DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

1. Please refer to the company's answer to PSC 2-46. Would the company agree that its loss of $867,900.00 in acct no. 1.823.0000, Storage Gas Losses, is not a normally recurring expense? If not, please explain in detail.

Response:

Please refer to PSC-2, Item 46 and PSC-3, Item 15.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

2. Please refer to the company's answer to PSC 2-6. With regard to increase in Outside Services – Accounting costs, please indicate the portion of these costs that are recurring and the portion that are non-recurring. In responding to this question, please provide these costs for the last five years.

Response:

The method change is discussed in PSC-3, Item 16. Delta has filed a different method change in each of its three most recent tax years. The costs incurred for the method change under IRC 162 have already proved beneficial to the customer by accelerating tax deductions which reduced rate base in this case by approximately $3,200,000. The amounts charged to Outside Services – Accounting for the last five years are as follows:

2009 - $397,000
2008 - $258,000
2007 - $262,000
2006 - $265,000
2005 - $310,000

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

3. Please refer to the company's answer to PSC 2-6. With regard to increase in medical coverage expenses, please provide these costs for the last five years, breaking out separately the expenses associated with medical coverage and stop loss premiums.

Response:

The following are the calendar year medical coverage expenses:

2009 – $1,526,852
2008 – $1,427,000
2007 – $1,574,000
2006 – $985,000
2005 – $1,348,000

The above includes the following stop-loss premiums:

2009 – $293,000
2008 – $265,000
2007 – $204,000
2006 – $193,000
2005 – $181,000

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

4. Please refer to the company's answer to AG 1-24. With regard to Delta works orders 525-484, 525-490, 525-528 and 525-579, these projects are described as being necessary to increase Delta's off-system transportation capacity.

   a. How much of the expenses associated with these projects are to be recovered through Delta's Off-System Transportation tariff?

   b. Does Delta believe that these expansions provide benefits to its other ratepayer classes? If so, please describe those benefits in detail for each class.

   c. With regard to Mr. Seelye's testimony Page 17, Lines 1-4. Does the rate increase proposed for the Off-System Transportation tariff fully recover the costs of these expenses? If not, please explain in detail why not.

   d. Referring to your answer to part C of this question. If the costs of these expansions are not fully covered by the increase proposed in the Off-System Transportation tariff, would Mr. Seelye agree that the other classes of ratepayers are subsidizing the Off-System Transportation customers? If not, please explain in detail why not.

   e. What is the effect of the expansions for off-system transportation capacity upon Delta's proposed depreciation rates?

   f. If the costs of these expansions were excluded, what would be the effect on Delta's pro forma depreciation expense? If the company declines to perform the necessary calculations, please provide the relevant information necessary to perform these calculations as part of your response.

   g. Please refer to Seelye Exhibit 6, Page 20. Given that the expansions referenced herein were specifically for off-system transportation customers, why are no depreciation expenses included in the allocation for unit cost?

Response:

a. It is evident from the increase in plant in service allocated to Off-System Transportation from Case No. 2007-00089 to Case No. 2010-00116 that essentially all of the costs associated with work orders 525-484, 525-490, 525-528 and 525-579 were allocated to Off-System Transportation. In the cost of service study submitted in Case No. 2007-00089, $15,991,076 of transmission-related plant in service was allocated to Off-System Transportation. (See Case No. 2007-00089, Seelye Exhibit 6, page 1.) In the cost of service study submitted in Case No. 2010-00116, $23,496,637 of transmission-related plant in service was allocated to Off-System Transportation. (See Case No. 2010-00116, Seelye Exhibit 6, page 1.) Therefore, the increase in plant in service allocated to Off-System Transportation from Case No. 2007-00089 to Case No. 2010-0011 was \$7,505,561 (\$23,496,637 - \$15,991,076 = \$7,505,561).

b. Yes. Although these projects were largely driven by growth in Off-System Transportation and are supported by increased revenue from Off-System Transportation customers, these work orders were for system upgrades or replacement of transmission facilities used by all customers. Specifically, Delta's transmission facilities are used to deliver natural gas from its storage operations and interstate transmission lines to the distribution system, from which all customer classes derive some benefit.

c. Yes.

d. Not applicable. See response to c.

e. The expansions did not affect the proposed depreciation rates. They have not been in service for a sufficient amount of time to affect the average service life for any account in the depreciation study.

f. The Company has not prepared the requested analysis. Please see response to AG 1-24 and the Seelye Exhibit 11 for the information necessary to perform the analysis.

g. Depreciation expenses related to the projects are included in the allocation for purposes of calculating the unit costs.

Sponsoring Witness:

William Steven Seelye

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

5. Please refer to the Seelye testimony, Page 13, Line 12. With regard to the Special Contracts customers, please provide.

   a. A breakdown of revenue from each special contract customer by customer and month for the last five year.

   b. A breakdown of the throughput (usage) of each special contract customer by customer and month for the last five years.

   c. Please provide a copy of the contract for each special contract customer, including the inception and expiration dates of the contract.

   d. Do the contracts Delta has with its special contracts customers contain any price escalation clauses? If so, please provide the relevant language, by customer, for each special contracts customer.

   e. Given that the rate of return listed in Seelye Exhibit 6, Page 16 indicates that the Special Contracts customer class is only returning 0.79% to the company, please explain in detail the company's reasoning behind its decision to exclude Special Contract customer from any increase.

Response:

a. See attached.
b. See attached.
c. & d. Contracts are confidential and are on file with the PSC.
e. Please refer to Item 7 of this request

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company
Case 2 00116
Special Contracts Revenue and Usage

	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Totals
MCF	226,676	222,738	232,239	237,517	221,536	227,341	229,959	210,216	211,583	225,019	217,450	202,427	2,664,701
Dollars	$49,975	$51,831	$51,161	$53,226	$51,149	$51,755	$51,977	$49,660	$49,718	$51,588	$51,540	$64,058	$627,640

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	
MCF	263,323	221,262	230,464	236,343	242,575	214,608	245,468	225,064	235,798	226,203	219,095	241,164	2,801,367
Dollars	$55,949	$49,483	$52,924	$53,468	$53,942	$48,732	$52,794	$50,274	$47,620	$48,350	$45,855	$48,673	$608,063

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	
MCF	194,492	205,578	233,664	196,331	213,376	202,617	217,361	209,865	215,482	205,716	194,271	207,459	2,496,212
Dollars	$45,077	$44,810	$48,530	$44,319	$33,379	$45,786	$41,159	$40,560	$39,648	$32,459	$31,494	$32,779	$480,001

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	
MCF	218,100	187,795	217,075	193,662	222,624	188,964	198,704	213,085	181,011	202,138	181,669	187,214	2,392,041
Dollars	$33,789	$30,353	$33,581	$30,933	$34,286	$30,406	$31,449	$32,950	$29,550	$31,778	$30,397	$29,876	$379,347

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	
MCF	195,487	156,315	156,400	124,795	135,483	129,725	140,247	154,442	181,472	199,753	187,158	193,731	1,955,008
Dollars	$27,343	$23,539	$23,314	$20,105	$20,862	$21,477	$25,305	$26,868	$29,726	$31,797	$30,032	$29,060	$309,427

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

6. Please refer to the Seelye testimony, Page 19, Lines 6-18. With regard to the projects listed in the response to AG 1-24, concerning expansions necessary to increase Delta's off-system transportation capacity:

   a. Please indicate how these costs were allocated under Mr. Seelye's cost of service study.

   b. Please indicate where in Exhibit 5 & 6 these costs can be found.

