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GLENN R. JENNINGS
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August 22, 2007

Hon. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40601

Re: Surcharge Interim Options

Dear Ms. O'Donnell:

Delta Natural Gas Company, Inc, a regulated natural gas distribution company subject to the Commission's jurisdiction, hereby submits comments as a follow-up to the meeting at the Commission on Thursday, August 16, 2007 relative to the opinion and order entered August 1, 2007 by the Franklin Circuit Court in Case No. 06-C1-269 ("Opinion and Order"). This case relates to a Union Light, Heat and Power accelerated mains replacement program tariff that had been appealed to the Franklin Circuit Court by the Kentucky Attorney General's office.

This Opinion and Order has no application or relevance to Delta. It is Delta's opinion that the consolidated cases before the Franklin Circuit Court related only to Union's main replacement tariff and the Opinion and Order related only to that specific issue that was before the Franklin Circuit Court on appeal. Therefore, the Opinion and Order relate only to that specific tariff and set of circumstances. That was the only issue before the Circuit Court and the only item to be considered. Thus, the Opinion and Order should not be broadly construed. No other tariffs of Union or any other company regulated by the Commission should be affected in any way. The various clauses and tariffs discussed at the August 16 meeting should continue to operate as they have been. Some of them have been operating for many years, such as the electric fuel adjustment clause and the gas cost adjustment clause. There is no reason for any such other tariffs or clauses to be affected by the Opinion and Order.

Delta believes that the only option that should be followed is the first Interim Option, under which the Commission should leave all else as it is and continue to treat those all as they have been treated for a long time. They all work well for their various purposes. As indicated in comments made during the August 16 meeting and set forth in other Interim Option Comments, the Commission has clear authority to approve tariffs and clauses, and they have all been reviewed by the Commission and approved and appropriately allowed in rates by the Commission.

If the clauses and tariffs in question were stopped, as suggested under the second Interim Option, the utilities would be damaged by increasing costs that would have no way to be recovered outside a general rate case. If costs were declining relating to any affected clauses or tariffs, the reductions would not be able to be as easily passed back to customers.

Such option to only adjust in a rate case could lead to multiple rate cases in one year's time, perhaps as many as four per year if the current gas cost recovery clause frequency is continued. This will be very costly to our customers, as our current pending rate case cost is estimated to be $300,000 to $400,000.

If the various clauses were continued subject to refund, as suggested under the third Interim Option, this would become very troublesome for regulated utilities such as Delta. The longer those revenues are billed subject to refund, the larger the aggregate numbers would become. Publicly owned companies such as Delta that file financial statements with the Securities and Exchange Commission must comply with the requirements of accounting and securities regulations, including the Sarbanes-Oxley Act of 2002. Disclosure of subject to refund amounts and possible contingent liabilities could lead to harm to the utilities' financial condition.

Credit market and corporate securities impacts will be minimal if we continue business as usual. If the third Interim Option is taken, this could have a fairly quick negative impact on both. If the clauses and tariffs are ceased under the second Interim Option, the negative impact would probably be immediate. Any negative impacts on credit, such as bank credit lines, and impinging on the ability to issue corporate securities could quickly hurt the utilities financially and thus lead to diminished service quality as well a lack of ability to assist our service areas in their growth and economic development needs. Capital expenditure needs could quickly become hard to fund properly, or if so at a higher cost of capital.

Delta has a quarterly gas cost recovery tariff under which the natural gas supply costs for its customers' needs is adjusted in rates four times each year. We submit that this has worked well for our customers for many years and should be left to function as it has been with no changes. Our last rate case in 2004 reaffirmed all our tariffs and established gas cost in rates that have subsequently been adjusted quarterly under our gas cost recovery tariff. As a result of variations in the national market for natural gas, and changes in supply and demand that affect that unregulated market, sometimes this clause results in increases and sometimes decreases in rates. These changes can be significant. Our purchased natural gas costs are a very material component of our total annual operating costs. For 2006 they were over 60% of revenues.

Our weather normalization clause in our tariffs was reaffirmed in the 2004 rate case. This adjusts our rates in the five winter months to reflect variances in weather from normal weather patterns for those months. This clause helps both the utility and the customers by normalizing the effects of weather. Thus, like the gas cost recovery tariff, the elimination of the tariff could be harmful to both the utility and the customers, depending on the weather patterns.

We have a GTI Surcharge that was approved in our 2004 general rate case. The amount of this charge does not vary monthly and should be unaffected by the Opinion and Order.

We have an Energy Assistance Program that was approved by the Commission in 2005 and is before the Commission for renewal now. This surcharge does not vary monthly. Even though it was first approved outside a general rate case and is being considered for renewal outside a general rate case, since it is a fixed amount monthly per customer, it should be unaffected by the Opinion and Order.

We encourage the Commission to vigorously pursue the appeal of the Franklin Circuit Court judgment and we are willing to support the appeal by participating in an amicus curiae brief with other utilities. We understand that the automatic stay provision as allowed under the Kentucky Rules of Civil Procedures is applicable, and thus we believe nothing else should be done until the appeal has been concluded and a mandate issued. We do not believe that legislation to provide specific authority to the Commission in these areas should be sought as we strongly believe that the Commission already has such authority under law and long-standing practice. We further believe that consideration of additional legislative authority should not take place while any appeal is pending. We suggest holding up on a legislative working group until the appeals process is completed.

We are willing to participate at any time with the Commission in considering any legislation. If a legislative remedy is necessary to pursue following the completion of the appeals process, such legislative effort should attempt to codify the authority that we believe the Commission already possesses.

Thus we encourage caution. We need to stay the course, both the utilities and the Commission. We need to not over-react and to continue to work together cooperatively for the betterment of our customers and the Commonwealth, as we have been doing for many, many years.

We would be pleased to work with the Commission and all other parties in any and all ways.

Sincerely,

Glenn R. Jennings