930050000000000	2003-09-30	37.10		Miscellaneous	Company Relations	3
263	B & T BANKCARD CORP	217023	1930050000000000	2003-10-31	42.92		Miscellaneous	Company Relations	3
264	B & T BANKCARD CORP	217869	1930050000000000	2003-11-22	(1.41)		Miscellaneous	Company Relations	3
265	COURT VIEW FLOWERS	217972	1930050000000000	2003-11-30	93.10		Miscellaneous	Company Relations	3
266	JIM & MARY'S FLOWER SHOP	218007	1930050000000000	2003-11-30	53.00		Miscellaneous	Company Relations	3
272	LAUREL FLORIST INC	218014	1930050000000000	2003-11-30	42.40		Miscellaneous	Company Relations	3
276	EAST NIOTA BAPTIST CHURCH	218315	1930050000000000	2003-12-22	50.00		Miscellaneous	Company Relations	3
274	ALLEN'S FLOWERS & GREEN	218536	1930050000000000	2003-12-31	51.70		Miscellaneous	Company Relations	3
276	COURT VIEW FLOWERS	218588	1930050000000000	2003-12-31	45.40		Miscellaneous	Company Relations	3
230	ALLEN'S FLOWERS & GREEN	201199	1930050000000000	2003-01-31	48.70		Miscellaneous	Company Relations	3
241	DELTA NATURAL GAS - 20	212721	1930050000000000	2003-05-20	27.95		Miscellaneous	Company Relations	3
246	DELTA NATURAL GAS - 03	213495	1930050000000000	2003-05-31	3.49		Miscellaneous	Company Relations	3
248	NATIONAL CITY	213918	1930050000000000	2003-06-30	11.88		Miscellaneous	Company Relations	3
261	DELTA NATURAL GAS - 20	216971	1930050000000000	2003-10-24	15.78		Miscellaneous	Company Relations	3
262	JENNINGS, LINDA	216778	1930050000000000	2003-10-24	187.40		Miscellaneous	Company Relations	3
271	ADVERTISING SPECIALTIES	218247	1930050000000000	2003-12-17	615.73		Miscellaneous	Company Relations	3
239	LANDS' END CORPORATE SA	212337	1930050000000000	2003-04-30	35.03		Miscellaneous	Company Relations	3
240	LANDS' END CORPORATE SA	212337	1930050000000000	2003-04-30	126.17		Miscellaneous	Company Relations	3
229	NATIONAL CITY	201320	1930050000000000	2003-01-29	300.00		Miscellaneous	Company Relations	3
273	B & T BANKCARD CORP	218488	1930050000000000	2003-12-30	12.62		Miscellaneous	Company Relations	3
			SUB TOTAL FOR CATEGORY 3			2,541.15			
275	CHAPMAN PRINTING COMPA	219075	1930050000000000	2003-12-31	801.89		Miscellaneous	Company Relations	4
234	CHAPMAN PRINTING COMPA	212051	1930050000000000	2003-03-31	801.89		Miscellaneous	Company Relations	4
250	CHAPMAN PRINTING COMPA	215193	1930050000000000	2003-07-31	801.89		Miscellaneous	Company Relations	4
			SUB TOTAL FOR CATEGORY 4			2,405.67			
242	NATIONAL CITY	213106	1930050000000000	2003-05-29	634.97		Miscellaneous	RETIREMENTS	5
			SUB TOTAL FOR CATEGORY 5			634.97			
254	ADVERTISING SPECIALTIES	216467	1930050000000000	2003-10-13	4,413.06		Miscellaneous	JERZEES 9.3 OZ 9317 SWE	1
255	ADVERTISING SPECIALTIES	216692	1930050000000000	2003-10-14	67.38		Miscellaneous	SAFETY AWARD JACKET	1
256	ADVERTISING SPECIALTIES	216692	1930050000000000	2003-10-14	205.38		Miscellaneous	SAFETY AWARD JACKET	1
257	ADVERTISING SPECIALTIES	216692	1930050000000000	2003-10-14	67.36		Miscellaneous	SAFETY AWARD JACKET	1
258	ADVERTISING SPECIALTIES	216692	1930050000000000	2003-10-14	69.56		Miscellaneous	SAFETY AWARD JACKET	1
259	ADVERTISING SPECIALTIES	216692	1930050000000000	2003-10-14	136.92		Miscellaneous	SAFETY AWARD JACKET	1
260	ADVERTISING SPECIALTIES	216692	1930050000000000	2003-10-16	2,597.26		Miscellaneous	TEEZ SPORT SHIRT WITH	1
270	ADVERTISING SPECIALTIES	218247	1930050000000000	2003-12-17	366.75		Miscellaneous	Company Relations	1
			SUB TOTAL FOR CATEGORY 1			7,923.67			
277	EMPLOYEE SERV AWARDS/BABY STOOD		1930050000000000	2003-08 THRU 11	3,316.50		Miscellaneous		2
			SUB TOTAL FOR CATEGORY 2			3,316.50			
			TOTALS			16,821.96			