Response:

a. As with all transmission-related plant in service, costs associated with work orders 525-484, 525-490, 525-528 and 525-579 are allocated on the basis of the maximum demand for each rate class.

b. Costs associated with work orders 525-484, 525-490, 525-528 and 525-579 are included in the row labeled "325-371 Transmission" on page 1 of Seelye Exhibit 5 and are included in the row labeled "Demand" under the heading "Transmission" on page 1 of Seelye Exhibit 6.

Sponsoring Witness:

William Steven Seelye

7. Please refer to the Seelye testimony, Page 13, Lines 2-3. As the increases in revenue proposed by the company allocate no increase to the Special Contracts customers, would Mr. Seelye agree that as a result of this treatment, the Special Contracts customers are being subsidized by the other customer classes? If not, please explain in detail why not

Response:

No. Without the special contracts, the special contract customers would have bypassed Delta's system, used other fuels, or not located on Delta's pipeline facilities. Thus the revenues earned from them are incremental to Delta's system and benefit Delta's other customers by providing annual revenues that would otherwise not be collected, thereby reducing the revenue requirement from other customer classes. The special contracts for those customers were negotiated to obtain as much revenue as possible from them. Another significant goal was to attract industry and jobs to Delta's service area and to be able to be competitive with other alternatives that the potential customers were considering. This helped Delta promote economic development and job creation in Kentucky. Due to the fixed nature of the special contract rates, they were not proposed to be adjusted in this rate filing. This is consistent with the treatment in Delta's prior rate cases.

Sponsoring Witness:

William Steven Seelye

8. Please refer to the Blake testimony, Page 14, Lines 16-20. Dr. Blake notes that Delta is about 54.5% debt financed based on its capital structure in this case. Would Dr. Blake agree that the company, rather than its ratepayers, controls the amount of debt assumed by the company? If not, please explain in detail why not.

Response:

Dr. Blake responds with a qualified yes. Although Delta is the entity that actually arranges for and incurs the debt, there are a number of factors which are outside of Delta's control that affect the level of debt that Delta assumes. Thus, Dr. Blake would not agree with the statement that Delta has complete control over the amount of debt assumed by the Company. These factors include the return on equity and return on capital allowed by the Commission in previous rate cases, the price of natural gas, and efficiency measures adopted by customers. Delta requires sufficient funds to meet the expenses that it incurs in providing safe, reliable service to its customers, which is quantified as its revenue requirement. The majority of the costs of running a natural gas distribution system are fixed costs with the notable exception of the natural gas commodity itself. Any under recoveries of natural gas commodity costs are financed with debt until these costs can be recovered later through the GCR. Since natural gas prices are clearly outside of Delta's control, Dr. Blake believes that the debt incurred to meet any under recoveries is outside of Delta's control, and thus the level of debt necessary to fund these under recoveries on the natural gas commodity is outside of Delta's control. Additionally, at the present time, Delta recovers no interest expense on these under recoveries. An insufficiently low rate of return combined with unanticipated expenses can also result in the need to incur debt in order to have sufficient funds to provide safe, reliable service. Both the authorized rate of return and unanticipated expenses are outside of Delta's control. Reduced usage per customer combined with a rate design that collects fixed costs through the volumetric charge could also result in insufficient funds that require debt financing. Although Delta has some control over the debt that it assumes, there are a host of other factors that also impact on debt levels.

Sponsoring Witness:

Martin J. Blake

9. Please refer to the Blake testimony, Page 27, Lines 7-12. Please list all cases in which Dr. Blake's recommendation of a size premium was adopted by the relevant jurisdictional authority. As part of this answer, please provide the case number, state, and the date of the decision.

Response:

Dr. Blake used a size premium in recommending a return on equity in KPSC Case No. 2004-00067, a prior Delta rate case. In this proceeding, the Commission allowed a 10.5% return on equity which was above the ROE recommended by the AG and below the ROE recommended by Delta. In its Order dated November 10, 2004, the Commission stated that "we are of the opinion that Delta has risks that should be recognized, such as its <u>small size</u> and its equity position (emphasis added). The Commission finds that the AG's recommended ROE does not fully reflect these risks, and that Delta's recommended ROE overstates them." This statement is recognition by the Commission that a size premium is appropriate and the issue is the appropriate magnitude of the size premium. Use of a size premium for small companies is based on recent advances described in the finance literature and is described in detail in the book, <u>2010 Ibbotson Stocks, Bonds, Bills and Inflation Valuation Yearbook</u> published by Morningstar, Inc.

Sponsoring Witness:

Martin J. Blake

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

10. Please refer to the Blake testimony, Page 2, Lines 9-12. Regarding Dr. Blake's testimony in Delta's prior rate cases, please indicate the return on equity recommended by Dr. Blake in those cases.

Response:

Dr. Blake recommended the following returns on equity in Delta's previous rate cases in Kentucky:

a) Case No. 99-046 – Dr. Blake recommended a 13.9% return on equity if Delta's actual capital structure with 30% equity was used and recommended an 11.9% return on equity if an imputed capital structure with 43.5% equity was used.

b) Case No. 2004-00067 - Dr. Blake recommended a 12.5% return on equity.

c) Case No. 2007-00089 – Dr. Blake recommended a 12.1% return on equity.

Sponsoring Witness:

Martin J. Blake

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

11. Please refer to Tab 27, Schedule 8. Please provide the monthly balances and cost rates for both long term and short term debt for the last five years.

Response:

See attached.

Sponsoring Witness:

John B. Brown

Delta Natural Company, Inc.
Case No. 2010-00116
Monthly Balances and Cost Rates for
Long Term and Short Term Debt

Long-Term Debt	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05
6.625% Debentures	$ 10,686,000	$10,606,000	$10,606,000	$10,596,000	$10,596,000	$10,589,000	$10,574,000	$10,579,000	$10,579,000	$10,186,000	$10,186,000	$10,170,000
7.15% Debentures	$ 23,787,000	$23,787,000	$23,782,000	$23,782,000	$23,775,000	$23,768,000	$23,768,000	$23,743,000	$23,706,000	$23,706,000	$23,681,000	$23,681,000
7% Debentures	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 20,000,000	$ 19,990,000
5.75% Quarterly Notes												
	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
6.625% Debentures	$ 10,170,000	$10,169,000	$10,169,000	$10,169,000	$ -							
7.15% Debentures	$ 23,681,000	$23,672,000	$23,672,000	$23,672,000	$ -							
7% Debentures	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000
5.75% Quarterly Notes				$ 40,000,000	$ 40,000,000	$ 40,000,000	$ 40,000,000	$ 40,000,000	$ 40,000,000	$ 40,000,000	$ 39,975,000	$ 39,880,000
	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
7% Debentures	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,990,000	$ 19,980,000	$ 19,932,000	$ 19,932,000	$ 19,932,000	$ 19,932,000	$ 19,932,000	$ 19,925,000
5.75% Quarterly Notes	$ 39,855,000	$ 39,855,000	$ 39,855,000	$ 39,855,000	$ 39,855,000	$ 39,845,000	$ 39,845,000	$ 39,820,000	$ 39,775,000	$ 39,751,000	$ 39,709,000	$ 39,677,000
	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
7% Debentures	$ 19,925,000	$ 19,925,000	$ 19,925,000	$ 19,925,000	$ 19,890,000	$ 19,876,000	$ 19,876,000	$ 19,876,000	$ 19,840,000	$ 19,810,000	$ 19,770,000	$ 19,760,000
5.75% Quarterly Notes	$ 39,677,000	$ 39,677,000	$ 39,677,000	$ 39,677,000	$ 39,652,000	$ 39,642,000	$ 39,627,000	$ 39,602,000	$ 39,602,000	$ 39,552,000	$ 39,525,000	$ 39,503,000
	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
7% Debentures	$ 19,732,000	$ 19,689,000	$ 19,679,000	$ 19,679,000	$ 19,664,000	$ 19,659,000	$ 19,617,000	$ 19,597,000	$ 19,587,000	$ 19,552,000	$ 19,535,000	$ 19,510,000
5.75% Quarterly Notes	$ 39,388,000	$ 39,305,000	$ 39,230,000	$ 39,180,000	$ 39,140,000	$ 39,140,000	$ 39,066,000	$ 39,034,000	$ 39,004,000	$ 38,974,000	$ 38,949,000	$ 38,949,000

