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

DGAS NASDAQ LISTED

www.deltagas.com

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

September 24, 2014

Hon. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40601

Re: Delta Natural Gas Company, Inc.
Case No. 2013-00365

Dear Mr. Derouen:

We enclose for filing an original and ten copies of the both the Commission's post-hearing data request for Delta Natural Gas Company, Inc. in the above-captioned case. Please acknowledge the receipt of this filing by stamping the extra copy of the cover letter and returning it to Delta in the envelope provided. Thank you in advance for your assistance.

Sincerely,

Matthew D. Wesolosky

Cc: Counsel of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ORDER DECLARING THAT IT IS AUTHORIZED TO CONSTRUCT, OWN AND OPERATE A COMPRESSED NATURAL GAS STATION IN BEREA, KENTUCKY	)))	**CASE NO. 2013-00365**

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 September, 2014.

Emily P. Bennett (SEAL)
Notary Public

OFFICIAL SEAL
EMILY P. BENNETT
NOTARY PUBLIC - KENTUCKY
STATE-AT-LARGE ID # 467350
My Commission Expires June 20, 2016

My Commission Expires:

6/20/2016

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00365

POST HEARING DATA REQUEST FROM COMMISSION STAFF
DATED SEPTEMBER 16, 2014

1. Provide the estimated cost of the CNG station assuming Delta is not eligible for any tax incentives under the Energy Independence Act Tax Incentive Program.

Response:

Under the Energy Independence Act Tax Incentive Program, by constructing the CNG station, Delta would be eligible for $250,000 of tax incentives related to sales tax, income tax and severance tax. The Wesolosky Testimony Exhibit II calculated the impact owning and operating a CNG station would have on customer rates. The Wesolosky Testimony Exhibits assume Delta will receive $64,775 of sales tax incentives related to the purchase of the CNG station, by exclusion of the sales tax from the cost of the station. The exhibit did not reflect the benefit of tax incentives related to severance tax or income tax, as the amount and timing of such benefits are unknown. When Delta receives the remaining $185,225 of tax incentives related to severance tax and income tax, those incentives will enure to the benefit of Delta's utility customers. The attached Exhibit I illustrates the impact to customer rates assuming the sales tax incentives are not received. Assuming the sales tax incentives are not received and the station does not sell any CNG, the average monthly impact to the residential customer is $0.25 per month.

Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
Case No. 2013 -00365
Post-Hearing Data Request PSC-1

Schedule I
Impact of CNG Station on Customer Rates - Inclusive of Sales and Use Tax

1	Total capital expenditures inclusive of sales tax (Delta Hearing Exhibit III)	$	1,398,325
2	Less:		
3	Accumulated depreciation (Schedule II)		(46,145)
4	Accumulated deferred income taxes (Schedule II)		(58,314)
5	Net Rate Base		1,293,866
6	WACOC, per case no 2010-00116		7.97025%
7	Allowed Return		103,124
8	Tax expansion factor, w PSC (per Case No. 2010-00116)		1.60658
9	Return, grossed up for income taxes	$	165,677
10	Cost of service items (Schedule III)		79,660
12	**Impact to Delta's Revenue Requirement**	**$**	**245,337**
13	Fiscal 2013 CCF Billed		
14	Retail		30,556,680
15	Firm on-system transportation		15,627,130
16	**Total throughput** (Delta Hearing Exhibit II)		**46,183,810**
17	**Estimated impact to Delta's volumetric rate, per CCF (line 12/line 16)**	**$**	**0.00531**
18	Fiscal 2013 average residential consumption (Ccf) (Wesolosky Testimony page 4, line4)		560
19	**Annual impact to residential customer rates**	**$**	**2.97**
20	**Average monthly impact to residential customers**	**$**	**0.25**

Delta Natural Gas Company, Inc.
Case No. 2013 -00365
Post-Hearing Data Request PSC-1

Schedule II
Calculation of Depreciation and Deferred Income Taxes

			Book	Tax	Cumulative Timing Difference
1	Investment	$ 1,398,325			
2	Depreciation Rate		3.30%	14.29% {1}	
3	Depreciation Expense		(46,145)	(199,765)	
4	Net Book Value (line 1 - line 3)		1,352,180	1,198,560	(153,620)
5	Statutory Tax Rate (see below)				37.96%
6	Deferred Income Tax Liability (line 4 x line 5)				(58,314)

7 Calculation of Statutory Tax Rate

8	Federal Tax Rate	34.00%
9	State Tax Rate	6.00%
10	Federal Benefit of State Taxes	-2.04%
11		37.96%

{1} Assumes seven year life under MACRS depreciation.

