Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, Kentucky 40391-9797

PHONE: 859-744-6171
FAX: 859-744-3623

DGAS NASDAQ LISTED

March 27, 2009

Mr. Jeff Derouen
Executive Director
Public Service Commission
P O Box 615
Frankfort, KY 40602-0615

RE: CASE NO. 2008-00408

Dear Mr. Derouen:

Enclosed are the original and ten copies of Delta's response to the Initial Data Request of the Commission Staff in the above styled case. Delta's response is on behalf of Delta only. Atmos Energy Corporation and Columbia Gas of Kentucky, Inc. plan to file their own separate responses. Thus, there will be no joint LDC response.

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

Sincerely,

Connie King

Connie King
Manager – Corporate & Employee Services

cc: All Parties of Record

Parties of Record for Service

Allen Anderson
Manager
South Kentucky R.E.C.C.
P. O. Box 910
Somerset, KY 42502-0910

Mark Bailey
President/CEO
Big Rivers Electric Corporation
201 Third Street
P. O. Box 24
Henderson, KY 42420

Daniel W. Brewer
President and CEO
Blue Grass Energy Cooperative Corp.
P. O. Box 990
1201 Lexington Road
Nicholasville, KY 40340-0990

Sharon K. Carson
Finance & Accounting Manager
Jackson Energy Cooperative
115 Jackson Energy Lane
McKee, KY 40447

Paul G. Embs
President & CEO
Clark Energy Cooperative, Inc.
P. O. Box 748
2640 Ironworks Road
Winchester, KY 40392-0748

Ted Hampton
Manager
Cumberland Valley Electric, Inc.
Highway 25E, P. O. Box 440
Gray, KY 40734

Todd Arnold
Duke Energy Kentucky, Inc.
139 East Fourth Street
Cincinnati, OH 45202

Lonnie E. Bellar
Vice President – State Regulation
Kentucky Utilities Company/LG&E
220 W. Main Street
P. O. Box 32010
Louisville, KY 40202

Jack Conway, Attorney General
Dennis G. Howard, II
Lawrence W. Cook
Paul D. Adams
Assistant Attorneys General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Judy Cooper
Manager, Regulatory Services
Columbia Gas of Kentucky, Inc.
2001 Mercer Road
P. O. Box 14241
Lexington, KY 40512-4241

Carol H. Fraley
President and CEO
Grayson R.E.C.C.
109 Bagby Park
Grayson, KY 41143

Larry Hicks
General Manager
Salt River Electric Cooperative Corp.
111 West Brashear Avenue
P. O. Box 609
Bardstown, KY 40004

Robert Hood
President/CEO
Owen Electric Cooperative, Inc.
8205 Highway 127 North
P. O. Box 400
Owenton, KY 40359

James J. Jacobus, President/CEO
Inter-County Energy Cooperative Corp.
1009 Hustonville Road
P. O. Box 87
Danville, KY 40423-0087

Mark Martin
Atmos Energy Corporation
2401 New Hartford Road
Owensboro, KY 42303-1312

Robert Marshall
President/CEO
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P. O. Box 707
Winchester, KY 40392-0707

Burns E. Mercer
Manager
Meade County R.E.C.C.
P. O. Box 489
Brandenburg, KY 40108-0489

Debbie Martin
President and CEO
Shelby Energy Cooperative, Inc.
620 Old Finchville Road
Shelbyville, KY 40065

Timothy C. Mosher
President – Kentucky Power
American Electric Power
101A Enterprise Drive
P. O. Box 5190
Frankfort, KY 40602

Michael L. Miller
President & CEO
Nolin R.E.C.C.
411 Ring Road
Elizabethtown, KY 42701-8701

Sanford Novick
President and CEO
Kenergy Corp.
3111 Fairview Drive
P. O. Box 1389
Owensboro, KY 42302

Barry L. Myers
Manager
Taylor County R.E.C.C.
100 West Main Street
P. O. Box 100
Campbellsville, KY 47219