Delta Natural Company, Inc.
Case No. 2010-00116
Monthly Balances and Cost Rates for
Long-Term and Short-Term Debt

Short-Term Debt	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05
Cost of Short-Term Debt	3.4000%	3.5900%	3.7200%	3.8700%	4.0887%	4.1400%	4.3400%	4.5337%	4.7162%	4.8637%	5.0900%	5.3112%
Note Payable	$ 16,008,480	$ 11,442,394	$ 7,298,300	$ 4,807,575	$ 3,207,914	$ 5,959,122	$ 7,875,126	$11,362,656	$15,508,747	$20,741,895	$26,409,563	$32,034,527
Cost of Unused Line	0.3000%	0.3000%	0.3000%	0.3000%	0.3000%	0.3000%	0.3000%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%
Balance Unused Line	$ 23,991,520	$ 28,557,606	$32,701,700	$ 35,192,425	$ 36,792,086	$ 34,040,878	$32,124,874	$28,637,344	$24,491,253	$19,258,105	$13,590,437	$ 7,965,473
	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
Cost of Short-Term Debt	5.3900%	5.5706%	5.6400%	5.8293%	6.0400%	6.1293%	6.3343%	6.3900%	6.3300%	6.3218%	6.3200%	6.3500%
Note Payable	$ 25,390,229	$ 19,922,236	$12,669,551	$ -	$ 1,738,789	$ 7,046,434	$ 8,074,005	$11,085,423	$14,572,267	$14,596,952	$14,184,063	$17,146,346
Cost of Unused Line	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%
Balance Unused Line	$ 14,609,771	$ 20,077,764	$27,330,449	$ 40,000,000	$ 38,261,211	$ 32,953,566	$31,925,995	$28,914,577	$25,427,733	$25,403,048	$25,815,937	$22,853,654
	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Cost of Short-Term Debt	6.3206%	6.3200%	6.3200%	6.3200%	6.3200%	6.3200%	6.3200%	6.3275%	6.7200%	5.8706%	5.4375%	5.9862%
Note Payable	$ 13,194,052	$ 8,527,433	$ 3,803,634	$ -	$ -	$ 4,189,918	$ 9,752,112	$14,934,375	$18,589,434	$19,747,280	$23,357,892	$23,798,147
Cost of Unused Line	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%
Balance Unused Line	$ 26,805,948	$ 31,472,567	$36,196,366	$ 40,000,000	$ 40,000,000	$ 35,810,082	$30,247,888	$25,065,625	$21,410,566	$20,252,720	$16,642,108	$16,201,853
	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Cost of Short-Term Debt	5.3500%	3.8912%	3.8606%	3.4500%	3.4370%	3.2075%	3.2112%	3.2100%	3.2356%	4.7525%	3.3312%	2.6612%
Note Payable	$ 18,690,206	$ 10,441,674	$ 3,287,182	$ -	$ -	$ 6,828,791	$14,373,242	$21,384,084	$24,698,334	$27,483,504	$30,697,804	$28,652,755
Cost of Unused Line	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%
Balance Unused Line	$ 21,309,794	$ 29,558,326	$36,712,818	$ 40,000,000	$ 40,000,000	$ 33,171,209	$25,626,758	$18,615,916	$15,301,666	$12,516,496	$ 9,302,196	$11,347,245
	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Cost of Short-Term Debt	1.1862%	1.1693%	1.2462%	1.2450%	1.1643%	1.8062%	1.8062%	1.7793%	1.7562%	1.7456%	1.7435%	1.7346%
Note Payable	$ 26,416,850	$ 19,134,683	$10,658,133	$ 4,038,110	$ 351,220	$ 3,653,103	$ 4,963,645	$ 7,514,694	$ 9,595,840	$11,052,349	$12,020,857	$12,015,728
Cost of Unused Line	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%	0.1250%
Balance Unused Line	$ 13,583,150	$ 20,865,317	$29,341,867	$ 35,961,890	$ 39,648,780	$ 36,346,897	$35,036,355	$32,485,306	$30,404,160	$28,947,651	$27,979,143	$27,984,272

12. Please refer to Tab 27, Schedule 4, Line 18, Account No. 352 – Storage Wells. In Delta's last rate case (2007-00089) this accounts balance was $360,583.00, the current rate case lists this balance as $2,876,146.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes affected by the increase.

Response:

The increase is attributable to work orders 525-559 and 525-570 further discussed in AG-1, Item 24.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

13. Please refer to Tab 27, Schedule 4, Line 28, Account No. 3651 – Land & Rights. In Delta's last rate case (2007-00089) this accounts balance was $56,999.00, the current rate case lists this balance as $140,670.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes effected by the increase.

Response:

Investment in land and rights includes the purchases of land to be used for compressor sites ($84,000.00).

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

14. Please refer to Tab 27, Schedule 4, Line 31, Account No. 366 – Structures & Improvements. In Delta's last rate case (2007-00089) this accounts balance was $182,239.00, the current rate case lists this balance as $250,172.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes effected by the increase.

Response:

Investment in transmission structures and improvements from 2007 through 2009 includes the installation of metal buildings/sheds at compressor sites ($35,000) and fencing and improvements to these sites ($34,000). Amount of investment was partially offset by retirements.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

15. Please refer to Tab 27, Schedule 4, Line 32, Account No. 367 – Transmission Mains. In Delta's last rate case (2007-00089) this accounts balance was $41,447,022.00, the current rate case lists this balance as $42,032,176.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes effected by the increase.

Response:

Investment in transmission mains from 2007 through 2009 includes installation of new mains ($528,000) and replacements of existing mains ($517,000). Amount of investment was partially offset by retirements.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

16. Please refer to Tab 27, Schedule 4, Line 33, Account No. 368 – Compressor Station Equipment. In Delta's last rate case (2007-00089) this accounts balance was $2,463,406.00, the current rate case lists this balance as $7,576,006.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes affected by the increase.

Response:

The majority of the increase is attributable to work orders 525-528 and 525-579 further discussed in AG-1, Item 24.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

17. Please refer to Tab 27, Schedule 4, Line 34, Account No. 369 – Measuring & Regulating Station Equipment. In Delta's last rate case (2007-00089) this accounts balance was $2,665,648.00, the current rate case lists this balance as $3,384,707.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes effected by the increase.