Sub totals may differ slightly from PSC Second Request totals due to rounding to hundreds.





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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

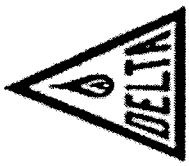
15. Refer to Delta's Response to the Staff's Second Request, Item 31. Provide a copy of the materials provided to a participant. Explain how this program does not constitute a form of promotional advertising as defined in 807 KAR 5:016.

**RESPONSE:**

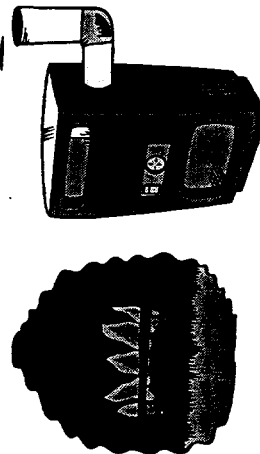
This program is not considered promotional advertising as defined in 807 KAR 5:016. It is a rebate incentive program, not advertising, to encourage customers to utilize natural gas. The recipient must meet minimum standard home insulation guidelines to qualify.

**SPONSORING WITNESS:**

John B. Brown



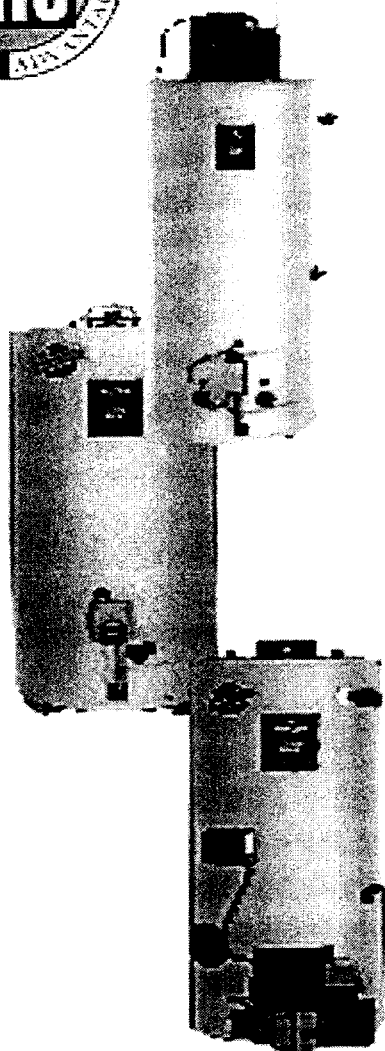
# Delta Natural Gas Company, Inc.



- ⌘ **Builder Program**
- ⌘ Make a House a Home with Warm Comfortable Natural gas
- ⌘ **Must have Gas Heat and Gas Water Heat to Qualify = \$150.00** valid through 12/30/04
- ⌘ \$50.00 for Each additional Gas Appliance (gas logs, gas grill, gas dryer, gas light, gas range or gas cook top, gas pool heater)- valid through 12/30/04
- ⌘ 100 feet of service line installed at no cost
- ⌘ Must have R-30 in ceilings, R-13 in walls, R-11 in Floors
- ⌘ For more information contact **Jeff Steele at 1-800-262-2012 Ext. 141 or cell 859-749-0097.**  
**Jsteele@deltagas.com**

**Feel Right At Home  
With Natural Gas**

# Switch To A Natural Gas Water Heater And Receive A \$200.00 Rebate



- ⌘ **High Recover Rate** - Since there is not an element to heat up, a gas water heater will reheat water faster.
- ⌘ **Longer Life Of Water Heater** - Due to the nature of a gas burner, a gas water heater will last longer and maintain its efficiency at the same time.
- ⌘ **Gas Works During Power Outage** - Conventionally vented gas water heaters require no electricity and still operate during outages.
- ⌘ **Environmentally Friendly** - Natural gas is the cleanest of all burning fossil fuels.
- ⌘ **Easier Installations** - Direct vent and Power-vented gas water heaters can be vented horizontally and located in basements or confined spaces when installed to manufacturers requirements. Delta offers a \$300.00 rebate for direct or power-vented models.
- ⌘ **Operating Cost** - Natural Gas heats hot water at a very reasonable cost and can save money on your family's energy bill.