Christopher S. Perry
President & CEO
Fleming-Mason Energy Cooperative
P. O. Box 328
Flemingsburg, KY 41041

G. Kelly Nuckols
President & CEO
Jackson Purchase Energy Corp.
2900 Irvin Cobb Drive
P. O. Box 4030
Paducah, KY 42002-4030

Trent Bowers
Trilliant Inc.
Senior VP – Technology
5625 Copper Creek Pass
Cumming, GA 30040

Bill Prather
Farmers R.E.C.C.
504 South Broadway
P. O. Box 1298
Glasgow, KY 42141-1298

Kerry K. Howard
General Manager/CEO
Licking Valley R.E.C.C.
P. O. Box 605
271 Main Street
West Liberty, KY 41472

Bobby D. Sexton
President/General Manager
Big Sandy R.E.C.C.
504 11th Street
Paintsville, KY 41240-1422

David F. Boehm
Kentucky Industrial Utility Customers
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
MAR 30 2009
PUBLIC SERVICE COMMISSION

In the Matter of:

CONSIDERATION OF THE NEW FEDERAL STANDARDS OF THE ENERGY INDEPENDENCE AND SECURITY ACT OF 2007	)))	**CASE NO. 2008-00408**

CERTIFICATION

The undersigned, Glenn R. Jennings, states that he is Chairman of the Board, President and Chief Executive Officer of Delta Natural Gas Company, Inc., a corporation, ("Delta") and certifies that he prepared the responses to the Initial Data Request of Commission Staff to Delta herein and that the responses are true and accurate to the best of the undersigned's knowledge, information and belief formed after a reasonable inquiry.

Dated this 27th day of March, 2009.

Glenn R. Jennings

Glenn R. Jennings

96. With reference to page 2, lines 14 through 23, and page 3, lines 1 through 6, of the Joint Direct Testimony of Glenn R. Jennings ("Joint Testimony"), address the following:

a. Explain how separating fixed-cost recovery of base or delivery charges from the volume of sales is a move toward decoupling.

b. Identify the amount and percentage increase in the residential customer charge requested in the last rate case.

c. Identify the amount and percent increase in the residential customer charge granted in the last rate case.

d. Identify the amount and percent increase in the residential customer charge identified in the utility's most recent cost of service study.

e. Describe how the current rate designs promote energy efficiency. Identify each such rate design. Identify the annual Mcfs or Btus that the utility estimates are displaced by each rate design.

RESPONSE:

a. The shift in Delta's last rate case, Case No. 2007-00089, in revenue recovery resulted in a significant portion of the additional revenues allowed in the case to be collected in the residential monthly customer charge. This was based upon moving toward, although not all the way to, the cost-of-service study allocation of costs to be recovered monthly instead of volumetrically. Thus, Delta's residential monthly customer charge was increased in that rate case from $9.80 to $15.30. Decoupling is separating revenue recovery from sales volumes, so that revenues are decoupled or separated from dependence on volumes. This movement to a higher monthly customer charge was a move toward further decoupling of revenues from volumes than existed before the completion of that case.

b. Case No. 2007-00089 requested increasing the residential monthly customer charge from $9.80 to $19.74, a proposed increase in the monthly customer charge of $9.94 or 101%.

c. Case No. 2007-00089 granted an increase in the residential monthly customer charge from $9.80 to $15.30, an increase of $5.50 or 56%.

d. Delta's cost-of service study in Case No. 2007-00089 indicated that fully allocating the customer-related costs would require a residential monthly customer charge of $24.16. Based upon Delta's testimony in that case, adopting a straight-fixed-variable rate design and fully allocating both customer-related and demand-related non-gas fixed costs would require a monthly customer charge of $38.94.

e. Delta's current rate design has an increased monthly customer charge which thus recovers more of our fixed cost regardless of volumes or weather. This helps align Delta's and our customers' interests if customers use less gas through conservation efforts and efficiency gains as revenues are not as dependent on sales volumes. But, since not all fixed costs are recovered through our monthly customer charge and a significant portion still is recovered in our volumetric charge, there is incentive for customers to save on their bills through conservation and efficiency efforts. Regardless of the method of recovering fixed costs, there is continued incentive for customers to reduce usage through conservation and efficiency efforts as the commodity charges typically represent about 75% of the volumetric charges on a residential customer's bill.