Response:

Investment in measuring & regulating equipment from 2007 through 2009 includes new measurement stations ($575,000), enhancements to existing stations ($15,000) and equipment to remove liquids from the pipeline ($134,000). Amount of investment was partially offset by retirements.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

18. Please refer to Tab 27, Schedule 4, Page 2, Line 4, Account No. 376 – Distribution Mains. In Delta's last rate case (2007-00089) this accounts balance was $61,423,134.00, the current rate case lists this balance as $66,875,341.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes affected by the increase.

Response:

Investment in distribution mains from 2007 through 2009 includes main extensions ($2,176,000) and relocations/replacements ($3,857,000). Amount of investment was partially offset by retirements.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

19. Please refer to Tab 27, Schedule 4, Page 2, Line 7, Account No. 380 – Services. In Delta's last rate case (2007-00089) this accounts balance was $12,658,475.00, the current rate case lists this balance as $13,709,008.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes effected by the increase.

Response:

Investment in services from 2007 through 2009 includes new and replaced service lines ($1,589,000). Amount of investment was partially offset by retirements.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

20. Please refer to Tab 27, Schedule 4, Page 2, Line 8, Account No. 381 – Meters. In Delta's last rate case (2007-00089) this accounts balance was $8,917,576.00, the current rate case lists this balance as $9,302,928.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes affected by the increase.

Response:

Investment in meters from 2007 through 2009 includes the purchase of additional meters ($201,000) and measurement devices ($349,000). Amount of investment was partially offset by retirements.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

21. Please refer to Tab 27, Schedule 4, Page 2, Line 10, Account No. 383 – House Regulators. In Delta's last rate case (2007-00089) this accounts balance was $3,093,300.00, the current rate case lists this balance as $3,478,550.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes affected by the increase.

Response:

Investment in regulators from 2007 through 2009 includes the addition of regulators ($316,000) and valves and filters ($162,000). Amount of investment was partially offset by retirements.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

22. Please refer to Tab 27, Schedule 4, Page 2, Line 16, Account No. 392 – Autos & Trucks. In Delta's last rate case (2007-00089) this accounts balance was $3,868,757.00, the current rate case lists this balance as $4,201,697.00. Please provide a description, in detail, explaining the increase in the account balance including the dates on which any new equipment was placed in service.

Response:

Investment in autos and trucks from 2007 through 2009 includes vehicles ($1,620,000) and trailers ($108,000). Amount of investment was partially offset by retirement ($1,395,000).

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

23. Please refer to Tab 27, Schedule 4, Page 2, Line 4, Account No. 396 – Power Operated Equipment. In Delta's last rate case (2007-00089) this accounts balance was $2,779,542.00, the current rate case lists this balance as $3,294,567.00. Please provide a description, in detail, explaining the increase in the account balance including the dates on which any new equipment was placed in service.

Response:

Investment in power operated equipment from 2007 through 2009 includes the purchase of heavy machinery (backhoes & bulldozers $503,000), drilling and boring machines ($168,000) and air compressors ($50,000). Amount of investment was partially offset by retirements.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

24. Please refer to Tab 27, Schedule 4, Page 2, Line 25, Account No. 3992 – Computer Software. In Delta's last rate case (2007-00089) this accounts balance was $2,525,991.00, the current rate case lists this balance as $3,720,474.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes affected by the increase and the dates on which any new software was placed in service.

Response:

Investment in computer software from 2007 through 2009 includes installation of new systems ($1,184,511) and upgrades to existing systems ($241,000). Installation of new systems include systems utilized for work order management, fixed asset accounting, income tax depreciation, income tax provision, property taxes, accounting workflow, gas measurement and gas accounting. Amount of investment was partially offset by retirements.

Refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

25. Please refer to Tab 27, Schedule 6, Line 5, Gas In Storage. In Delta's last rate case (2007-00089) the 13 month average balance was $9,879,627.00, the current rate case lists this balance as $3,777,901.00. Please provide a description, in detail, explaining the decrease in the account balance including the customer classes affected by the decrease.

Response:

In 2006 the average MCF in storage was 1,237,973 with an average cost of $7.98 per Mcf. In 2009 the average MCF in storage was 651,393 with an average cost of $5.80 per Mcf.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

26. Please refer to Tab 27, Schedule 6, Line 6, Unamortized Debt Expense Per Books. In Delta's last rate case (2007-00089) the balance was $5,704,177.00, the current rate case lists this balance as $4,542,382.00. Please provide a description, in detail, explaining the decrease in the account balance including the customer classes affected by the decrease.

Response:

The decrease in unamortized debt expense is due to the monthly amortization recorded over the life of the debt. A detail of the decrease in each account is listed below:

		Balance 12-09	Balance 12-06	Decrease
1.181.07	**Unamortized Debt Expense Due 2-1-23 7%**	$ 534,000	$ 655,671	$ (121,671)
1.181.071	**Loss on Extinguishment of Debt 2-1-23 7%**	741,380	910,299	(168,919)
1.181.08	**Unamortized Debt Expense Due 2021 5.75%**	1,755,722	2,223,918	(468,196)
1.181.081	**Loss on Extinguishment of Debt 2021 5.75%**	1,511,280	1,914,289	(403,009)
	Totals	**$ 4,542,382**	**$ 5,704,177**	**$ (1,161,795)**

Sponsoring Witness:

Matthew D. Wesolosky

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

27. Please refer to Tab 27, Schedule 6, Line 1, Total Utility Plant in Service Per Books. In Delta's last rate case (2007-00089) the balance was $182,191,296.00, the current rate case lists this balance as $199,027,425.00. Please provide a description, in detail, explaining the increase in the account balance including the customer classes affected by the increase.

Response:

Refer to responses for Item 12 through 24 and 28 for details related to the changes in total utility plant.

Additionally, refer to the cost of service study performed by Mr. Seelye for allocations of utility plant to the various customer classes.

Sponsoring Witness:

Matthew D. Wesolosky

28. In Delta's 2001 Annual Report the company stated that it had "Gas Utility Plant" at a cost of $147,792,390 and had 38,983 total retail customers. From the company's June 30, 2009 10-K filing, Delta states that it serves approximately 37,000 customers and lists its Total Utility Plant in the application at $199,027,424.00.

    a. Please explain in detail why Delta has invested approximately $51 million in additional Plant since 2001 while losing approximately 2000 of its customers?

    b. Is Delta of the opinion that it is to be compensated by its ratepayers for its investments in Plant even if those investments generate no customer growth or increased sales?

    c. Please explain in detail how the additional $51 million investment in Plant since 2001 has benefitted Delta's customers.

Response:

a., b., and c.

Delta each year invests in assets as required to operate its system safely, effectively and reliably. Delta's capital spending to do this averaged over $7 million per year from fiscal 2001 to 2009. Capital investments are made in all aspects of Delta as required, including general plant, computers and IT systems, vehicles, equipment, meters, regulators, service lines, storage fields, compressor stations, transmission and distribution mains.

Delta's net plant (cost less depreciation) in its 2001 annual report was $102 million. Delta's similar net plant at December 31, 2009, used in this current rate filing was $128 million. This is a critical component of rate base, on which a return and rates are based. Net plant increased only about $26 million during that 8+ year period, an average annual increase of about $3 million.