⌘ **FOR MORE INFORMATION CALL YOUR LOCAL DELTA NATURAL GAS OFFICE:**

- ⌘ **OWINGSVILLE - 606-674-2213**
- ⌘ **BEREA - 859-986-4291**
- ⌘ **NICHOLASVILLE - 859-885-4141**
- ⌘ **MIDDLESBORO - 606-248-1845**
- ⌘ **CORBIN - 606-528-3611**

- ⌘ **ENJOY THE ADVANTAGES OF OTHER GAS APPLIANCES:**  
**GAS LOGS, GAS RANGES, GAS SPACE HEATERS, GAS DRYERS, GAS LIGHTS, GAS POOL HEATERS**



**Delta Natural Gas Company, Inc.**



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

16. Refer to Delta's Response to the Staff's Second Request, Item 32(a). Explain why a nature study was capitalized as Storage Rights of Way instead of as part of the 12-inch Canada Mountain Line.

**RESPONSE:**

The nature study was required as a condition of the right to construct the pipeline. The study was an essential ingredient of the right to construct the pipeline across the subject property. Without the study, there would have been no right-of-way.

**SPONSORING WITNESS:**

John B. Brown



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

17. Refer to Delta's Response to the Staff's Second Request, Item 33(a). For each of the 4 previous years, provide the annual level of expenses classified as "General" for work performed by Stoll, Keenon & Park, LLP.

**RESPONSE:**

Year	Total Paid
1999	\$29,819.17
2000	\$23,195.98
2001	\$23,577.06
2002	\$24,907.22

**SPONSORING WITNESS:**

John B. Brown





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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

18. Refer to Delta's Response to the Staff's Second Request, Item 35 and Delta's Response to the Attorney General's ("AG") First Data Request, Item 49. The response to the Staff's request states that the monthly fee paid to Nancy Lethgo is a recurring charge. However, in the response to the AG's request, Delta states that her consulting work and the agreement have been concluded. Delta further states that the part-time position has been filled by another part-time person.
- a. If the contract with Ms. Lethgo has been terminated, explain why the expense should be considered recurring and included for rate-making purposes.
  - b. Was the newly hired part-time employee included in the wage and salary normalization?

**RESPONSE:**

- a. The expense for the customer service representative in account 1.923.04 for the year includes the money paid to Ms. Lethgo from January 03 until July 03. The position is both recurring and spans twelve months. Since the test year payroll normalization only included dollars for the last half of the year for this position (see b), the amount in account paid to Ms. Lethgo prior to her termination needs to be treated as recurring for rate making purposes in order for the test year to reflect a full year.
- b. Only the 352 hours worked by the part-time replacement employee since the 7/21/03 hire date were included in the wage and salary normalization. See PSC Second Date Request # 6 on the last page for employee number 3428. That is why the amounts paid to contractor Lethgo for the first half of the year need to be included in the test year Account # 1.923.04 as explained in a above.

**SPONSORING WITNESS:**

John B. Brown



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

19. Refer to Delta's Response to the Staff's Second Request, Item 36.
- a. Refer to Item 36(a). For each of the 4 previous calendar years, provide a schedule of similar projects including the vendor and the amount.
  - b. Refer to Item 36(g). The response indicates the expense is not an annual recurring charge. Explain why the expense should be included for rate-making purposes.

**RESPONSE:**

- a. See attached schedule.
- b. As explained on the above referenced schedule, we have begun using outside service providers to do special projects that we had traditionally waited until having the internal resources to complete. We committed to this change in resource management to the PSC in response to management audit recommendation B.2.3 from the November 2002 final report. So while this specific project may not repeat, it is an appropriate expense for rate-making purposes since projects such as this one will continue to be outsourced as we have represented. Note also that the annual support costs to Avenir Systems, Itron and Cognos are significantly understated in the test year.

