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

www.deltagas.com

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

DGAS NASDAQ LISTED

April 19, 2010

RECEIVED

APR 19 2010

PUBLIC SERVICE COMMISSION

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

RE: CASE NO. 2010-00127

Dear Mr. Derouen:

In compliance with the Commission's Order dated April 7, 2010 in the above-styled case, enclosed is the original and five copies of the information requested in the Appendix attached to the Order.

Please indicate receipt of the compliance filing by date stamping the enclosed duplicate of this letter and returning it for our files in the envelope provided.

Sincerely,

Connie King

Connie King
Manager – Corporate & Employee Services

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APR 19 2010

PUBLIC SERVICE
COMMISSION

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

| | | |
|---|---|---|
| **PURCHASED GAS ADJUSTMENT FILING OF DELTA NATURAL GAS COMPANY, INC.** | ) ) ) | **CASE NO. 2010-00127** |

* * * * * * * * * *

**CERTIFICATION**

The undersigned, John B. Brown, states that he is Chief Financial Officer, Treasurer and Secretary of Delta Natural Gas Company, Inc., a corporation, ("Delta") and certifies that he supervised the preparation of the responses of Delta to the information requested in the Appendix attached to the Order dated April 7, 2010 in the above styled case 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 19th day of April, 2010.

John B. Brown

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|---|
| PURCHASED GAS ADJUSTMENT<br>FILING OF DELTA NATURAL GAS<br>COMPANY, INC. | )<br>)<br>) | CASE NO. 2010-00127 |

## RESPONSE TO GCR DATA REQUEST

1. In Delta's GCR application in Case No. 2005-00547, the Commission requested information from Delta concerning spikes in its per-unit book cost of gas provided in support of the calculation of its Actual Adjustment. Delta's response indicated that the primary reason for the spike is that supply volumes are recorded on a calendar-month basis and sales volumes are recorded on a billed-month basis. Based on that explanation, the Commission accepted Delta's rates proposed to go into effect February 1, 2006. Delta's 2006 GCR filings indicate that the excess of recorded purchases over sales ("line loss") for 2006 was 5.6 percent. Subsequent to 2006, Delta's GCR filings show that line loss, as included in the cost to sales customers, was 22.3 percent for 2007; 25.8 percent for 2008; and 11 percent for 2009.

    a. Explain whether the above percentages accurately portray the excess of purchases over sales for the years 2006 through 2009 as passed through Delta's GCR rates. If not, provide alternate calculations.

RESPONSE

Delta agrees that the above percentages are accurately derived from the "Supply Volume Per Books" row and the "Sales Volume" row from its GCR filings as shown under "Retail Unaccounted For Data Filed With GCR" on Exhibit I. Delta disagrees that accurate conclusions regarding system unaccounted for gas, or even more specifically line loss, can be developed from Schedule IV of the GCR filing.

Delta's GCR mechanism was not developed as a means of monitoring unaccounted for gas on Delta's system. It is meant to provide a means for adjusting for gas prices and volumes quarterly. It has been fair to Delta's customers as it has reflected rising and falling prices.

The GCR mechanism utilizes supply volumes per invoices (calendar month basis) and billed volumes (billed month basis) for this rate calculation. The two numbers would never match given the fact they cover different time periods. This method has been used consistently for many years and does not impact the total cost of gas being passed back to the customers—it only impacts the timing in which unrecovered gas costs are collected. Additionally, over the years this methodology has favored the customers by producing lower gas costs for the customer. In the history of the mechanism, very few times has Delta been in a position of over-recovery. Delta generally has large unrecovered gas cost balances that the Company is financing. It is likely that any inconsistencies in the mechanism as pointed out in this data request have tended to artificially stretch out the recovery periods to the customer's benefit.

There are several reconciling items that cause a difference between deliveries to end-use customers and purchases:

i. Company use gas – this is the gas purchased and used on Delta's system to operate equipment to ensure the gas flows through the system, including compressors, pre-heaters and dehydration units.

ii. Unbilled revenue – sales are recorded and reporting in the GCR filing on the billed basis. Unbilled revenue is an estimate of the gas used from the date a meter was last read through the end of the month. Note that this is truly an estimate—Delta has an average of 29 days of unbilled revenue to estimate for any given month based on weather patterns, etc. Actual use could significantly vary from the Company's estimates.

iii. Imbalances – imbalances arise based on the difference between predicted flow of gas and actual flow of gas.

iv. BTU conversion – Delta purchases gas per dekatherm (Dth), which must then be converted to MCF based on the BTU content of the gas purchased as Delta measures and bills consumption on an MCF basis. This reconciling item accounts for differences in the various BTUs purchased versus consumed.