Delta's investments in its transmission/distribution system are for new business/economic growth and to upgrade or replace portions as required. A portion of Delta's mains and service lines require replacement each year to provide continued safe and reliable service. Therefore, they represent an important and necessary component of rate base.

Delta's customer numbers declined due to drastically increasing gas prices since 2001. Such decline, similar to that experienced by other LDCs, was due to customers switching to other energy sources, particularly electric in Kentucky. Expenditures to install new mains and service lines and to replace existing facilities must be done each year despite a small decline in the number of customers. This is necessary to be able to serve new customers in Delta's service areas and to ensure the continuation of safe, reliable service to all customers. Delta's capital expenditures are made to replace assets as necessary and to meet the changing needs on Delta's system in order to fully utilize Delta's system facilities.

Sponsoring Witness:

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

29. In Delta's June 30, 2006 10-K filing, Delta states that it serves approximately 38,000 customers and lists its Total Utility Plant at $182,155,110.00. From the company's June 30, 2009 10-K filing, Delta states that it serves approximately 37,000 customers and lists its Total Utility Plant in the application at $199,027,424.00.

a. Please explain in detail Delta's rationale for investing approximately $17 million in additional Plant since 2006 while losing approximately 1000 of its customers?

b. Does Delta believe that its shareholders should be responsible for any of these investments? If so, please explain in detail how?

c. Please explain in detail how the additional $17 million investment in Plant since 2006 has benefitted Delta's customers even though these it appears that these investments generated no customer growth or increased sales.

Response:

The June 30, 2006 balance sheet indicates net gas plant of $120 million. The June 30, 2009 balance sheet indicates $128 million, an increase of about $8 million, or about $2.7 million per year. This rate base investment is necessary to continue to operate Delta's system effectively, safely and reliably.

See response to Second AG Request Number 28.

Sponsoring Witness:

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

30. Please refer to the company's answer to AG 1-24. With regard to Delta works orders 525-484, 525-490, 525-528 and 525-579, the answer states that the economic feasibility of these expansion projects were evaluated by company management. Please describe in detail Delta's economic feasibility evaluation process and provide copies of all documents related to the economic feasibility studies of the referenced projects.

Response:

Delta's system has historically existed primarily to serve its firm residential and commercial customers as well as industrial customers, primarily interruptible, on its system. Delta's storage facility was developed to meet firm customer needs, especially during the winter heating season. Delta's system has developed over the years in some natural gas production areas of the state. Therefore, it has become possible to transport gas through Delta's system on an interruptible basis. Such gas is transported from producers to interconnected pipelines. The revenues from such transportation have increased and this has helped to provide some offset against revenues requirements from other customers. This ability to utilize Delta's system to transport Kentucky production has been a benefit in economic development by helping to stimulate drilling in Kentucky.

Delta continuously reviews its system needs and considers current and planned production of producers and interconnected pipelines. The goal is to keep Delta's complete system adequate for current as well as future needs of all customers, and Delta continuously considers where its system needs replacement and improvement to enhance the use of all of Delta's system. These particular projects were undertaken with this in mind. They were undertaken after discussions of the specific projects by Delta's management. Delta does not utilize a formal, specific process for evaluation or documentation of such projects as it is a smaller company with frequent and effective communication between and among senior management. Capital expenditures needs and project feasibilities are reviewed and discussed by Delta's management as projects are considered, but there is no requirement for specific documentation. When such reviews result in facilities being upgraded or added, then verbal approvals are given, plans are made and work proceeds. The experience and knowledge of management, as well as its understanding of Delta's system capabilities and future needs, guides the decision-making process. Management makes plans and takes steps to replace assets and add assets in order to provide maximum utilization of Delta's system to transport and distribute natural gas. Future revenues from projects are considered along with capital expenditure costs.

The work orders that are the subject of this data request total about $7.8 million, of which work orders 525-484 and 525-490 were completed in 2006 and thus were included in rate base in Delta's prior rate case using a December 31, 2006 test year. Thus about $4.1 was expended since Delta's last rate case on work orders 525-528 and 525-579, which added compression to Delta's system. Delta's off-system revenues increased by $931,000 when comparing the 2009 test year revenues to the amounts in the 2006 test year in Delta's last rate case. On a simple payback approach, considering the incremental revenues during the test year this produces a payback of over 22%. These investments in plant and corresponding revenues are all reflected in Delta's financial statements included in this current rate filing.

Delta believes that these capital expenditures were all necessary and that the decisions for the capital expenditures were made consistent with meeting Delta's system needs and maintaining its total system capabilities. Work orders 525-484 and 525-490 provided replacement capacity for an older portion of Delta's system while also accessing more production. Work orders 525-528 and 525-579 added compression to facilitate the use of Delta's system and to meet required needs for capacity.

Delta's continuing efforts to maintain and improve its total system and meet all its customers' needs have resulted in expanding Delta's off-system transportation business as production and drilling has occurred. As a result, annual off-system transportation revenues exceeded $3.4 million in 2009 as compared with about $ .5 million in 2000.

Delta's efforts to fully utilize its entire system have resulted in significantly increased transportation of natural gas from Kentucky producers. In Delta's fiscal year 2000, such annual off-system transportation volumes were 1,672,000 Mcf. By fiscal 2005, this had increased by 330% to 7,194,000 Mcf annually. By 2009, this had increased to 10,642,000 Mcf annually, an increase of 536% since 2000. Through this thorough utilization of its system, the revenues from such increased transportation business help to provide some of Delta's revenue requirements from sources other than residential and commercial customers.

Delta's cost of service study, set forth in Steven Seelye's direct testimony in this rate case, included all Delta's plant and costs, appropriately allocated to classes of service. This resulted in Delta's request to increase the off-system rate from $.27 to $.29 per Mcf. Thus, Delta's plant investments are properly allocated and appropriately reflected in Delta's proposed rates in this rate case to the appropriate customer classes.

Sponsoring Witness:

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

31. Please refer to the Application Section 10(1)(a)1, Second Paragraph, where it is stated that " Delta has been unable to earn the return authorized in its last rates case in 2007 due in large part to reduced consumption by its customers."

a. Please explain in detail whether Delta believes that its rate of return as been exclusively harmed by the reduced consumption of its customers? If not, please list any other factors Delta believes affects its ability to earn its authorized return.

b. Please explain in detail what effect, if any, Delta believes that its investment of $51 million in additional Plant since 2001, while losing approximately 2000 customers, has had on its rate of return? Did this investment increase Delta's return?

c. In light of Delta's claim that its customers have reduced their consumption, has Delta considered reducing its investments in Plant unless those investments expand its sales or its customers? If not, please explain in detail why not?

Response:

a. Filing requirement 807 KAR 5:001 Section 10(1)(a)1, filed under Tab 2 in this rate case, addressed this. Other factors than reduced consumption were addressed there. Delta's reduced customer consumption hampered Delta's ability to earn its return, as did a reduction in number of customers. Plant additions to replace and, in some cases expand, Delta's system had an impact, as did increased operating costs since Delta's last rate case.

b. Capital expenditures to replace as well as add assets resulted in increased plant. Where this provided additional revenue (new customers and increased deliveries) it helped. Where replacements were made, this did not help Delta's return but it did help to ensure system integrity, safety and reliability.

c. Delta invests in plant to replace existing assets that need replacing and to increase its ability to serve customers and to provide for deliveries of Kentucky production to markets. Replacement of assets is not optional and is done as needed to maintain system safety and reliability as well as to meet customers' needs.