   Delta is not able to identify specific annual Mcf or Btu estimates displaced by these designs.

Responding Witness:
Glenn R. Jennings

97. With reference to page 3, lines 7 through 23, and page 4, lines 1 through 12, of the Joint Testimony, address the following:

a. Explain in detail how "Rate Stabilization" or an "Annual Rate Review mechanism" will promote energy efficiency.

b. If the utility believes that "Rate Stabilization" or an "Annual Rate Review mechanism" will promote energy efficiency, identify the annual amount and percent of Mcfs or Btus the utility estimates such mechanisms will displace.

c. Describe in detail what would be required to decouple base rate revenues from sales volumes by placing recovery of fixed costs entirely in the monthly customer charge.

d. Describe how weather normalization encourages the Joint LDCs to promote energy efficiency.

RESPONSE:

a. Rate Stabilization or an Annual Rate Review Mechanism will adjust rates annually to reflect changes in consumption patterns, expenses and investments. Rates will be kept current, either by increasing or decreasing them, to reflect the changing costs of service. Delta and its customers interests will be aligned more closely as Delta will have an incentive to promote conservation and efficiency without being penalized since changes in consumption by customers can be more easily and inexpensively reflected in rates as rates are kept current on an annual basis. Customers being encouraged by their utility provider to conserve or utilize efficiency improvements should lead customers to use less.

b. Delta does not have knowledge of annual amounts and percents of Mcfs or Btus such mechanisms will replace.

c. The monthly customer charge would have to increase to reflect fully allocated costs so that all fixed costs, both customer-related and demand-related, would be included in the monthly customer charge. The cost of service study in

Delta's last rate case indicated that to do so the monthly customer charge should increase. See Delta's response herein to question 96(d).

Decoupling only addresses recovery of costs in the monthly customer charge revenues instead of volumetric revenues. The monthly customer charge would still need to be periodically adjusted to reflect increases or decreases in costs. This would have to be done either through expensive rate cases or more preferably through less expensive annual rate review mechanisms as discussed in Delta's response to question 97(a) herein.

d. Delta's weather normalization tariff adjusts billings to reflect weather that is either warmer or colder than thirty-year average weather. The operation of this tariff lessens the impact of weather variations on customers and the LDCs and can thus help to encourage the LDCs to some degree to develop some programs and procedures to promote energy conservation and efficiency by customers. However, it does not provide an incentive to LDCs to promote conservation and efficiency to the extent the LDCs are recovering their fixed costs through volumetric charges.

Responding Witness:
Glenn R. Jennings

98. With reference to the Joint LDCs discussion of decoupling, address the following:

a. Current literature describes a myriad of decoupling mechanisms. If applicable, describe specifically the form of decoupling the Joint LDCs support.

b. Explain how the decoupling form supported by the Joint LDCs differs from the recovery of fixed costs entirely from per-unit fixed rates.

RESPONSE:

a. Delta views full decoupling as moving to a straight-fixed-variable rate design that fully allocates both customer-related and demand-related non-gas fixed costs to the monthly customer charge. That would result in an increase in the monthly customer charge and a decrease in the volumetric non-gas component of Delta's residential rate. This would need to be accompanied by either periodic expensive rate cases to adjust for investments and cost increases or decreases in the future, or more preferably by some form of a less expensive annual rate review mechanism. Combining the annual rate review mechanism with decoupling would accomplish aligning LDC and customer interests and would keep rates current at a minimum of expense.

b. See Delta's response to question 98(a) herein.

