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PUBLIC SERVICE  
COMMISSION

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**APPLICATION OF DELTA NATURAL GAS  
COMPANY, INC. FOR AN ADJUSTMENT  
OF RATES**

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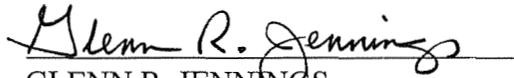
**CASE NO. 2007-00089**

**DIRECT TESTIMONY OF  
  
GLENN R. JENNINGS  
  
IN SUPPORT OF SETTLEMENT**

**AFFIDAVIT**

The affiant, Glenn R. Jennings, being duly sworn, deposes and states that the prepared direct testimony attached hereto and made a part hereof, constitutes the prepared direct testimony of this affiant in support of the settlement in Case No. 2007-00089 in the Matter of: Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates and that if asked the questions propounded therein, this affiant would make the answers set forth in the attached prepared direct testimony.

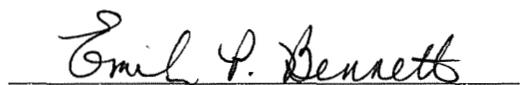
Affiant further states that he will be present and available for cross-examination and for such additional examination as may be appropriate at the hearing on October 3, 2007 in Case No. 2007-00089 scheduled by the Commission, at which time affiant will further reaffirm the attached prepared direct testimony as his direct testimony in such case.

  
\_\_\_\_\_  
GLENN R. JENNINGS

STATE OF KENTUCKY            )  
  )  
COUNTY OF CLARK            )

Subscribed and sworn to before me by Glenn R. Jennings, this the 25<sup>th</sup> day of September, 2007.

My Commission Expires: 6/20/2008

  
\_\_\_\_\_  
Notary Public, State at Large, Kentucky

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. Glenn R. Jennings, Delta Natural Gas Company, Inc., 3617 Lexington Road, Winchester,  
3 Kentucky 40391.

4  
5 **Q. WHAT IS YOUR PRESENT EMPLOYMENT?**

6 A. I am presently employed as Chairman of the Board, President and Chief Executive  
7 Officer of Delta Natural Gas Company, Inc.

8  
9 **Q. DID YOU PREVIOUSLY FILE TESTIMONY ON BEHALF OF DELTA IN THIS**  
10 **RATE PROCEEDING?**

11 A. Yes. My direct testimony was filed on April 20, 2007 in connection with Delta's rate  
12 application filed on that date.

13  
14 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

15 A. This testimony provides support for the Settlement Agreement, Stipulation and  
16 Recommendation ("Settlement") entered into on September 25, 2007 by Delta and the  
17 Kentucky Attorney General. A copy of the Settlement with attachments is provided with  
18 this testimony.

19  
20 **Q. PLEASE BRIEFLY DESCRIBE THE TERMS OF THE SETTLEMENT.**

21 A. The Settlement, offered to the Kentucky Public Service Commission ("Commission") for  
22 its consideration and approval, permits Delta to adjust its rates to recover an additional  
23 \$3,920,000 of annual revenues, compared to current rates and charges, beginning with

1 service on and after October 20, 2007. In conjunction with the Settlement, Delta's  
2 proposals for an Experimental Customer Rate Stabilization ("CRS") Mechanism and a  
3 Conservation/Efficiency Program ("CEP") were withdrawn from this Case. Delta and the  
4 Attorney General have agreed that Delta may, at its option, institute a proceeding with the  
5 Commission for a demand side management program that would consider the provisions  
6 of Delta's CEP proposed in this rate case, and the Attorney General has agreed to  
7 participate in good faith in collaborative meetings to develop and implement such a  
8 program.

9  
10 Delta and the Attorney General agreed in the Settlement that for settlement purposes the  
11 return on equity was 10.5%.

12  
13 The reduction in revenues from the amount requested by Delta in this case is reflected in  
14 the proposed rates by adjusting for all of the decrease through the residential customer  
15 charge. There was minor rounding in the customer charge with a corresponding offset in  
16 the per CCF charges, so that the revenue increase would come as close as possible to the  
17 agreed to revenue increase. All other rates proposed by Delta were accepted and are  
18 reflected in the Tariffs attached to the Settlement as Appendix A. This includes  
19 converting Delta's rates and tariffs to a CCF basis.

