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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE PIPE REPLACEMENT PROGRAM RIDER OF DELTA NATURAL GAS COMPANY, INC.	)))	**CASE NO. 2012-00136**

VERIFICATION

The undersigned, **Matthew D.Wesolosky**, being duly sworn, deposes and states that he is Vice President - Controller of Delta Natural Gas Company, Inc. and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Matthew D. Wesolosky

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 24th day of May, 2012

Emily P. Bennett (SEAL)
Notary Public

My Commission Expires:

6/20/12

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE PIPE REPLACEMENT PROGRAM RIDER OF DELTA NATURAL GAS COMPANY, INC.	)))	**CASE NO. 2012-00136**

VERIFICATION

The undersigned, **John B. Brown**, being duly sworn, deposes and states that he is Chief Financial Officer, Treasurer and Secretary of Delta Natural Gas Company, Inc. and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

John B. Brown

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 24th day of May, 2012

Notary Public (SEAL)

My Commission Expires:

6/20/12

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00136

FIRST PSC DATA REQUEST
DATED MAY 14, 2012

1. Refer to Delta's application, Pipe Replacement Program Filing work sheet for Program Year Ended December 31, 2011.

   a. Explain the basis for the Balancing Adjustment included as part of the calculation, which is not a component of the Pipe Replacement Program ("PRP") Rider in Delta's approved tariff.

   b. Explain the basis for and calculation of the $22,800.00 Delta estimates it will collect during March and April 2012.

   c. Explain why Delta's proposed PRP rates produce only $319,083.00, $963.00 less than the calculated revenue requirement of $320,046.00, and whether Delta has considered a revision in its proposed rates in order to collect the revenue requirement.

Response:

a. The balancing adjustment is included to ensure the mechanism does not result in any over or under collections from customers.

b. The $22,800 is included to determine the balancing adjustment. The $22,800 is added to the actual amounts billed under the PRP Rider for the previous ten months to project the total amount collected over the twelve month period the approved PRP rates are in effect. This projected amount is compared to the total PRP Adjustment in the prior year filing to determine any over or under collections.

Prior year amounts billed under the PRP Rider were used to develop the estimated amounts to be billed in April and May, 2012. Since the PRP Rider was not effective in April, 2011, the $22,800 was derived from the average PRP billings in May through July 2011. The amount was calculated as follows:

May, 2011	$11,702
June, 2011	$11,347
July, 2011	$11,270
3 month average (rounded)	$11,400
Two months	$22,800

We anticipate in subsequent years this methodology could be further refined with additional historical data available.

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00136

FIRST PSC DATA REQUEST
DATED MAY 14, 2012

c. To determine the PRP rates in accordance with the methodology approved in case 2010-00116, the PRP adjustment allocated to each customer class is divided by the number of customers in that respective class from case 2010-00116. Using this calculation and rounding the monthly PRP rate to two decimal places accounts for the difference in the amounts produced by the rates and the total PRP Adjustment on line 17 of the filing. The $963 would be included in the balancing adjustment calculated in the next filing.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00136

FIRST PSC DATA REQUEST
DATED MAY 14, 2012

2. Refer to Calendar Years 2010 and 2011 PRP Worksheets.

   a. Provide a breakdown of the 2010 and 2011 additions to mains, services, and gathering lines by account, showing the length of pipe for each size pipe installed.

   b. For each size pipe installed as identified in the response to part a. of this request, provide a breakdown of the installed cost showing separately the cost of materials, the cost of labor, and any other non-material items.

Response:

a. See attached.

b. See attached.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS
Cost of Removal and Replacement Projects for 2010

