



Delta Natural Gas Company, Inc.



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April 24, 2009

RECEIVED

APR 28 2009

PUBLIC SERVICE
COMMISSION

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 Second 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

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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APR 28 2009

PUBLIC SERVICE
COMMISSION

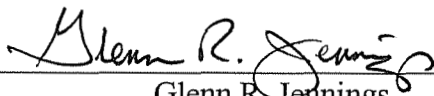
In the Matter of:

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

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 supervised the responses to the Second 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 24th day of April, 2009



Glenn R. Jennings

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

SECOND DATA REQUEST OF COMMISSION STAFF
DATED APRIL 13, 2009

35. Refer to the response of KU and LG&E to Staff's Initial Data Request, Item 89, regarding the description of the type of annual rate review authorized by the Commission in connection with LG&E's initial DSM plan. What is your position on a review and/or decoupling approach based on maintaining a specific revenue amount or, alternatively, a specific amount of revenue per customer?

RESPONSE:

Maintaining a specific amount of revenues in total or per customer is an alternative way of recovering the amount of revenues necessary to meet the utility's needs. It is necessary to insure that such revenue amounts are adequate and that they are reviewed and kept up-to-date.

Decoupling revenues from volumes helps the utility to recover the necessary revenues regardless of usage patterns. Collecting the required revenues in a monthly customer charge is a form of decoupling, but still the monthly customer charge must be periodically reviewed and kept current. Keeping rates current through frequent rate cases is an option that is currently available to utilities, but it is costly for customers.

An annual review mechanism could help accomplish this objective at a lesser cost to customers than annual rate cases. Such an annual rate review mechanism would also adjust to reflect other changes, such as in customer consumption and the number of customers, thus allowing utilities to better promote customer conservation and efficiency by aligning utility and customer interests. Any method that aligns those interests is acceptable, but those methods that are the least expensive to our customers are preferable.

Responding Witness:
Glenn R. Jennings

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

SECOND DATA REQUEST OF COMMISSION STAFF
DATED APRIL 13, 2009

37. In response to Staff's Initial Data Request, Item 96(d), Delta states that the cost-of-service study in its most recent rate case indicated that fully allocating the customer-related costs would require a residential monthly charge of \$24.16. Is it a concern that, at some level of customer charge, customers that may not heat with gas, but may have a gas water heater, gas stove, fireplace or some combination of those services, might replace gas with another energy source? Explain.

RESPONSE:

We are concerned that if gas customers use gas only for non-space heating purposes then a fully-allocated monthly customer charge may result in some customers choosing other energy sources such as electric. We view natural gas as a part of the solution to the energy needs of our state and our country as we all address a carbon constrained future. Natural gas can help and should also play an important role in strengthening Kentucky's economy, particularly if there can be increased production of natural gas from Kentucky to meet future state and national needs.

Natural gas has many uses, including space heating (furnaces and gas logs), water heating, cooking, clothes drying and outdoor lighting. Current and future customer use of natural gas for these uses instead of electricity would lessen the need for electric generating and transmission facilities to be constructed. Such increased residential gas utilization, in addition to assisting as an environmental solution for carbon constraints, would lessen the impact on gas customers of higher monthly customer charges.

Responding Witness:
Glenn R. Jennings

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

SECOND DATA REQUEST OF COMMISSION STAFF
DATED APRIL 13, 2009

38. Refer to Delta's response to Staff's Initial Data Request, Item 97. If an annual rate-review mechanism such as the one recently supported in the General Assembly were in place, what would have been the effect on rates for each of the most recent five calendar years?

RESPONSE:

The impact of such a mechanism on Delta's rates for the last five calendar years has been estimated and is included with this response herein. This calculation assumes that the rate treatment in Delta's last rate case decided by the Commission in 2004 would have been reflected through the mechanism proposed by Delta in its 2007 rate filing. Note that the mechanism proposed by Delta in 2007 provides an annual adjustment in revenues to reflect a return on equity within a 50 basis point band of that allowed in that 2004 case. For simplicity, however, the calculation attached does not consider such a band but adjusts each year based on the 10.5% allowed return on equity. This analysis is not meant to represent a complete filing to comply with the filing requirements for an annual rate review mechanism. Rather it is an estimate of what such a rate review mechanism may have yielded on an historic basis. Actual results would depend on the details of rate case results and the details of whatever mechanism was implemented. The attached analysis contrasts the impact on customers through rates of an annual adjustment versus traditional rate cases. We have reflected the impacts of the two rate cases we had completed during the 5 years involved.

Responding Witness:
John B. Brown

Delta Natural Gas Company, Inc.
 Impact of Rate Increases on Hypothetical Bill 2004-2008
 Traditional Rate Cases Versus Annual Rate-Review Mechanism

	2004					2005			2006		2007		2008		5 Year Sum of Rate Changes	
														Annual Adjustment	Traditional Rate Cases	
Assume a hypothetical \$100 bill in 2003, increased via actual historical rate cases	\$	100.00	\$	104.70	(1)	\$	104.70	\$	104.70	\$	104.70	\$	111.40	(2)		
Rate stabilization factor from annual rate-review mechanism as proposed		1.0655		1.0094		1.0570		1.0443		0.9995						
Hypothetical bill above, modified by annual rate-review mechanism as proposed	\$	106.55	\$	105.68		\$	110.67	\$	109.33	\$	111.35					
Increase (decrease) in bill from previous year	\$	6.55	\$	(0.87)		\$	4.99	\$	(1.34)	\$	2.01			\$	11.40	
Percent change in bill from previous year		6.6%		-0.8%		4.7%		-1.2%		1.8%				11.1%	11.1%	

(1) 4.7 percent increase granted in Case No. 2004-00067

(2) 6.4 percent increase granted in Case No. 2007-00089