As Exhibit I line 12 shows, "Unaccounted for" gas taken off of Schedule IV of the GCR filing totaled 17% for the four years covered in this data request (2006-2009). Exhibit I line 32 shows that when the reconciling items discussed above are considered, that the Unaccounted for percentage decreases to 2.0% over the same period.

SPONSORING WITNESS:

Matthew D. Wesolosky

**Exhibit I**

# Purchased Gas Adjustment Filing of Delta Natural Gas Company, Inc.
## Case No. 2010-00127
## April 19, 2010

| Line No. | | 2009 | 2008 | 2007 | 2006 | Total |
|---|---|---|---|---|---|---|
| 1 | **Retail Unaccounted For Per Data Filed With GCR** | | | | | |
| 2 | | | | | | |
| 3 | Supply volume per GCR Schedule IV | | | | | |
| 4 | Purchases | 3,461,911 | 4,244,559 | 3,984,077 | 3,215,323 | |
| 5 | Withdrawals from storage | 1,040,122 | 1,014,866 | 998,448 | 984,588 | |
| 6 | Deliveries to storage | (1,100,000) | (968,234) | (1,007,954) | (760,315) | |
| 7 | | 3,402,033 | 4,291,191 | 3,974,571 | 3,439,596 | 15,107,391 |
| 8 | | | | | | |
| 9 | Sales volume per GCR Schedule IV | (3,029,498) | (3,182,729) | (3,087,037) | (3,247,996) | (12,547,260) |
| 10 | | | | | | |
| 11 | Unaccounted for (lines 7 + 9) | 372,535 | 1,108,462 | 887,534 | 191,600 | 2,560,131 |
| 12 | (line 11 / line 7) | 11.0% | 25.8% | 22.3% | 5.6% | 16.9% |
| 13 | | | | | | |
| 14 | **Retail Unaccounted For Per Data Filed With GCR With Additional Reconciling Factors** | | | | | |
| 15 | | | | | | |
| 16 | Retail receipts | | | | | |
| 17 | Purchases (Line 4) | 3,461,911 | 4,244,559 | 3,984,077 | 3,215,323 | |
| 18 | Withdrawals from storage (line 5) | 1,040,122 | 1,014,866 | 998,448 | 984,588 | |
| 19 | Additional reconciling factors-receipts | | | | | |
| 20 | Imbalances, net | (301,042) | (204,172) | (124,151) | 75,907 | |
| 21 | BTU adjustment for purchases | (316,840) | (376,179) | (273,439) | (168,097) | |
| 22 | | 3,884,151 | 4,679,074 | 4,584,935 | 4,107,721 | 17,255,881 |
| 23 | Retail deliveries | | | | | |
| 24 | Retail sales (line 9) | (3,029,498) | (3,182,729) | (3,087,037) | (3,247,996) | |
| 25 | Deliveries to storage (line 6) | (1,100,000) | (968,234) | (1,007,954) | (760,315) | |
| 26 | Additional reconciling factors-deliveries | | | | | |
| 27 | Unbilled | (33,532) | (91,658) | (49,728) | 201,647 | |
| 28 | Company use | (132,577) | (155,405) | (140,889) | (117,196) | |
| 29 | | (4,295,607) | (4,398,026) | (4,285,608) | (3,923,860) | (16,903,101) |
| 30 | | | | | | |
| 31 | Unaccounted for (lines 22 + 29) | (411,456) | 281,048 | 299,327 | 183,861 | 352,780 |
| 32 | (line 31 / line 22) | -10.6% | 6.0% | 6.5% | 4.5% | 2.0% |
| 33 | | | | | | |
| 34 | **System-wide Unaccounted For Per PSC Annual Report Format** | | | | | |
| 35 | | | | | | |
| 36 | Receipts | | | | | |
| 37 | Retail receipts (line 22) | 3,884,151 | 4,679,074 | 4,584,935 | 4,107,721 | |
| 38 | Gas of others received for transmission | 11,256,182 | 13,336,889 | 11,592,864 | 8,795,239 | |
| 39 | Gas of others received for distribution | 4,134,888 | 4,878,457 | 5,045,951 | 5,314,335 | |
| 40 | | 19,275,221 | 22,894,420 | 21,223,750 | 18,217,295 | 81,610,686 |
| 41 | Deliveries | | | | | |
| 42 | Retail deliveries (line 29) | (4,295,607) | (4,398,026) | (4,285,608) | (3,923,860) | |
| 43 | Deliveries of gas transported for others | (10,642,930) | (13,149,362) | (11,439,961) | (8,525,855) | |
| 44 | Deliveries of gas distributed for others | (4,110,299) | (4,811,741) | (4,950,043) | (5,375,399) | |
| 45 | | (19,048,836) | (22,359,129) | (20,675,612) | (17,825,114) | (79,908,691) |
| 46 | | | | | | |
| 47 | Total unaccounted for (lines 40 + 45) | 226,385 | 539,197 | 548,138 | 392,067 | 1,705,787 |
| 48 | (line 47 / line 40) | 1.2% | 2.4% | 2.6% | 2.2% | 2.1% |