Sponsoring Witness:

Glenn R. Jennings

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

32. Please refer to the company's answer to AG 1-24 and the Seelye testimony, Page 26, Table 2 and Seelye Exhibit 3 Page 1. In the answer to AG 1-24, the company states that Delta works orders 525-484, 525-490, 525-528 and 525-579 were done primarily to increase off-system transportation capacity. It appears that the total cost for these projects is $7,804,047, leaving approximately $9.2 million ($17 million increase in Plant minus $7.2 for off-system transportation projects) in plant projects for the remaining customer classes since 2006.

    a. In Seelye Exhibit 3, Page 1, the company proposes to collect an additional $253,030.00 from the Off-System Transportation class on an annual basis. Please explain in detail the company's rationale for collecting only 4.7% of the proposed $5.3 million dollar increase from the class of customers that consumed 48% of its capital budget since 2006?

    b. In Seelye Exhibit 3, Page 1, the company proposes to collect an additional $3,538,987.00 from the Residential class on an annual basis. Please explain in detail the company's rationale for collecting the bulk (67%) of the proposed $5.3 million dollar increase from the class of customers that consumed only a little over half (54%) of its capital budget since 2006?

    c. Referring to Table 2 on Page 26 of the Seelye testimony, it appears that the Off-System Transportation rate has a proposed increase of only 1.67%, while the proposed Residential rate increases by 4.75%. Assuming those rates are approved, Does Mr. Seelye believe it is in the best interest of Delta's residential customers for the company to continue to its off-system transportation capacity? If so, why? Does Mr. Seelye believe that Delta's residential customers are subsidizing the costs for the increases to Delta's off-system transportation capacity? Please fully explain your answers.

Response:

a. In developing the proposed allocation of the revenue increase to the customer classes, Delta was guided by the class cost of service study. The rate of return for Off-System Transportation was higher under the current rates than other rate classes, particularly Residential. As explained in response to AG2-5, essentially all of the costs associated with work orders 525-484, 525-490, 525-528 and 525-579 were allocated to Off-System Transportation. Thus, in the determination of the rate of return in the cost of service study, these costs were taken into consideration. It is also important to note that the increase due to these projects is not the only factor that is taken into consideration in the determination of the class rates of return. For example, increases in net revenue from Off-System Transportation customers have off-set much of the increased carrying charges associated with these projects. In Case No. 2007-00089, there were $2.5 million in test-year revenues for Off-System Transportation; but in Case No. 2010-00116, there were $3.4 million in test-year revenues for Off-System Transportation. (See Case No. 2007-00089, Seelye Exhibit 6, page 15, and Case No. 2010-00116, Seelye Exhibit 6, page 15.)

b. In developing the proposed allocation of the revenue increase to the customer classes, Delta was guided by the class cost of service study. The rate of return for the Residential class is 3.44%, which supports a higher percentage increase than other rate classes. As explained in response to AG2-5, essentially all of the costs associated with work orders 525-484, 525-490, 525-528 and 525-579 were allocated to Off-System Transportation.

c. Revenues from Off-System Transportation customers provide recovery of fixed costs which, in the absence of these customers, would have to be borne by other customers, including residential customers. Furthermore, residential customers are not subsidizing Off-System Transportation customers. The rate of return for the Residential class is only 3.44%, whereas the rate of return for the Off-System Transportation class is 5.59%, which is above the total system rate of return. This is one of the reasons that the Company is proposing a lower percentage increase for the Off-System Transportation class.

Sponsoring Witness:

William Steven Seelye

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

33. Referring to Table 2 on Page 26 of the Seelye testimony, assuming the increases proposed are approved, it appears that the Delta's Total Transportation rates will provide only $8,067,973.00 in revenue to the company. Does Mr. Seelye believe it was a cost effective use of Delta's capital to increase its Off-System Transportation Plant by $7,804,047 since 2006? If so, why? Please fully explain your answer.

Response:

Yes. Attached is a cost benefit analysis comparing (i) the present value revenue requirements associated with a plant investment of $7,804,047 to (ii) the present value of an annual revenue stream of $8,067,973. As can be seen from this analysis, the estimated present value revenue requirement (Present Value Cost) of the investment is $14,188,467, whereas the present value of the annual revenue stream (Present Value Benefit) is $87,926,349. This indicates a benefit to cost ratio of 6 to 1.

Another, more basic way to evaluate the investment is in terms of a simple payback calculation. In terms of simple pay back, to maintain an annual revenue stream of $8,067,973, an investment of $7,804,047would pay for itself in less than a year ($7,804,047 ÷ $8,067,973 = 0.97 years).

Sponsoring Witness:

William Steven Seelye

Delta Natural Gas Company
Present Value Cost Benefit Analysis

Capital Structure:

	Percent	Rate	Weighted Cost of Capital
Debt	55.51%	6.01%	3.34%
Preferred Equity	0.00%	0.00%	0.00%
Common Equity	44.49%	12.00%	5.34%
	100.00%		8.68%

Tax Depreciation Table (MACRS)

	5	10	15	20
1	20.000%	10.000%	5.000%	3.750%
2	32.000%	18.000%	9.500%	7.219%
3	19.200%	14.400%	8.550%	6.677%
4	11.520%	11.520%	7.700%	6.177%
5	11.520%	9.220%	6.930%	5.713%
6	0.000%	7.370%	6.230%	5.285%
7	0.000%	6.550%	5.900%	4.888%
8	0.000%	6.550%	5.900%	4.522%
9	0.000%	6.560%	5.910%	4.462%
10	0.000%	6.550%	5.900%	4.461%
11	0.000%	0.000%	5.910%	4.462%
12	0.000%	0.000%	5.900%	4.461%
13	0.000%	0.000%	5.910%	4.462%
14	0.000%	0.000%	5.900%	4.461%
15	0.000%	0.000%	5.910%	4.462%
16	0.000%	0.000%	2.950%	4.461%
17	0.000%	0.000%	0.000%	4.462%
18	0.000%	0.000%	0.000%	4.461%
19	0.000%	0.000%	0.000%	4.462%
20	0.000%	0.000%	0.000%	4.461%
21	0.000%	0.000%	0.000%	2.231%
22	0.000%	0.000%	0.000%	0.000%
23	0.000%	0.000%	0.000%	0.000%
24	0.000%	0.000%	0.000%	0.000%
25	0.000%	0.000%	0.000%	0.000%
26	0.000%	0.000%	0.000%	0.000%
27	0.000%	0.000%	0.000%	0.000%
28	0.000%	0.000%	0.000%	0.000%
29	0.000%	0.000%	0.000%	0.000%
30	0.000%	0.000%	0.000%	0.000%
31	0.000%	0.000%	0.000%	0.000%
31	0.000%	0.000%	0.000%	0.000%

Delta Natural Gas Company
Present Value Cost Benefit Analysis

Assumptions:

Annual Revenue	$	8,067,973
Investment	$	7,804,047
Book Life		35
Tax Life		20
Composite Tax Rate		37.96%
Property Tax Rate		0.95%
Levelized Revenue Requirement Years		35
O&M as Percent of Investment		5.72%
Weighted Cost of Capital		8.68%

Results:

Present Value of Annual Revenue Stream (PV Benefit)	$	87,926,349
Present Value Revenue Requirement (PV Cost)	$	14,188,467
Levelized Revenue Requirement		$1,301,910
Levelized Carrying Charge Rate		16.68%