Delta Natural Gas Company, Inc.
Case No. 2013 -00365
Post-Hearing Data Request PSC-1

Schedule III
CNG Station Cost of Service

			Total Cost of Service Impact
1	Increased depreciation expense (schedule II)		$ 46,145
2	Other operation and maintenance expense		$ 20,000
3	Property tax expense (see below)		$ 13,515
4	**Total Cost of Service Impact**		**$ 79,660**

5	**Calculation of property tax expense**		
6	Total capital expenditures (Schedule I)		$ 1,398,325
7	Ad valorem tax rate (line 11)		0.9665%
			$ 13,515
8	*Per Case 2010-00116, FR10(6)(h) Tab 27, Schedule 5.1*		
9	Total taxable value	144,250,000	
10	Property tax expense	1,394,198	
11	Average ad valorem tax rate	0.9665%	

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2013-00365

POST HEARING DATA REQUEST FROM COMMISSION STAFF
DATED SEPTEMBER 16, 2014

2. Please verify the proposed CNG station will continue to be eligible for tax incentives under the Energy Independence Act Tax Incentive Program. Additionally, please confirm the proposed CNG station will not be utilized to generate electricity.

Response:

The attached Exhibit II is a letter from the Kentucky Cabinet for Economic Development affirming Delta's continuing eligibility for incentives under Energy Independence Act Tax Incentive Program ("The Act").

Delta prepared the application for the incentives with the input and assistance from the Kentucky Energy and Environment Cabinet. The proposed compressed natural gas station is currently eligible for tax incentives under The Act, as the application was preliminarily approved by the Kentucky Cabinet for Economic Development. A revised first page of the application and a fully executed Memorandum of Agreement between Delta and the Kentucky Cabinet for Economic Development is attached as Exhibit III. The first page of the application and the Memorandum of Agreement have been revised to reflect the proposed CNG station is an alternative fueling station rather than a renewable energy facility. If the Commission approves the CNG station, Delta will seek final approval under the Memorandum of Agreement.

KRS 154.27 sets forth the regulations pertaining to The Act and defines an eligible project to include alternative fuel facilities (KRS 154.27-010(16)(a)) which after the new construction, retrofit or upgrade primarily produces for sale alternative transportation fuels using natural gas or natural gas liquids as the feed stock(KRS 154.27-020 (4)(d)).

An alternative fuel facility is a facility which primarily produces and sells alternative transportation fuels 154.27-010(3)(a), which includes liquefied or compressed natural gas produced for use as a transportation fuel (KRS 152.715(1)(b)2).

Therefore, based upon the letter from the Kentucky Cabinet for Economic Development and KRS 154, the proposed CNG station will continue to be eligible for the $250,000 of tax incentives under The Act, as the proposed station will produce compressed natural gas for use as a transportation fuel. The proposed CNG facility will not produce electricity.

Witness:

Matthew D. Wesolosky

CABINET FOR ECONOMIC DEVELOPMENT

Steven L. Beshear
Governor

Old Capitol Annex
300 West Broadway
Frankfort, Kentucky 40601
ThinkKentucky.com

Larry M. Hayes
Secretary

September 19, 2014

Mr. Matthew D. Wesolosky
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

Dear Mr. Wesolosky:

Delta's proposed compressed natural gas station, to be located at Glades Road in Berea, Kentucky, was preliminarily approved for incentives under the Incentives for Energy Independence Act (IEIA) on December 12, 2013, as set forth in the Memorandum of Agreement between Delta Natural Gas Company, Inc. and the Kentucky Economic Development Finance Authority. The proposed compressed natural gas station is an alternative fuel facility which produces natural compressed natural gas rather than a renewable energy facility which produces electricity. The compressed natural gas facility is eligible for the incentives. Delta must seek final approval from the Kentucky Economic Development Finance Authority prior to commencement of the project.