**SPONSORING WITNESS:**

John B. Brown

THIRD PSC DATA REQUEST  
DATED 6/9/04

Significant Vendors	1999	2000	2001	2002	2003	Fluctuation Explanation
ARSENALTT ASSOCIATES	989.00	989.00	989.00	989.00	1,312.00	
AVENIR SYSTEMS INC			13,476.00	27,596.00	1,402.50	Test year understated. Support Prepaid in 2002 Replacement for "National City"
B B & T BANKCARD CORPORATION			<b>6,268.69</b>	<b>489.76</b>		(a)
BROADWING IT CONSULTING					1,213.70	New depreciation software annual maintenance
BUREAU OF NATIONAL AFFAIRS INC				3,843.75	15,398.31	Microsoft Windows Licensing Agreement Renewal Replaced by "KnowledgeLake"
CDW/DIRECT LLC			10,398.60	9,810.00		New version purchased. Support costs resume in 2004
CEYONIQU INC.	4,637.50	4,957.62	5,198.24	5,198.24		
COGNOS CORPORATION	449.44	2,163.05		643.36		
CORPORATE EXPRESS					<b>5,621.85</b>	(a)
COTTON AND ALLEN PSC		4,614.00	4,614.00	4,614.00	4,614.00	Miscellaneous small hardware replacements--recurring
DATATRADE LLC					3,381.40	
DELL ACCOUNT CREDIT PLAN				3,225.00	3,225.00	Scanner service agreement, add'l scanner
DIGITAL DESIGNS INC.			2,100.00	1,995.00	3,185.00	
EASTMAN KODAK COMPANY			8,368.70	8,467.44	9,372.05	
GROUP 1 SOFTWARE	7,812.20	7,202.70	8,368.70	8,467.44	26,435.83	Will increase once new equip off warranty
IBM	30,791.89	34,054.16	34,827.18	35,655.59	<b>14,593.46</b>	(a)
INTRASOURCE INC	<b>8,517.56</b>	<b>3,032.74</b>	<b>4,549.23</b>	<b>7,651.36</b>	<b>14,593.46</b>	Will increase once new equip off warranty
ITRON INC	36,678.35	23,946.42	41,909.15	26,392.29	5,177.84	Will increase once new equip off warranty
KNOWLEDGELAKE INC.					10,790.00	Replacement for "Treev" and "Ceyoniq"
NATIONAL CITY	3,941.43	979.05	1,042.91	3,841.90	1,126.78	Predecessor to "BB&T"
ORCOM SOLUTIONS INC	30,759.40	24,454.36	24,317.85	30,305.91	31,662.56	
PC SYSTEMS OF KENTUCKY INC	<b>1,647.97</b>	<b>615.53</b>				(a)
POWERWARE	1,418.61	570.00	610.00	610.00		(a)
ROE, LARRY K					<b>4,095.00</b>	(a)
SOFTWARE INFORMATION SYSTEMS INC	5,062.72					
SOURCE IMAGING LLC					<b>42,403.81</b>	(a)
TREEV LLC		7,713.93			7,204.30	Replaced by "KnowledgeLake"
UTILITY SOLUTIONS LLC					<b>5,460.00</b>	(a)
<b>Total Detailed</b>	<b>132,706.07</b>	<b>115,292.56</b>	<b>158,669.55</b>	<b>171,328.60</b>	<b>197,675.39</b>	

Expenditures for Special Projects (a)'s

10,165.53

3,648.27

10,817.92

8,141.12

72,174.12

In accordance with the November 2002 management audit report, Delta began utilizing service providers more and has committed to the PSC to continue to do so. As a result, in January 2004, the PSC closed the management recommendation B.2.3 relating to Delta's reluctance to outsource. Delta plans to continue to outsource at 2003 levels.

THIRD PSC DATA REQUEST  
DATED 6/9/04

**Total recorded in accounts**  
Account 1.923.05 Outside Services  
Account 1.932.05 Maintenance

56,406.14	69,567.72	96,166.98	115,720.92	155,951.20
78,776.01	47,467.76	63,434.25	57,906.25	48,214.66
135,182.15	117,035.48	159,601.23	173,627.17	204,165.86



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

20. Refer to Delta's Response to the Staff's Second Request, Item 40. For each employee benefit, provide the following information regarding costs:
- a. Premiums and/or costs as of test-year end.
  - b. Indicate if any premiums and/or costs changed during the test year, the amount of the change, and the date of the change.
  - c. Indicate if any premiums and/or costs changed from January 1, 2004 through March 31, 2004, the amount of the change, and the date of the change.
  - d. For any employee benefit premium and/or cost that changed during the test year, explain why Delta did not propose to normalize the expense.
  - e. For any employee benefit premium and/or cost that changed from January 1, 2004 through March 31, 2004, explain why Delta did not propose to normalize the expense.

