



Steven L. Beshear
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David L. Armstrong
Chairman

James Gardner
Vice-Chairman

John W. Clay
Commissioner

July 18, 2008

John B. Brown
Chief Financial Officer, Treasurer &
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

CERTIFICATE OF SERVICE

RE: Case No. 2008-00062
Delta Natural Gas Company, Inc.

I, Stephanie Stumbo, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on July 18, 2008.

A handwritten signature in cursive script that reads "Stephanie Stumbo".

Executive Director

SS/rs
Enclosure



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Honorable Dennis G. Howard II
Assistant Attorney General
Office of the Attorney General Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

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Honorable Robert M. Watt, III
Attorney At Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KY 40507-1801

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DELTA NATURAL GAS)
COMPANY, INC. FOR APPROVAL OF A)
CUSTOMER CONSERVATION/ EFFICIENCY) CASE NO. 2008-00062
PROGRAM AND DEMAND SIDE MANAGEMENT)
COST RECOVERY MECHANISM)

O R D E R

On February 20, 2008, Delta Natural Gas Company, Inc. ("Delta") petitioned the Commission for approval of a Customer Conservation/Efficiency Program and its related Demand-Side Management ("DSM") cost recovery tariff. The proposal incorporates already existing DSM programs and adds a new rebate program. The Office of the Attorney General ("AG") through his Office of Rate Intervention was granted intervention in this case.

Delta currently has only one tariffed DSM program, although it has been offering an additional untariffed DSM program for several years. The currently tariffed DSM program is a Home Energy Assistance ("HEA") program which collects 20 cents per month from residential customers to fund a bill credit for qualifying low income residential customers.¹ Delta's non-tariffed program, which it proposes to continue, provides a home energy audit for residential customers at no cost. The audit personnel review the dwelling's usage history, check filters and air registers, and check for

¹ Case No. 2005-00464, The Tariff Filing of Delta Natural Gas Company, Inc. to Establish an Energy Assistance Program Rider Surcharge, Order dated February 1, 2006.

proper insulation and seals with a thermal imaging camera. The customer will receive a kit which includes caulk, switch plate and outlet gaskets, electrical outlet plugs and weather stripping. Delta is now proposing to expand its DSM program beyond these two programs by including rebate incentives for the installation of high-efficiency natural gas appliances in new construction and for upgrading existing appliances to more efficient ones. The rebates will be based on the difference in cost between a high-efficiency unit and a standard unit. Rebates will be offered as follows:

Forced Air Furnace	\$400
Dual Fuel Furnace	\$300
Space Heater	\$100
Gas Logs	\$100
Gas Fireplace	\$100
High Efficiency Water Heater	\$200
Power Vent Water Heater	\$250
On Demand Water Heater	\$300

Delta will recover the cost of the program from residential customers through a DSM surcharge which will appear on the bill as a separate line item. The surcharge has four components: (1) Conservation/Efficiency Program Cost Recovery (“CEPCR”) which includes all actual direct and indirect costs;² (2) Conservation/Efficiency Program Revenue from Lost Sales (“CEPLS”), which recovers the revenue Delta would have received if its customer had not reduced usage; (3) Conservation/Efficiency Program Incentive (“CEPI”), which collects 15 percent of the net resource savings and is allowed under KRS 278.285(2)(b); and (4) a Conservation/Efficiency Program Balance

² Direct costs include rebates, cost of energy audit supplies and advertising. Indirect costs include the costs of planning, developing, implementing, monitoring and evaluating the programs.

Adjustment (“CEPBA”), which trues up any difference between actual costs and the amount collected under the mechanism. The resulting formula is:

$$\text{Surcharge} = \text{CEPCR} + \text{CEPLS} + \text{CEPI} + \text{CEPBA}$$

This mechanism is similar to those implemented by other Kentucky natural gas distribution companies. As part of its request, Delta proposes to amortize the cost of the development and approval of the program over three years, beginning with the date of Commission approval. Delta will not be deferring these costs for future rate recovery and is only seeking Commission confirmation of the accounting treatment.³ The Commission finds that Delta’s request to amortize its development and approval costs over three years is reasonable for accounting purposes only and should be approved.

Delta’s DSM programs target residential customers, who make up 86 percent of Delta’s total customers. Delta’s gas costs are some of the highest in Kentucky; as of June 1, 2008, Delta had the second-highest approved gas cost adjustment in the state.⁴ These programs will help participants to lower energy usage and thereby lower the total bill, especially during the winter months.

To review the impact of the proposed program on itself and its residential customers, Delta performed the “California Tests.”⁵ Delta’s ratios were all greater than one, indicating that the programs will not place any undue financial burden on the

³ Delta response to First Data Request of Commission Staff, Item 2(a).

⁴ Case No. 2008-00102, Notice of Purchased Gas Adjustment Filing of Delta Natural Gas Company, Inc., Order dated April 14, 2008.

⁵ The California Tests are four mathematical measures of the cost-effectiveness of DSM programs developed by the California Public Utilities Commission. The tests calculate benefit-cost ratios for the participant, the ratepayers, total resources and the program administrator. If the ratio is greater than one, then the program is considered to be cost-effective.

ratepayers or Delta. The Commission, therefore, finds that Delta's proposed Customer Conservation/Efficiency Program and its related Demand-Side Management ("DSM") cost recovery tariff should be approved.

IT IS THEREFORE ORDERED that:

1. Delta's proposed Customer Conservation/Efficiency Program and its related Demand-Side Management ("DSM") cost recovery tariff are approved.

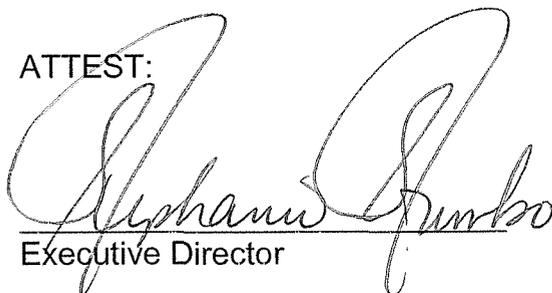
2. Delta's request to amortize its development and approval costs over three years is approved.

3. Delta shall file, within 20 days of the date of this Order, its revised tariff sheets setting out the changes approved herein, showing their date of issue and that they were issued by authority of this Order.

Done at Frankfort, Kentucky, this 18th day of July, 2008.

By the Commission

ATTEST:


Executive Director