PLANT ACCOUNT	PLANT CLASSIFICATION	PIPE SIZE AND TYPE INSTALLED	INSTALLED FOOTAGE	INVENTORY MATERIALS	ACCOUNTS PAYABLE & OTHER	COMPANY PAYROLL	COMPANY OVERHEAD	TOTAL
	COST OF REMOVAL	(A)	-	6,940	400,256	203,786	4,814	615,796
332	GATHERING LINES	2" PLASTIC	3,043	2,735	3,764	20,599	10,416	37,514
367	TRANSMISSION MAINS	4" STEEL	637	6,604	(28,814)	13,654	21,564	13,008
367	TRANSMISSION MAINS	8" STEEL	10	168	54	7,611	3,133	10,966
			647	6,772	(28,760)	21,265	24,697	23,974
376	DISTRIBUTION MAINS	UNDER 2" PLASTIC	1,882	2,762	4,889	23,880	16,823	48,354
376	DISTRIBUTION MAINS	2" PLASTIC	21,219	22,690	42,392	249,653	145,411	460,146
376	DISTRIBUTION MAINS	4" PLASTIC	12,550	29,049	10,909	139,629	84,570	264,157
376	DISTRIBUTION MAINS	2" STEEL	22	94	-	696	316	1,106
376	DISTRIBUTION MAINS	4" STEEL	955	9,296	1,457	11,301	8,821	30,875
376	DISTRIBUTION MAINS	8" STEEL	87	1,838	74	5,658	4,542	12,112
			36,715	65,729	59,721	430,817	260,483	816,750
380	SERVICES	(B)	-	14,791	1,266	64,868	37,343	118,268
						TOTAL ALL		1,612,302
						CONTROL TOTAL		1,612,302

(A) Represents cost of removal incurred. No pipe installed.
(B) Represents replacement of a service line. Delta does not track the footage of each individual service line.

DELTA NATURAL GAS
Cost of Removal and Replacement Projects for 2011

PLANT ACCOUNT	PLANT CLASSIFICATION	PIPE SIZE AND TYPE INSTALLED	INSTALLED FOOTAGE	INVENTORY MATERIALS	ACCOUNTS PAYABLE & OTHER	COMPANY PAYROLL	COMPANY OVERHEAD	TOTAL
	COST OF REMOVAL	(A)	-	7,776	298,493	123,426	71	429,766
332	GATHERING LINES	UNDER 2" PLASTIC	370	152	43	3,310	2,278	5,783
367	TRANSMISSION MAINS	1" STEEL	210	1,619	(4,312)	4,473	3,718	5,498
367	TRANSMISSION MAINS	6" STEEL	138	3,313	114	9,872	7,980	21,279
367	TRANSMISSION MAINS	8" STEEL	376	17,309	(36,568)	39,141	41,653	61,535
			724	22,241	(40,766)	53,486	53,351	88,312
376	DISTRIBUTION MAINS	UNDER 2" PLASTIC	1,019	1,147	3,891	19,729	13,508	38,275
376	DISTRIBUTION MAINS	2" PLASTIC	20,536	29,733	18,611	277,868	200,015	526,227
376	DISTRIBUTION MAINS	4" PLASTIC	406	2,077	(6,128)	9,681	5,851	11,481
376	DISTRIBUTION MAINS	2" STEEL	24	85	2,285	1,443	2,288	6,101
376	DISTRIBUTION MAINS	4" STEEL	3,476	40,618	(26,294)	120,800	111,743	246,867
			25,461	73,660	(7,635)	429,521	333,405	828,951
380	SERVICES	(B)	-	46,464	66,633	129,731	140,247	383,075
						TOTAL ALL		1,735,887
						CONTROL TOTAL		1,735,887

(A) Represents cost of removal incurred. No pipe installed.
(B) Represents replacement of a service line. Delta does not track the footage of each individual service line.

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00136

FIRST PSC DATA REQUEST
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3. In Case No. 2010-00116, Mr. John Brown testified that the ability to recover the depreciation and carrying costs related to the capital investment, less operating expense reductions, lowers Delta's need to file frequent rate applications. Mr. Brown also testified that customers would benefit from reductions in line losses attributable to the mains being replaced.

   a. Explain where operating expense reductions, presumably in the form of reduced operations and maintenance expenses, are reflected in Delta's application.

   b. Explain whether Delta has determined if customers have realized benefits in the form of reductions in line losses since the inception of the PRP program

Response:

   a. Case No. 2010-00116 testimony, data responses or tariffs did not contemplate "operating expense reductions" being used in PRP applications. The only period expense stipulated in "Calculation of Pipe Replacement Rider Revenue Requirement" in the approved tariff is depreciation expense. The PRP filing has been prepared according to the methodology approved in Case 2010-00116 which does not attempt to quantify operating expense reductions.

   b. Leaks have been repaired by virtue of replacement of older sections of pipeline since the inception of the PRP program and every leak that is repaired through such replacement on Delta's system benefits Delta's customers in the form of reductions in line losses.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00136

FIRST PSC DATA REQUEST
DATED MAY 14, 2012

4. Identify the general locations of the major main replacements that occurred in 2010 and 2011 and describe how those specific projects were selected and prioritized.