20  
21 **Q. PLEASE DESCRIBE THE ATTACHMENTS TO THE SETTLEMENT.**

22 A. Attached to the Settlement are a complete set of tariff sheets reflecting the revenues  
23 agreed to in the Settlement, a revenue analysis detailing the revenue increase by customer

1 class and a depreciation rate schedule. These attachments are considered as a part of the  
2 Settlement and have been agreed to by both Delta and the Attorney General.

3  
4 **Q. PLEASE DESCRIBE THE ATTACHED TARIFFS.**

5 A. As a part of the Settlement, Delta and the Attorney General have agreed upon the tariffs  
6 attached hereto. The tariffs reflect the withdrawal of the proposed CRS mechanism and  
7 the proposed CEP. The rates proposed in accordance with the Settlement are included for  
8 each tariff service.

9  
10 Other than the changes to rates and the withdrawn mechanisms referenced above, all  
11 other tariff changes proposed by Delta are included in the proposed Settlement tariffs.

12  
13 **Q. FOR AFFECTED TARIFF SHEETS, WHAT GAS COST RECOVERY (“GCR”)  
14 DID DELTA UTILIZE FOR THESE EXHIBITS?**

15 A. At the time of development of the proposed Settlement tariff sheets, the most recent  
16 approved GCR was the GCR approved by the Commission Order dated July 23, 2007 in  
17 Case No. 2007-00244 and effective July 24, 2007. Thus the proposed tariff sheets  
18 attached to the Settlement reflect this GCR. Delta has filed its next quarterly GCR  
19 proposed to be effective on October 24, 2007 and this filing is under review by the  
20 Commission Staff at this time. It is expected that the pending GCR filing will be  
21 approved and be effective after the proposed Settlement tariffs and we will thus later  
22 reflect the pending GCR rates when they become effective, consistent with current  
23 practice, by revising the affected tariff pages when appropriate.

1 **Q. PLEASE DESCRIBE THE DEPRECIATION SCHEDULES PROVIDED IN THE**  
2 **SETTLEMENT ATTACHMENTS.**

3 A. In order to document depreciation rates going forward, the Settlement includes an  
4 attachment detailing the agreed to depreciation, cost of removal and salvage rates for all  
5 plant accounts. Although rates are set for each plant category, these Settlement rates do  
6 not represent a concession of the respective positions asserted by Delta or the Attorney  
7 General. The stated depreciation rates represent, in aggregate, a mutually satisfactory  
8 resolution in conjunction with the Settlement.

9

10 **Q. PLEASE DESCRIBE THE SETTLEMENT ATTACHMENT LABELED**  
11 **“SUMMARY OF RATE INCREASE BY RATE CLASS”.**

12 A. As a part of the Settlement, Delta and the Attorney General have agreed upon the  
13 referenced Attachment, which details the rate design and validation of the rate adjustment  
14 of \$3.92 million. Page 1 of the Attachment provides an overview of the present and  
15 proposed revenues by service type. The total increase shown in column (8) equals  
16 \$3,918,261. Pages 2 through 17 provide additional information regarding the impact of  
17 the proposed rate changes for each customer class.

18

19 **Q. DOES THE SETTLEMENT INCLUDE INCREASED CHARGES ASSOCIATED**  
20 **WITH SPECIAL SERVICE CHARGES AS PROPOSED BY DELTA IN ITS**  
21 **APPLICATION?**

22 A. Yes. Revenues associated with these special charges are included in Delta’s Application  
23 and are reflected on page 17 of this Attachment.

1

2 **Q. HAS DELTA PROVIDED PUBLIC NOTICE OF THE HEARING IN THIS CASE,**  
3 **SCHEDULED TO BEGIN ON OCTOBER 3, 2007?**

4 A. Yes. Delta has provided such Public Notice in newspapers throughout its service area.  
5 Affidavits demonstrating the publications are being gathered at this time and will be  
6 submitted to the Commission when the complete documentation has been compiled.

7

8 **Q. ARE THERE ANY OTHER MATTERS YOU WISH TO ADDRESS AT THIS**  
9 **TIME?**

10 A. Yes. Delta respectfully requests that the Commission address the amortization of rate case  
11 expenses, as set forth in the Settlement, and allow such expenses to be amortized over a  
12 three year period in its Final Order in this case.

13

14 Also, in closing, please note that Delta and the Attorney General have expended  
15 considerable effort to reach the terms that form the basis of the Settlement. The parties  
16 agree that this Settlement is reasonable, produces rates that are fair, and is in the best  
17 interests of all concerned. Together, we submit the Settlement for the consideration of  
18 the Commission and urge that the terms be approved in its entirety.

19

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

21 A. Yes