Responding Witness:
Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2008-00408

INITIAL DATA REQUEST OF COMMISSION STAFF
DATED MARCH 16, 2009

100. With reference to the new PURPA Standards of EISA 2007, Section 532(b)(6)(B)(ii), referring to the provision of incentives for the successful management of energy efficiency programs, identify and describe any incentive the Joint LDCs believe is needed in addition to those authorized by the DSM statute, KRS 278.285.

RESPONSE:

See Delta's response to question 99 herein. Delta's incentive portion of our DSM program referenced in that response is relatively new to us. We need to operate under that program longer to be able to further evaluate the incentives and their effectiveness before we could propose any further incentives. We propose no further incentives or changes at this time either to our DSM tariffs or to KRS 278.285.

Responding Witness:
Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2008-00408

INITIAL DATA REQUEST OF COMMISSION STAFF
DATED MARCH 16, 2009

101. Explain in detail how the utility treats energy efficiency as a priority resource. Identify and describe any goals the utility has developed in terms of Mcf or Btus displaced.

RESPONSE:

Delta has long pursued alternate rate setting procedures to help us be able to promote energy efficiency and conservation. We proposed in a prior rate case several years ago an annual rate adjustment mechanism similar to that in use in Alabama. We were unsuccessful in obtaining approval at that time. Such a mechanism would allow us to promote conservation and efficiency by our customers. We continued to demonstrate our commitment to such rate adjustment mechanisms when we included in our last rate case, Case No. 2007-00089, an annual rate review tariff similar to that in use in South Carolina, as well as our DSM tariff proposal. We were not successful in including either of those in our tariffs at that time, but we then sought the DSM tariff separately and obtained approval for it in Case No. 2008-00062. Data filed in that case in support of our DSM tariff estimated annual savings for the first year of 40,289 Ccf. A copy of that tariff is attached as a part of Delta's response to question 102 herein. Delta encourages its customers to conserve through the DSM program. Now our priority in this regard is to have available an annual rate review mechanism that will allow us to further encourage customer conservation and efficiency. Since gas costs are a significant portion of the total rate, customers can benefit significantly from using less gas.

Responding Witness:
Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2008-00408

INITIAL DATA REQUEST OF COMMISSION STAFF
DATED MARCH 16, 2009

102. Identify all DSM programs offered by the utility. If appropriate, identify any programs offered that have not been specifically authorized by the Commission per KRS 278.285. Identify the annual Mcfs or Btus that the utility estimates are displaced by each program.

RESPONSE:

Delta's DSM tariff is attached. Data filed in our DSM filing, Case No. 2008-00062, estimated annual savings for the first year of 40,289 Ccf. We cannot at this point further identify any additional annual mcfs or btus estimated to be displaced. Our DSM program is new for us and more time under its operation will help us to better identify future impacts. Our program was approved by the Commission in Case No. 2008-00062.

Responding Witness:
Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.	FOR	All Service Areas
Name of Issuing Corporation	P.S.C. NO.	11
	Original	SHEET NO. 39
	CANCELLING P.S.C. NO.	
		SHEET NO.

CLASSIFICATION OF SERVICE

RATE SCHEDULES

CONSERVATION/EFFICIENCY PROGRAM COST RECOVERY APPLICABLE TO RESIDENTIAL RATE SCHEDULE

APPLICABILITY

Applicable within all areas served by Delta. See Tariff Sheet No. 17. This tariff applies to all gas sold by Delta under Delta's residential tariff (Tariff Sheet No. 2).

CONSERVATION/EFFICIENCY PROGRAM COST RECOVERY COMPONENT (CEPRC)

Delta's Conservation/Efficiency Program (the Program) is a demand-side management program established to promote conservation and the efficient use of natural gas by Delta's residential customers.

The prices to residential customers shall be increased monthly by an amount hereinafter described as the Conservation/Efficiency Program Cost Recovery Component (CEPRC), which allows Delta to recover costs associated with the Program.