Year	Investment	Book Depreciation	Residual Plant	Tax Depreciation	Residual Plant	Deferred Income Tax	Accumulated Deferred Income Tax
0	$ 7,804,047						
1		$ 222,973	$ 7,581,074	$ 292,652	$ 7,511,395	$ 26,450	$ 26,450
2		222,973	7,358,101	563,374	6,948,021	129,216	155,667
3		222,973	7,135,129	521,076	6,426,945	113,160	268,827
4		222,973	6,912,156	482,056	5,944,889	98,348	367,175
5		222,973	6,689,183	445,845	5,499,044	84,602	451,777
6		222,973	6,466,210	412,444	5,086,600	71,923	523,700
7		222,973	6,243,238	381,462	4,705,138	60,162	583,863
8		222,973	6,020,265	352,899	4,352,239	49,320	633,183
9		222,973	5,797,292	348,217	4,004,022	47,543	680,725
10		222,973	5,574,319	348,139	3,655,884	47,513	728,238
11		222,973	5,351,347	348,217	3,307,667	47,543	775,781
12		222,973	5,128,374	348,139	2,959,529	47,513	823,294
13		222,973	4,905,401	348,217	2,611,312	47,543	870,836
14		222,973	4,682,428	348,139	2,263,174	47,513	918,349
15		222,973	4,459,455	348,217	1,914,957	47,543	965,892
16		222,973	4,236,483	348,139	1,566,819	47,513	1,013,405
17		222,973	4,013,510	348,217	1,218,602	47,543	1,060,947
18		222,973	3,790,537	348,139	870,463	47,513	1,108,460
19		222,973	3,567,564	348,217	522,247	47,543	1,156,003
20		222,973	3,344,592	348,139	174,108	47,513	1,203,515
21		222,973	3,121,619	174,108	0	(18,549)	1,184,966
22		222,973	2,898,646	-	0	(84,640)	1,100,326
23		222,973	2,675,673	-	0	(84,640)	1,015,686
24		222,973	2,452,700	-	0	(84,640)	931,045
25		222,973	2,229,728	-	0	(84,640)	846,405
26		222,973	2,006,755	-	0	(84,640)	761,764
27		222,973	1,783,782	-	0	(84,640)	677,124
28		222,973	1,560,809	-	0	(84,640)	592,483
29		222,973	1,337,837	-	0	(84,640)	507,843
30		222,973	1,114,864	-	0	(84,640)	423,202
31		222,973	891,891	-	0	(84,640)	338,562
32		222,973	668,918	-	0	(84,640)	253,921
33		222,973	445,946	-	0	(84,640)	169,281
34		222,973	222,973	-	0	(84,640)	84,640
35		222,973	0	-	0	(84,640)	(0)

Delta Natural Gas Company
Present Value Cost Benefit Analysis

Assumptions:

Annual Revenue	$ 8,067,973
Investment	$ 7,804,047
Book Life	35
Tax Life	20
Composite Tax Rate	37.96%
Property Tax Rate	0.95%
Levelized Revenue Requirement Years	35
O&M as Percent of Investment	5.72%
Weighted Cost of Capital	8.68%

Results:

Present Value of Annual Revenue Stream (PV Benefit)	$ 87,926,349
Present Value Revenue Requirement (PV Cost)	$ 14,188,467
Levelized Revenue Requirement	$1,301,910
Levelized Carrying Charge Rate	16.68%

Year	Rate Base	Interest	Equity	O&M	Property Taxes	Income Taxes	Annual Revenue Requirement	Present Value Interest Factor	Present Value Revenue Requirement
0									
1	$ 7,554,624	$ 252,201	$ 403,326	$ 446,170	$ 72,219	$ 246,781	$ 1,643,670	$ 1	$ 1,512,434
2	7,202,435	240,444	384,524	446,170	70,095	235,276	1,599,481	0.846688	1,354,261
3	6,866,302	229,223	366,578	446,170	67,970	224,296	1,557,210	0.779085	1,213,200
4	6,544,981	218,496	349,423	446,170	65,846	213,799	1,516,708	0.716880	1,087,298
5	6,237,406	208,228	333,003	446,170	63,722	203,752	1,477,848	0.659642	974,851
6	5,942,510	198,383	317,259	446,170	61,598	194,119	1,440,502	0.606974	874,347
7	5,659,375	188,931	302,143	446,170	59,474	184,870	1,404,561	0.558511	784,463
8	5,387,082	179,841	287,606	446,170	57,350	175,975	1,369,915	0.513917	704,023
9	5,116,567	170,810	273,163	446,170	55,226	167,139	1,335,481	0.472884	631,528
10	4,846,081	161,780	258,723	446,170	53,102	158,303	1,301,051	0.435128	566,123
11	4,575,566	152,749	244,280	446,170	50,978	149,466	1,266,617	0.400386	507,135
12	4,305,080	143,720	229,840	446,170	48,854	140,630	1,232,187	0.368417	453,959
13	4,034,565	134,689	215,397	446,170	46,730	131,794	1,197,753	0.339002	406,040
14	3,764,079	125,659	200,957	446,170	44,606	122,958	1,163,322	0.311935	362,880
15	3,493,564	116,628	186,514	446,170	42,482	114,121	1,128,889	0.287029	324,023
16	3,223,078	107,598	172,074	446,170	40,357	105,286	1,094,458	0.264111	289,059
17	2,952,563	98,568	157,631	446,170	38,233	96,449	1,060,024	0.243024	257,611
18	2,682,077	89,538	143,191	446,170	36,109	87,613	1,025,594	0.223620	229,343
19	2,411,562	80,507	128,748	446,170	33,985	78,776	991,160	0.205765	203,946
20	2,141,076	71,477	114,308	446,170	31,861	69,941	956,730	0.189336	181,144
21	1,936,652	64,653	103,394	446,170	29,737	63,263	930,190	0.174219	162,057
22	1,798,320	60,035	96,009	446,170	27,613	58,744	911,544	0.160309	146,128
23	1,659,988	55,417	88,623	446,170	25,489	54,225	892,897	0.147509	131,710
24	1,521,655	50,799	81,238	446,170	23,365	49,707	874,251	0.135731	118,663
25	1,383,323	46,180	73,853	446,170	21,241	45,188	855,605	0.124894	106,860
26	1,244,991	41,562	66,468	446,170	19,117	40,669	836,959	0.114922	96,185
27	1,106,658	36,944	59,082	446,170	16,993	36,150	818,313	0.105746	86,534
28	968,326	32,326	51,697	446,170	14,869	31,631	799,667	0.097303	77,810
29	829,994	27,708	44,312	446,170	12,744	27,113	781,020	0.089534	69,928
30	691,662	23,090	36,926	446,170	10,620	22,594	762,374	0.082385	62,808
31	891,891	29,775	47,616	446,170	8,496	29,135	784,165	0.075807	59,446
32	668,918	22,331	35,712	446,170	6,372	21,851	755,410	0.069755	52,693
33	445,946	14,887	23,808	446,170	4,248	14,567	726,654	0.064185	46,640
34	222,973	7,444	11,904	446,170	2,124	7,284	697,899	0.059060	41,218
35	0	0	0		0	0	222,973	0.054345	12,117
									$ 14,188,467