Response:

See attached for the general locations of the replacements that occurred in 2010 and 2011.

Leaks were considered foremost in determining the prioritization of replacing mains. Our distribution personnel carefully examined the necessity and importance of each project before prioritizing the order in which it should be completed. In addition, in 2010, The Kentucky Department of Highways and Cumberland College dictated replacement/relocation in Madison and Whitley Counties and in 2011, the Kentucky Department of Highways and Asbury Seminary dictated replacement/relocation in Madison and Jessamine Counties.

Sponsoring Witness:

John B. Brown

Delta Natural Gas Company
Case No 2012-00136
Cost of Removal and Replacement Projects for 2010 - by Location

Location		Cost	Footage
Barbourville	$	210,558	8,267
Berea		207,745	3,952
Corbin		122,143	4,364
Gathering		37,514	3,043
London		54,382	358
Manchester		214,355	355
Middlesboro		182,874	5,913
Nicholasville		234,188	5,808
Owingsville		62,364	3,710
Stanton		64,416	1,788
Transmission		23,974	647
Williamsburg		197,789	2,200
Total	**$**	**1,612,302**	**40,405**

Delta Natural Gas Company
Case No 2012-00136
Cost of Removal and Replacement Projects for 2011 - by Location

Location		Cost	Footage
Barbourville	$	43,664	227
Berea		402,752	5,154
Corbin		192,396	2,601
Cost of Removal		7,696	-
Gathering		5,783	370
London		206,878	3,811
Manchester		45,171	40
Middlesboro		243,224	5,200
Nicholasville		278,504	4,823
Owingsville		41,847	572
Stanton		108,375	1,932
Transmission		88,312	724
Williamsburg		71,284	1,101
Total	**$**	**1,735,887**	**26,555**

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00136

FIRST PSC DATA REQUEST
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5. Explain how many miles of main and service lines, broken down by material (for example, bare steel) and age of pipe, Delta anticipates replacing over the term of its PRP program.

Response:

The primary focus of Delta's Pipe Replacement Program is to replace all of the bare steel pipe in our system. Delta's engineering mapping records indicate approximately 67 miles of bare steel main remain, but the records do not readily indicate a total for bare steel services. The age of pipe in need of replacement is difficult to determine given the fact that a majority of the mains being replaced were originally installed by companies that Delta later acquired. These other companies often did not retain information indicating the age of their facilities.

Delta currently has approximately 1,200 service lines that have been inactive for over 5 years that will also be removed through the PRP. The removal of inactive service lines is an ongoing project.

In addition to replacing bare steel pipe and removing inactive services, the PRP includes main replacements resulting from our periodic leak surveys and those dictated by outside agencies such as the Kentucky Department of Highways, City and County Governments, private industries, etc. These replacements are unpredictable and ongoing.

Sponsoring Witness:

John B. Brown

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2012-00136

FIRST PSC DATA REQUEST
DATED MAY 14, 2012

6. Provide the number of years Delta anticipates the PRP Rider will be needed for necessary pipe replacements and the estimated investment and eligible cost to be recovered per year.

Response:

Based on the recent historical rate of replacement, within approximately 20 years the bare steel main will be replaced. Using recent historical average cost and pipe size mix, it is estimated to cost at least approximately $13 million, or $650,000 annually, to replace the remaining 67 miles of bare steel main. Of course, actual future costs to replace mains are subject to fluctuation.

As noted in response #5, there are other aspects to the program, including the termination of inactive service lines and mandatory replacements dictated by outside agencies, which are both ongoing and difficult to predict. The quantity of bare steel main that Delta is able to replace in any given year is largely dependent on the resource requirements of these other aspects of the PRP.

Currently, the amounts spent and recovered through the program to date represent the best estimate of the amount of investments and eligible costs to be recovered per year in the future. The feasibility of accelerating the rate of bare steel replacement above historical averages is being considered. However, priorities at the time of work will continue to dictate where the dollars are spent.

Sponsoring Witness:

John B. Brown