DETERMINATION OF CEPRC

The Company shall file an annual report with the Commission which shall contain updated CEPRC rates at least thirty (30) days prior to the effective date of the new rates. The annual amount computed under the Conservation/Efficiency Program Cost Recovery Component shall be collected based on the CEPRC amount divided by the expected usage for the upcoming program year. For purposes of determining the CEPRC, the program year is defined as the twelve months ended October 31, with rates effective as of the following February 1. The amounts billed under the CEPRC will be computed solely on actual consumption.

The CEPCR is calculated using the following formula:

$$\mathbf{CEPRC = CEPCR + CEPLS + CEPI + CEPBA}$$

PUBLIC SERVICE COMMISSION OF KENTUCKY
EFFECTIVE
7/18/2008
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
By Stephanie Stumbo
Executive Director

DATE OF ISSUE July 25, 2008 DATE EFFECTIVE July 18, 2008

ISSUED BY Glenn R. Jennings TITLE ... rd ... in

Name of Officer

Issued by authority of an Order of the Public Service Commission in CASE NO. 2008-00062 DATED

DELTA NATURAL GAS COMPANY, INC.	FOR All Service Areas
Name of Issuing Corporation	P.S.C. NO. 11
	Original SHEET NO. 40
	CANCELLING P.S.C. NO.
	SHEET NO.

CLASSIFICATION OF SERVICE

RATE SCHEDULES

CONSERVATION/EFFICIENCY PROGRAM COST RECOVERY
APPLICABLE TO RESIDENTIAL RATE SCHEDULE

Whereby:

CEPCR = CONSERVATION/EFFICIENCY PROGRAM COST RECOVERY

The CEPCR shall include all actual costs which have been approved by the Commission for each twelve month period for conservation/efficiency programs of the Company "approved programs". Such program costs shall include the cost of planning, developing, implementing, monitoring, and evaluating CEP programs. In addition, all costs incurred including, but not limited to, costs for consultants, employees and administrative expenses, will be recovered through the CEPCR.

CEPLS = CEP REVENUE FROM LOST SALES

Revenues from lost sales due to CEP programs implemented on and after the effective date of this tariff will be recovered as follows:

The estimated reduction in customer usage (in Ccf) as a result of the approved programs for the previous twelve months shall be multiplied by the non-variable revenue requirement per Ccf for purposes of determining the lost revenue to be recovered hereunder. Non-variable revenue requirement is base rate charged to the applicable rate class under this tariff.

The aggregate lost revenues attributable to the program participant shall be divided by the estimated residential sales (in Ccf) for the upcoming twelve-month period to determine the applicable CEPLS surcharge.

Recovery of revenues from lost sales calculated for a twelve-month period shall be included in the CEPLS until the implementation of new base rates pursuant to a general rate case.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
7/18/2008
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
By Stephanie Stumbo
Executive Director

DATE OF ISSUE July 25, 2008 DATE EFFECTIVE July 18, 2008

ISSUED BY Glenn R. Jennings Glenn R. Jennings TITI ...rd

Name of Officer

Issued by authority of an Order of the Public Se... in

CASE NO. 2008-00062 DAT...

	FOR All Service Areas
	P.S.C. NO. 11
DELTA NATURAL GAS COMPANY, INC.	Original SHEET NO. 41
Name of Issuing Corporation	CANCELLING P.S.C. NO.
	SHEET NO.

CLASSIFICATION OF SERVICE
RATE SCHEDULES

CONSERVATION/EFFICIENCY PROGRAM COST RECOVERY
APPLICABLE TO RESIDENTIAL RATE SCHEDULE

Revenues collected hereunder are based on engineering estimates of energy savings, actual program participation and estimated sales for the upcoming twelve-month period. At the end of each such period, any difference between the lost revenues actually collected hereunder and the lost revenues determined after any revisions of the engineering estimates and actual program participation are accounted for shall be reconciled in future billings under the CEP Balance Adjustment (CEPBA) component.