**RESPONSE:**

- a. Refer to PSC First Data Request, Item 46
- b. See attached.
- c. See attached.
- d.&e. On an overall basis, Delta considers test year expenses to be representative for rate making purposes. The response to AG 1 – 9 lists pension expense and 401K employee savings plan expense as abnormal bookings during the test year. Employee benefit expense is understated a total of \$252,233 as a result of this analysis. As explained in PSC 2 -40, Delta is self-insured for the Health Benefit Plan. Therefore, the level of cost reflects claim activity.

**SPONSORING WITNESS:**

John B. Brown

DELTA NATURAL GAS COMPANY INC.  
CASE NO. 2004-00067  
PSC THIRD DATA REQUEST

Item 20 (b)

Line No.		<u>2003</u>	<u>2002</u>	<u>Change</u>
1				
2	Health Benefit Plan	\$ 1,119,300	\$ 1,032,492	\$ 86,808
3	Sick Leave & Salary Continuation	\$ 105,738	\$ 91,778	\$ 13,960
4	Employee Stock Plan	\$ 55,765	\$ 52,684	\$ 3,081
5	Defined Benefit Retirement Plan	\$ 497,034	\$ 615,380	\$ (118,346)
6	Employee Education	\$ 1,552	\$ -	\$ 1,552
7	401K Employee Savings Plan	\$ 132,894	\$ 170,244	\$ (37,350)
8	Employee Recreation & Social	<u>\$ 6,734</u>	<u>\$ 5,229</u>	\$ 1,505
9				
10		\$ 1,919,017	\$ 1,967,807	



Delta Natural Gas Company Inc  
Case No. 2004-00067  
PSC Third Data Request

Item 20 (c)

Line No.		<u>2004</u>	<u>2003</u>	<u>Change</u>
1				
2	Health Benefit Plan	\$ 177,345	\$ 242,597	\$ (65,252)
3	Sick Leave & Salary Continuation	\$ 27,242	\$ 26,915	\$ 327
4	Employee Stock Plan	\$ 14,786	\$ 13,349	\$ 1,437
5	Defined Benefit Retirement Plan	\$ 181,350	\$ 76,800	\$ 104,550
6	Employee Education	\$ -	\$ -	\$ -
7	401K Employee Savings Plan	\$ 54,790	\$ 31,471	\$ 23,319
8	Employee Recreation & Social	\$ (100)	\$ -	\$ (100)
9			\$ -	
10		\$ 455,413	\$ 391,132	



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

Page 1 of 2

21. Refer to Delta's Response to AG's First Data Request, Item 42. For each of the items listed below, explain why the expense should be included for rate-making purposes:
- a. Line No. 5 – Bath County News Outlook.
  - b. Line No. 31 – Junior Achievement of the Bluegrass.
  - c. Line No. 35 – London-Laurel County.
  - d. Line No. 42 – Myron Corporation.
  - e. Line No. 45 – Newton Manufacturing Company.
  - f. Line No. 49 – Richmond Register.

**RESPONSE:**

- a. Line No. 5 – Bath County News Outlook

This cost is for advertisement for customer and public information in compliance with requirements of the DOT (Department of Transportation) 192.614, Damage Prevention Program, as noted in Delta's Response to AG's First Data Request, Item 42, see "Description" and "Purpose" columns. This program protects the utility pipelines and property underground from anyone who may be doing excavation or digging near pipelines.

- b. Line No. 31 – Junior Achievement of the Bluegrass

Educating students about the natural gas industry is a part of customer and public information. Delta joins other organizations in supporting the Junior Achievement Program in educating students about our business.

- c. Line No. 35 – London-Laurel County

This cost is for public informational purposes and is Delta's portion of the cost in providing a sign for the London-Laurel County Industrial Park to assist in economic development.

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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

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d. Line No. 42 – Myron Corporation

This cost is for planners imprinted with Delta name for industrial customers.

e. Line No. 45 – Newton Manufacturing Company

This is information for Delta's customers on a calendar that is imprinted with emergency contact numbers to give to customers. The calendar is small with stick-on back for easy access.

f. Line No. 49 – Richmond Register

This cost is for customer relations for a book placed in various places in the Berea area relating to tourism, shops, etc.