In a review of our files, I noticed that the company had applied for the incentives as a renewable energy facility rather than an alternative fuel facility. Therefore, we approved it as a renewable energy facility, even though we knew it was an alternative fuel facility, and that it was going to be a compressed natural gas station. I sincerely apologize for not catching this at the time the incentive was approved.

Since both the front page of the application as well as the Memorandum of Agreement are incorrect, please revise the front page of the application to indicate the company is applying for the CNG station as an alternative fuel facility. Please sign and date the front page and return to my attention. In addition, I have included the correction to the Memorandum of Agreement. Please sign the new Memorandum of Agreement and return it to my attention as well. The only change that I have made to the Memorandum of Agreement is on page 1 in Section A.

Should you or anyone else have any questions on this matter, please do not hesitate to contact me at (502) 782-1978.

Sincerely,

J. Don Goodin, Director
Incentive Assistance Division

Enclosures

Exhibit III

APPLICATION FOR INCENTIVES FOR ENERGY INDEPENDENCE ACT (IEIA) TAX INCENTIVE PROGRAM

For Office Use Only

______ Department for New Business Development

______ Department for Existing Business Development

______ Date forwarded to Office of Energy Policy

______ Date forwarded to Department of Revenue

October 21, 2013

Date of Application

1. **Applicant Information (entity applying for tax incentives):**

Company Name				
Delta Natural Gas Company, Inc.				
Street or P. O. Box	**City**	**County**	**State**	**Zip Code**
3617 Lexington Road,	Winchester	Clark	KY	40391
Federal Employer ID Number	**Kentucky Employer ID Number**	**NAICS Code**		
61-0458329	005944	221210		
Contact Person	**Telephone**	**Fax**		
Matthew D. Wesolosky	859-744-6171			
E Mail Address	**Company Web Address**			
mwesolosky@deltagas.com	www.deltagas.com			

2. **Is this an expansion of an existing facility or a new location?** ☐ Expansion ☒ New Location ☐ Start-Up

3. **Type of Facility:**
   - ☐ Alternative Fuel using Coal
   - ☐ Gasification Facility using Coal
   - ☐ Alternative Fuel using Biomass Resources
   - ☐ Gasification Facility using Biomass Resources
   - ☐ Renewable Energy Facility Type: __________
   - ☐ Carbon Dioxide Transmission Pipeline
   - X Alternative fuel facility: Compressed natural gas station

Matt J. Wesolosky 9/21/14

Seeking Advanced Disbursement? ☐ Y ☒ N

4. **Project Location, if different from above:**

Street	City	County	State	Zip Code
129 Glades Road	Berea	Madison	KY	40403
Contact Person	**Telephone**	**Fax**	**E Mail Address**	
Matthew D. Wesolosky	859-744-6171		mwesolosky@deltagas.com	

5. **Company Organization:**
   ☐ Subchapter S-Corporation ☒ Subchapter C-Corporation ☐ Partnership Type: ______
   ☐ Limited Liability Partnership ☐ Limited Liability Company ☐ Proprietorship

Date Business Established: 10/7/1949 **Company's Fiscal Year End:** June 30

State of Incorporation or Organization: KY **Date Incorporated or Organized:** 10/7/1949

Registered Agent Name / Address:

John B. Brown

3617 Lexington Road, Winchester KY 40391

If publicly traded, identify: Exchange: NASDAQ **Symbol:** DGAS

EXHIBIT A

MEMORANDUM OF AGREEMENT

MEMORANDUM OF AGREEMENT
REGARDING ENTRY INTO ENERGY INCENTIVE AGREEMENT

This Memorandum of Agreement (the "Memorandum of Agreement") is made by and between the KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY ("KEDFA"), a public body, corporate and politic, created under Chapter 154 of the Kentucky Revised Statutes and Delta Natural Gas Company, Inc. (the "Company"), a Kentucky corporation registered to do business in Kentucky, with principal offices in Winchester, Kentucky

WITNESSETH:

1. Preliminary Statement. Among the facts and circumstances which have resulted in the execution of this Memorandum of Agreement by and between the parties are the following:

A. The Company proposes to acquire, construct, equip and install an "eligible project", as defined in Section 154.27-010 of the Kentucky Revised Statutes, consisting of the acquisition, construction, equipping and installation of an alternative fuel facility in the Commonwealth (the "Project"); and