**DELTA NATURAL GAS COMPANY, INC.**
**CASE NO. 2010-00127**

**GCR DATA REQUEST**
**DATED APRIL 7, 2010**

1 b. Explain whether recording purchases on a calendar-month basis and sales on a billed-month basis explains any part of line loss as it was passed along to sales customers through the GCR.

RESPONSE

As shown in Exhibit I, differences between calendar month purchases and billing cycle sales are a part of the reason for differences between purchase and sales volumes. However, it should be pointed out that the difference should not be characterized as "line loss".

SPONSORING WITNESS:

John B. Brown

**DELTA NATURAL GAS COMPANY, INC.**
**CASE NO. 2010-00127**

**GCR DATA REQUEST**
**DATED APRIL 7, 2010**

2. Explain whether Delta is aware that the Commission has previously found that limiting the cost recovery of line loss to five percent is reasonable.

RESPONSE

Delta is aware that the Commission has done so at times.

SPONSORING WITNESS:

Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.**
**CASE NO. 2010-00127**

**GCR DATA REQUEST**
**DATED APRIL 7, 2010**

3. Explain why Delta's line loss as passed through its GCR increased to such relatively high levels after 2006.

RESPONSE

As discussed herein the amounts above are not indicative of actual line loss, or overall unaccounted for gas volumes. Changes in the difference between purchases and sales after 2006 are attributable to the factors listed in the Response to Question 1a and not line losses.

SPONSORING WITNESS:

Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.**
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4. Delta's Gas Account-Natural Gas contained in its annual reports filed with the Commission show that, for each year from 2006 through 2009, Delta's system line loss based on unaccounted-for gas as a percentage of total deliveries plus unaccounted for gas has been less than five percent each year.

   a. Explain the discrepancy between system line loss and line loss as passed through Delta's GCR filings to sales customers.

RESPONSE

Exhibit I reconciles the data in the GCR filings to the calculation of unaccounted for gas as dictated by the PSC annual report, which is a better measure of unaccounted for gas. Exhibit I line 48 shows that Delta's unaccounted for gas over the four year period covered by the data request is 2.1%, the largest in any single year being 2.6%. Although gas might be classified as unaccounted for, that does not equate to experiencing line loss. There are practical measurement limitations that prohibit every MCF of gas being accounted for at a given point in time, which is especially challenging during a peak heating month such as December when system throughput is at its highest.

In performing the research required to answer this data request, Delta further refined the calculation of the various reconciling factors included in the Gas Account – Natural Gas Schedule contained in the annual report filed with the Commission. In addition, errors were found in the data that had been used to populate the schedule. Exhibit II shows the report as filed, the corrected amounts and the reason for the differences. For every period presented, the refinements/corrections reduced the unaccounted for percentages from what had been previously reported.

SPONSORING WITNESS:

Matthew D. Wesolosky

Exhibit II

**Purchased Gas Adjustment Filin; lta Natural Gas Company, Inc.**
**Case No. . ,-00127**
**April 19, 2010**

| PSC Report Numbers | 2009 As Originally Reported | 2009 Revised | 2009 Difference | 2008 As Originally Reported | 2008 Revised | 2008 Difference | 2007 As Originally Reported | 2007 Revised | 2007 Difference | 2006 As Originally Reported | 2006 Revised | 2006 Difference |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gas Purchased | 3,543,515 | 3,461,911 | 81,604 | 4,327,952 | 4,248,465 | 79,487 | 3,984,075 | 3,984,077 | (2) | 3,215,179 | 3,215,179 | - |
| Gas of Others received for gathering | 14,753,226 | - | 14,753,226 {2} | 17,954,651 | - | 17,954,651 {2} | 16,390,004 | - | 16,390,004 {2} | - | - | - {2} |
| Gas of Others received for Transmission | - | 11,256,182 | (11,256,182) {2} | - | 13,336,889 | (13,336,889) {2} | - | 11,592,864 | (11,592,864) {2} | 13,901,249 | 8,795,239 | 5,106,010 {2} |
| Gas of Others received for Distribution | - | 4,134,888 | (4,134,888) {2} | - | 4,878,457 | (4,878,457) {2} | - | 5,045,951 | (5,045,951) {2} | - | 5,314,335 | (5,314,335) {2} |
| Other Gas Withdrawn from Storage | 1,340,122 | 1,040,122 | 300,000 {1} | 1,014,866 | 1,014,866 | - | 998,448 | 998,448 | - | 984,732 | 984,588 | 144 |
| Other recepts (specify) | | | - | | | - | | | - | | | - |
| BTU adjustment for purchases | - | (316,840) | 316,840 {3} | - | (376,179) | 376,179 {3} | - | (273,439) | 273,439 {3} | - | (168,097) | 168,097 {3} |
| Imbalances, net | - | (301,042) | 301,042 {3} | - | (204,172) | 204,172 {3} | - | (124,151) | 124,151 {3} | - | 75,907 | (75,907) {3} |
| **Total Receipts** | **19,636,863** | **19,275,221** | **361,642** | **23,297,469** | **22,898,326** | **399,143** | **21,372,527** | **21,223,750** | **148,777** | **18,101,160** | **18,217,151** | **(115,991)** |
| | | | | | | | | | | | | |
| Gas Sales | 3,029,498 | 3,029,498 | - | 3,182,729 | 3,182,729 | - | 3,087,037 | 3,087,037 | - | 3,247,997 | 3,247,966 | 31 |
| Deliveries of gas gathered for others | 10,642,927 | - | 10,642,927 {2} | - | - | - {2} | - | - | - | - | - | - |
| Deliveries of gas transported for others | - | 10,642,930 | (10,642,930) {2} | - | 13,149,362 | (13,149,362) {2} | - | 11,439,961 | (11,439,961) {2} | - | 8,525,855 | (8,525,855) {2} |
| Deliveries of gas distributed for others | 4,110,299 | 4,110,299 | - {2} | 17,954,651 | 4,811,741 | 13,142,910 {2} | 16,390,004 | 4,950,043 | 11,439,961 {2} | 13,901,249 | 5,375,399 | 8,525,850 {2} |
| Other gas delivered for storage | 1,100,000 | 1,100,000 | - | 968,234 | 968,234 | - | 1,007,954 | 1,007,954 | - {2} | 760,315 | 760,315 | - {2} |
| Other deliveries (specify) | | | | | | | | | | | | |
| Unbilled Revenue, net | 33,532 | 33,532 | - | 91,658 | 91,658 | - | 49,728 | 49,728 | - | (201,647) | (201,647) | - |
| Company Use | - | 132,577 | (132,577) {3} | - | 155,405 | (155,405) {3} | - | 140,889 | (140,889) {3} | - | 117,196 | (117,196) {3} |
| **Total Deliveries** | **18,916,256** | **19,048,836** | **(132,580)** | **22,197,272** | **22,359,129** | **(161,857)** | **20,534,723** | **20,675,612** | **(140,889)** | **17,707,914** | **17,825,084** | **(117,170)** |
| | | | | | | | | | | | | |
| **Total Unaccounted For** | **720,607** | **226,385** | **494,222** | **1,100,197** | **539,197** | **561,000** | **837,804** | **548,138** | **289,666** | **393,246** | **392,067** | **1,179** |
| | 3.7% | 1.2% | | 4.7% | 2.4% | | 3.9% | 2.6% | | 2.2% | 2.2% | |

{1} Input error

{2} Originally reported on and off-system transportation on the incorrect line. Additional On and off-system receipts were entered as deliveries. Corrected amounts put the on and off-system transportation on their respective lines as well as reports the received amounts.

{3} Amounts not previously reported on report

**DELTA NATURAL GAS COMPANY, INC.**
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4b. Delta's transportation tariffs require transportation customers' gas to be reduced by shrinkage. Delta's annual reports show that gas received equals gas delivered for "Gas of Others Received for Gathering" each year from 2006 through 2009. Explain whether Delta allocates shrinkage to transportation customers as required by its tariffs.

RESPONSE

Delta allocates shrinkage to its transportation customers as required by its tariff. The Gas Account – Natural Gas Schedule was reported in error. See Exhibit II for revised amounts.

SPONSORING WITNESS:

Matthew D. Wesolosky