**SPONSORING WITNESS:**

John F. Hall



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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

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22. Refer to Delta's Response to AG's First Data Request, Item 45, part (a). For each item listed below, provide a detailed description of the expense and explain why the expense should be included for rate-making purposes:
- a. Check No. 213725 – ARMA International.
  - b. Check No. 212155 – Boonesboro Lions Club.
  - c. Check No. 214857 – Glenn R. Jennings.
  - d. Check No. 214929 – NACE International.
  - e. Check No. 216453 – Stanton Woman's Club.
  - f. Check No. 215708 – Owingsville Kiwanis Club.
  - g. Check No. 200771 – Kentucky Industrial Liaison.

**RESPONSE:**

- a. Check No. 213725 – ARMA International  
ARMA – American Records Management Association  
This organization is to give support and provide information for maintaining records of the company. It is a networking tool for Delta to share and stay abreast of electronic data storage technology.
- b. Check No. 212155 – Boonesboro Lions Club – Employee membership to develop public relations.
- c. Check No. 214856 – Glenn R. Jennings  
Membership in the Lexington Club is used for business meetings, including meetings with Board of Directors.
- d. Check No. 214929 – NACE International  
Membership in NACE – National Association of Corrosion Engineers – Members are required to take training and testing to be eligible for membership.

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

**THIRD PSC DATA REQUEST  
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- e. Check No. 216453 – Stanton Woman’s Club – Employee membership to develop public relations.
- f. Check No. 215708 – Owingsville Kiwanis Club – Employee membership to develop public relations.
- g. Check No. 200771 – Kentucky Industrial Liaison – Membership is to provide information on the latest EEOC (Equal Employment Opportunity Commission) regulations.

SPONSORING WITNESS:

John F. Hall





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

**THIRD PSC DATA REQUEST  
DATED 6/09/04**

23. Refer to Delta's Response to AG's First Data Request, Item 45, part (b). The note on line 23 of the response indicates that \$264 was a spousal expense. Provide a detailed description of the expense and explain why this expense should be included for rate-making purposes.

**RESPONSE:**

The expense of \$264 was for airfare to San Antonio, Texas to SGA (Southern Gas Association) Board Conference for the spouse of the President, Glenn Jennings. The practice is common and accepted for spouses to participate from time to time, and Mr. Jennings' spouse occasionally participates in such industry meetings. This was the only spousal expense Delta incurred for the test year 2003.

**SPONSORING WITNESS:**

John F. Hall



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

**THIRD PSC DATA REQUEST**  
**DATED 6/09/04**

24. Refer to Delta's Response to AG's First Data Request, Item 45, part (c). For each item listed below, provide a detailed description of the expense and explain why it should be included for rate-making purposes:
- a. Lines 65, 86, 232, 258, 284, 285, 295, 302, and 351 – Robert Hazelrigg.
  - b. Lines 99 and 288 – Office Coffee Systems.
  - c. Lines 162, 216, 248, 251, and 321 – BB&T Bankcard Corporation.

**RESPONSE:**

- a. Total amount of items questions equal \$542.81. Bob Hazelrigg's expenses of \$259.84 for meals related to lobbying expenses reported on Delta's Response to the PSC Second Data Request Item 37. The remainder amount is \$282.97.

- b. Lines 99 and 288 – Office Coffee Systems

Tickets used for entertainment for customers and associates.

- c. Lines 162, 261, 251, 321 – BB&T Bankcard Corporation

The description of the above lines is for "meals" incurred when Bob Hazelrigg attended conferences relating to regulatory matters. Some meal expenses are shared with other utilities for these conferences. Please refer to delta's Response to AG's First Data Request, Item 45, part (c) column labeled "Reason" for detail of expenses.

Line 248 – BB&T Bankcard Corporation

This charge is for greens fees related to a meeting involving Glenn Jennings and Michael Whitley, members of Delta's board of directors.

**SPONSORING WITNESS:**

John F. Hall



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

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25. Would Delta agree that as part of its proposed increase in revenues there should also be a corresponding adjustment to its PSC Assessment, which reflects the most current assessment rate? Explain the response.

**RESPONSE:**

Yes. The PSC assessment is based on revenues thus, an increase in revenues would produce an increase in expenses. At the current rate of 1.823 cents per \$1,000 would produce \$7,798 of additional expenses ( $\$4,277,431 \times .001823 = \$7,798$ ).

**SPONSORING WITNESS:**

John F. Hall