B. The acquisition, construction and equipping of the Project by the Company will advance the public purposes of achieving energy independence, create new investment, and creating new sources of tax revenues that, but for the incentives to be offered, would not exist and appears to be eligible for incentives pursuant to Chapter 154, subchapter 27 of the Kentucky Revised Statutes (collectively the "Act"); and

C. KEDFA has agreed with the Company to enter into a "tax incentive agreement" as defined in KRS 154.27-010(28) (hereinafter referred to as an "Energy Incentive Agreement") upon compliance by the Company with certain conditions, requirements and obligations and subject to the approval of KEDFA of the terms of all agreements, ordinances and other documents required incident to said Energy Incentive Agreement; and

D. The total Project cost is estimated to exceed ONE MILLION, ONE HUNDRED FIFTY-THREE THOUSAND, THREE HUNDRED FIVE DOALLARS ($1,153,305), of which, more than ONE MILLION, ONE HUNDRED FIFTY-THREE THOUSAND, THREE HUNDRED FIVE DOALLARS ($1,153,305)) is anticipated to qualify as "capital investment" as that term is defined in the Act; and;

E. Representatives of KEDFA have indicated their willingness for KEDFA to proceed with and to have executed an Energy Incentive Agreement in order to effectuate the purposes of the Act and have advised the Company that, subject to due compliance with all requirements of law and the obtaining of all necessary consents and approvals required by law, and to the happening of all acts, conditions and things required precedent to the approval of the Energy Incentive Agreement, including, but not limited to, the reviews and evaluations of third party consultants as authorized or required by the Act, by virtue of authority of the Act, it will cause to be adopted a final resolution authorizing the execution of an Energy Incentive Agreement granting incentives in an amount not to exceed TWO HUNDRED FIFTY THOUSAND DOLLARS ($250,000.00), (the "Maximum Recovery Amount").

2. Conditions. In order to be eligible to receive the maximum incentives granted pursuant to the Energy Incentive Agreement:

A. The Company agrees to utilize the Project, or cause the Project to be utilized, at all times during the term of the Energy Incentive Agreement as an "alternative fuel facility" as that term is defined in the Act; and

B. That the Project is expected to promote the economic development of the Commonwealth; and

C. The Company may cause contracts to be entered into for, or otherwise provide for, the acquisition, construction and equipping of the Project; and

E. The capital investment of the Project must exceed ONE MILLION DOLLARS ($1,000,000.00); and

F. The Company agrees to finalize and disclose a specific location for the Project at least six months prior to anticipated final approval of the Project, but that such disclosure shall not bind or obligate KEDFA to take the project up for final consideration within six months should the analysis and negotiation of the Project require additional time; and

G. That the Company agrees to provide a written report as to the status of the Project, including an estimated time line for construction, significant purchases or contracts relevant to construction, confirmation of additional funding sources, plans for the physical construction, employment of persons who will work at the site of the Project, feasibility or engineering studies and other actions taken related to the planning and construction of the Project beginning on July 1, 2014 and every six months thereafter continuing until activation of the Energy Incentive Agreement; and

H. That the Company agrees to provide any additional documentation or information reasonably requested by KEDFA, the Governor's Office of Energy Policy, Department of Revenue within the Finance and Administration Cabinet, the Center for Applied Energy Research or any agent or third party consultant acting on behalf of or assisting those agencies in evaluation or monitoring of the Project;and

I. The Company must (i) seek final approval of the incentives to be granted pursuant to the Energy Incentive Agreement in connection with the "capital investment" in the Project within two years from preliminary approval, (ii) activate the Energy Incentive Agreement and begin incurring recoverable cost and engaging in recoverable activity within five (5) years of the final approval of Project or upon such other time as agreed upon by KEDFA and the Company, and (iii) undertake and complete any remaining acquisition, construction and equipping of the Project as required by the Energy Incentive Agreement; and

J. The Company must take such further action and adopt such further proceedings as may be reasonably required to satisfy the foregoing conditions or as may be required by law; and

3. Representations and Undertakings on the Part of the Company. The Company represents, undertakes, covenants and agrees as follows:

A. The Company has filed its Cabinet for Economic Development Incentive Disclosure Statement (the "Disclosure Statement") related to the Project with KEDFA. If necessary, the Company agrees to update and amend the Disclosure Statement prior to the final approval of the Energy Incentive Agreement if changes have occurred during the period between preliminary approval and final approval.