CEPI = CEP INCENTIVE

For all Conservation/Efficiency Programs, the CEP incentive amount shall be computed by multiplying the net resource savings estimated from the approved programs times fifteen (15) percent. Net resource savings are defined as program benefits less utility program costs and participant costs where program benefits will be calculated on the basis of the present value of Delta's avoided commodity costs over the expected life of the program.

The CEP incentive amount shall be divided by the expected Ccf sales for the upcoming twelve month period to determine the CEPI. CEP incentive amounts will be assigned for recovery purposes to the rate classes whose programs created the incentive.

CEPBA = CEP BALANCE ADJUSTMENT

The CEPBA shall be calculated on a twelve month basis and is used to reconcile the difference between the amount of revenues actually billed through the CEPCR, CEPLS, CEPI and previous application of the CEPBA and the revenues which should have been billed.

The program has an October year-end with rates effective February 1.

The CEPBA is the sum of the following components:

- The amount estimated to be recovered during the current program year from February 1 through October 31 less actual recovery.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
7/18/2008
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
By Stephanie Stumbo
Executive Director

DATE OF ISSUE July 25, 2008 DATE EFFECTIVE July 18, 2008
ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE Chairman of the Board
Name of Officer
Issued by authority of an Order of the Public Service Commission of KY in
CASE NO. 2008-00062 DATED

DELTA NATURAL GAS COMPANY, INC.	FOR All Service Areas
Name of Issuing Corporation	P.S.C. NO. 11
	Original SHEET NO. 42
	CANCELLING P.S.C. NO.
	SHEET NO.

CLASSIFICATION OF SERVICE

RATE SCHEDULES

CONSERVATION/EFFICIENCY PROGRAM COST RECOVERY
APPLICABLE TO RESIDENTIAL RATE SCHEDULE

- The amount estimated to be recovered during the prior program year from November 1 through January 31 less actual recovery.

- The balance adjustment amounts determined on the basis of the above paragraphs (1) and (2) shall include interest to be calculated at a rate equal to the average of the "3-month Commercial Paper Rate" for the immediately preceding 12-month period.

The balance adjustment amounts, plus interest, shall be divided by the expected Ccf sales for the upcoming twelve-month period to determine the CEPBA for each rate class.

Modifications to CEPRC

The filing of modifications to the CEPRC which require changes in the CEPCR component shall be made at least two months prior to the beginning of the effective period for billing. Modifications to other components of the CEPRC shall be made at least thirty days prior to the effective period for billing. Each filing shall include the following information as applicable:

(1) A detailed description of each CEP program, the total cost of each program over the previous twelve month period and budgeted costs for the next program year, an analysis of expected resource savings, information concerning the specific CEP or efficiency measures to be installed, and any applicable studies which have been performed, as available.

(2) A statement setting forth the detailed calculation of the CEPCR, CEPLS, CEPI, CEPBA and CEPRC.

Each change in the CEPRC shall be placed into effect with bills rendered on and after the effective date of such change.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
7/18/2008
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
By Stephanie Stumbo
Executive Director

DATE OF ISSUE July 25, 2008 DATE EFFECTIVE July 18, 2008
ISSUED BY Glenn R. Jennings Glenn R. Jennings TITLE Chairman of the Board
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CASE NO. 2008-00062 DATED

120. The American Recovery and Reinvestment Act of 2009 ("Stimulus Bill") contains a number of spending and tax measures crafted to inject more aggregate demand into the nation's sagging economy. Some of these measures impact, among other things, energy infrastructure. Certain provisions of EISA 2007 have been amended to reflect the incentives enacted by the Stimulus Bill, particularly in the area of smart grid technology. Explain whether or not your opinion on smart grid investments has changed in light of these amendments.

RESPONSE:

Smart grid investments are directed more to the electric industry. This is an evolving area that the electric utilities are beginning to address. Smart grid technology has not been an LDC issue at this point.

Responding Witness:
Glenn R. Jennings