Delta Natural Gas Company
Present Value Cost Benefit Analysis

Assumptions:

Annual Revenue	$	8,067,973
Investment	$	7,804,047
Book Life		35
Tax Life		20
Composite Tax Rate		37.96%
Property Tax Rate		0.95%
Levelized Revenue Requirement '		35
O&M as Percent of Investment		5.72%
Weighted Cost of Capital		8.68%

Results:

Present Value of Annual Revenue Stream (PV Bene	$	87,926,349
Present Value Revenue Requirement (PV Cost)	$	14,188,467
Levelized Revenue Requirement		$1,301,910
Levelized Carrying Charge Rate		16.68%

Year	Annual Revenue	Present Value Annual Revenue
0		
1	$ 8,067,973	$ 7,423,797
2	8,067,973	6,831,055
3	8,067,973	6,285,639
4	8,067,973	5,783,772
5	8,067,973	5,321,975
6	8,067,973	4,897,049
7	8,067,973	4,506,052
8	8,067,973	4,146,272
9	8,067,973	3,815,219
10	8,067,973	3,510,599
11	8,067,973	3,230,300
12	8,067,973	2,972,381
13	8,067,973	2,735,056
14	8,067,973	2,516,679
15	8,067,973	2,315,739
16	8,067,973	2,130,842
17	8,067,973	1,960,708
18	8,067,973	1,804,158
19	8,067,973	1,660,108
20	8,067,973	1,527,559
21	8,067,973	1,405,593
22	8,067,973	1,293,365
23	8,067,973	1,190,099
24	8,067,973	1,095,077
25	8,067,973	1,007,642
26	8,067,973	927,188
27	8,067,973	853,158
28	8,067,973	785,039
29	8,067,973	722,359
30	8,067,973	664,683
31	8,067,973	611,612
32	8,067,973	562,779
33	8,067,973	517,845
34	8,067,973	476,498
35	8,067,973	438,453
		$ 87,926,349

34. Referring to Table 2 on Page 26 of the Seelye testimony, assuming the increases proposed are approved, it appears that the Delta's Total Retail rates provide $43,017,469.00 in revenue to the company. Does Mr. Seelye believe it was a cost effective use of Delta's capital to increase its Plant for its remaining customer classes by approximately $9.2 million since 2006? If so, why? Please fully explain your answer.

Response:

Delta has an obligation to provide safe and reliable service to residential, commercial and industrial customers irrespective of whether an investment necessary to provide such service is "cost effective" at current rate levels. As a public utility, Delta cannot refuse to provide service to customers whenever the incremental revenues collected from customers happen to be less than the carrying costs on the incremental investment necessary to provide service.

Sponsoring Witness:

William Steven Seelye

DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00116

ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION
DATED JUNE 21, 2010

35. Please provide a table indicating the taxable compensation (breaking out base salary and including any bonuses, fringe benefits such as company cars, stock plans, etc.) of all of the corporate officers of Delta since 2000.

Response:

See attached.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
Case No. 2010-00116
Schedule of Officer's Salaries and Other Compensation

COMPENSATION FOR 12 MONTHS ENDED

EMPLOYEE NUMBER	POSITION	EFFECTIVE DATE (S)	SALARY 12/31/2009	OTHER COMPENSATION (1) 12/31/2009	SALARY 12/31/2008	OTHER COMPENSATION (1) 12/31/2008	SALARY 12/31/2007	OTHER COMPENSATION (1) 12/31/2007	SALARY 12/31/2006	OTHER COMPENSATION (1) 12/31/2006	SALARY 12/31/2005	OTHER COMPENSATION (1) 12/31/2005
1560	Chairman of the Board/President & CEO President and CEO	12/1/2005 through 12/1/2005	336,500.04	187,169.25	328,500.00	208,949.00	368,500.04	200,427.00	329,500.08	178,132.00	277,500.08	207,700.00
405	CFO/Treasurer & Secretary V.P. Controller Controller	6/1/2007 9/1/2005 3/1/1999	163,849.92	44,521.00	157,849.92	61,536.00	149,999.92	54,985.00	139,249.92	42,834.00	124,166.64	43,779.53
520	V.P. Distribution V.P. Administration & Customer Service	11/20/2008 through 11/20/2008	177,500.04	45,514.00	159,316.60	63,397.00	152,649.96	56,386.00	146,400.00	42,880.00	139,400.04	47,402.00
2340	V.P. Transmission & Gas Supply	11/20/2008	128,499.96	50,192.00	85,499.96 *	42,216.00	--	--	--	--	--	--
1360	V.P Operations & Engineering	through 11/20/2008	--	--	178,149.96 *	101,742.00	171,950.04	72,461.00	164,850.00	52,318.00	156,849.96	47,063.00
1240	V.P. Finance, Secretary & Treasurer	through 04/30/2007	--	--	--	--	51,333.36	14,535.82	150,500.04	37,510.00	143,499.96	46,605.00
1340	V.P. Public & Consumer Affairs	through 2/16/2001	--	--	--	--	--	--	--	--	--	--

(1) Other compensation includes bonus amounts for which we are not seeking recovery in this case, nor have sought recovery for in prior cases.
*Salary includes amount for the entire year

Delta Natural Gas Company, Inc.
Case No. 2010-00116
Schedule of Officer's Salaries and Other Compensation

COMPENSATION FOR 12 MONTHS ENDED

EMPLOYEE NUMBER	POSITION	EFFECTIVE DATE (S)	12/31/2004		12/31/2003		12/31/2002		12/31/2001		12/31/2000	
			SALARY	OTHER COMPENSATION (1)	SALARY	OTHER COMPENSATION (1)	SALARY	OTHER COMPENSATION (1)	SALARY	OTHER COMPENSATION (1)	SALARY	OTHER COMPENSATION (1)
1560	Chairman of the Board/President & CEO President and CEO	12/1/2005 through 12/1/2005	254,000.04	16,845.68	222,000.00	87,583.65	198,000.00	44,157.91	189,200.04	57,117.14	184,400.04	28,587.99
405	CFO/Treasurer & Secretary V.P. Controller Controller	6/1/2007 9/1/2005 3/1/1999	110,000.04	10,734.48	91,500.00	27,630.30	76,500.00	17,567.39	70,500.00	20,173.30	66,499.92	12,082.86
520	V.P. Distribution V.P. Administration & Customer Service	11/20/2008 through 11/20/2008	130,000.08	14,102.36	115,100.04	33,039.25	103,200.00	21,067.18	97,700.04	23,058.42	93,800.04	15,525.80
2340	V.P. Transmission & Gas Supply	11/20/2008	--	--	--	--	--	--	--	--	--	--
1360	V.P. Operations & Engineering	through 11/20/2008	145,500.00	7,335.33	129,000.00	36,275.95	116,000.04	16,472.33	109,000.08	19,986.32	104,650.08	10,220.11
1240	V.P. Finance, Secretary & Treasurer	through 04/30/2007	133,500.00	14,477.72	116,350.08	34,651.25	102,700.08	21,885.18	97,200.00	26,073.84	93,300.00	13,813.80
1340	V.P. Public & Consumer Affairs	through 2/16/2001	--	--	--	--	--	--	68,875.08 *	3,754.62	74,700.00	10,727.84

(1) Other compensation includes bonus amounts for which we are not seeking recovery in this case, nor have sought recovery for in prior cases.
*Salary includes amount for the entire year