B. That all information contained in the application is true and correct in all material respects as of the date hereof.

4. Undertakings on the Part of KEDFA. Subject to the fulfillment of the conditions herein stated, KEDFA agrees as follows:

A. That it will at the necessary time authorize the Energy Incentive Agreement pursuant to the terms of the Act as then in force, related to the granting of incentives in the Maximum Recovery Amount approved by the KEDFA related to the Project; and

B. That KEDFA shall authorize Company to recover a maximum of TWO HUNDRED FIFTY THOUSAND DOLLARS ($250,000.00) of its capital investment if all other contingencies contained herein are met; and

C. That it will take such other acts and adopt such further proceedings as may be required to implement the aforesaid undertakings as KEDFA may deem necessary or advisable, subject to compliance with applicable laws.

5. General Provisions.

A. In connection with the Energy Incentive Agreement, the Company agrees to pay all professional fees, including the fees and expenses of counsel to KEDFA, or third-party consultants to KEDFA, and KEDFA will incur no liability whatsoever in respect of such services. Upon request, KEDFA agrees to provide the Company with sufficient documentation to verify payment of such expenses. Further, the Company agrees to pay to KEDFA a fee equal to 1/4 of 1% of the Maximum Recovery Amount, provided however, that in no event will the fee exceed a maximum of $50,000; and

B. If the Energy Incentive Agreement does not receive final approval, the Company agrees that it will reimburse KEDFA for all reasonable and necessary out-of-pocket expenses (including fees and expenses of counsel and fees and expenses of third party experts) which KEDFA may incur at the Company's request arising from the execution of this Memorandum of Agreement, and the performance by KEDFA of its obligations hereunder shall thereupon terminate; and

C. The parties agree that they shall take any actions or provide any information necessary for analysis of the Company's eligibility for an advance disbursement and, if the Company is found eligible, the parties shall negotiate the amount of the advance disbursement, the schedule for disbursements, any security requirements, and other terms of repayment and shall incorporate the negotiated terms into the Energy Incentive Agreement authorized by the KEDFA; and

D. KEDFA agrees not to disclose any application information or any other information provided by the Company that is clearly marked as confidential or proprietary unless required to do so by the Open Records Act in KRS Chapter 61, or other law or regulation, including a court order. The Cabinet will include in any contract with outside consultants, a clause requiring confidentiality with regard to all information released to the consultants.

E. This Memorandum of Agreement and the Resolution approving this Memorandum of Agreement constitute the present intent of KEDFA to have executed an Energy Incentive Agreement at a later date; and

F. If any provision of this Memorandum of Agreement is determined to be invalid or unenforceable, that determination shall not affect any other provision, the remaining provisions of which shall be construed and enforced as if the invalid or unenforceable provision were not contained herein; and

G. This agreement shall expire and all parties shall be released from any obligation under this agreement if final approval of the Energy Incentive Agreement does not occur within two years of preliminary approval or upon such other time as KEDFA and the Company may agree in writing.

H. Notwithstanding anything to the contrary contained herein, the Company shall have no obligation of any kind whatsoever to begin, proceed with or complete the Project (including, by way of illustration and not of limitation, any obligation with respect to the acquisition, construction, equipping or installation of the Project) by virtue of this Memorandum of Agreement, and the Company reserves the right, in its sole discretion, to decide whether or not to begin, proceed with or complete the Project. KEDFA agrees it will not bring any claim or action (arising from any cause of action or claim including but not limited to contract, tort or a statute) against the Company or its affiliates as a result of any refusal or failure to begin, proceed with or complete the Project.

[The balance of this page is left intentionally blank]

IN WITNESS WHEREOF the parties hereto have entered into this Memorandum of Agreement by their officers thereunto duly authorized as of the 23rd day of September 2014.

KENTUCKY ECONOMIC DEVELOPMENT FINANCE AUTHORITY

By: [signature]
J. Don Goodin, Director
Incentive Assistance Division

(SEAL)

DELTA NATURAL GAS COMPANY, INC.

By: [signature]

Title: VP- Controller