

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS COMPANY,	)	
INC. FOR AN ORDER AUTHORIZING THE ISSUANCE	)	CASE NO.
OF UP TO \$75,000,000 OF LONG-TERM DEBT	)	2011-00409

O R D E R

On October 6, 2011, Delta Natural Gas Company, Inc. ("Delta") tendered an application seeking authority to issue up to \$75 million in long-term debt. Delta intends to call \$19,410,000 in 7 percent debentures and \$38,455,006 in 5.75 percent debentures and refinance them with the proceeds of the requested debt issuance. The interest rate on the proposed debt will be 215 to 230 basis points above the U.S. Treasury Note yield, with the coupon rate determined on the date that rates are fixed by Delta with the lender, following Commission approval. Delta requests that the cost of issuance and debt expenses of the proposed issuance, as well as any remaining unamortized debt expense of the existing debentures, be amortized over the life of the new debt. Delta's application also includes a request for expedited consideration asking that a final Order approving the proposed financing be issued by November 9.

By letter dated October 14, 2011, Delta amended its request for expedited approval of its application, requesting a final Order by the end of October due to rising interest rates, which will translate into increased annual interest expense for Delta and its customers. An informal conference ("IC") scheduled by Commission Staff was held on October 18, 2011 to discuss issues pertaining to Delta's proposed financing. In response to clarifying questions asked by Commission Staff at the IC, Delta filed

additional information with the Commission on October 21, 2011. The information provided by Delta showed projected annual interest expense savings of approximately \$534,000 after taxes resulting from the proposed refinancing, translating into a net present value savings through 2031 of \$2.5 million.

In its application, Delta requests approval to issue \$75 million in long-term debt for the combined \$57,865,006 refinancing discussed above, with the balance not drawn unless needed for property acquisition, construction, improvement of facilities or services, or the maintenance of service. Information provided by Delta during the IC indicated that its Board of Directors had approved issuing only \$60 million in long-term debt, and that the request for \$75 million was based on its ability to save on due diligence fees with its lender if it were to need to draw additional amounts, up to the \$75 million total, within the next two years.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the issuance of \$60 million in long-term debt as described above is for lawful objects within the corporate purposes of Delta, is necessary and appropriate for and consistent with the proper performance by Delta of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purposes. The Commission does not find it reasonable to approve borrowings in excess of the amount currently needed absent a more specific description of Delta's anticipated future need for the excess amount. Furthermore, we do not find it reasonable to approve borrowing an amount greater than that approved by Delta's Board of Directors. Therefore, we find that the issuance of long-term debt in the

amount of \$60 million, as approved by its Board of Directors, rather than the \$75 million proposed by Delta, should be approved.

IT IS THEREFORE ORDERED that:

1. Delta is authorized to issue long-term debt as described in its application in an amount up to \$60 million.

2. The proceeds from the transaction authorized herein shall be used only for the lawful purposes set out in the application.

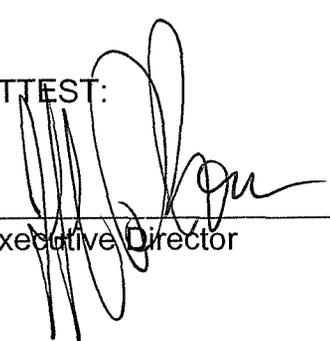
3. Delta shall, within 30 days from the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the proceeds of such issuances, the interest rate, costs or gains from the use of hedging agreements, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. Delta shall also file documentation showing the quotes that it relied upon to determine the lowest interest rate.

4. Any documents filed in the future pursuant to ordering paragraph three herein shall reference this case number and shall be retained in the utility's general correspondence file.

By the Commission

ENTERED *pt*  
OCT 31 2011  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
\_\_\_\_\_  
Executive Director

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

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