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August 24, 2010

RECEIVED

AUG 24 2010

PUBLIC SERVICE  
COMMISSION

**HAND DELIVERED**

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

Re: Delta Natural Gas Company, Inc.  
Case No. 2010-00116

Dear Mr. Derouen:

Please find enclosed for filing an original and ten (10) copies of the notice of Delta Natural Gas Company, Inc. of filing an updated Filing Requirement 10(6)(h) in the above-captioned case. We would appreciate your placing this notice with the other papers in the case. Thanks in advance for your assistance.

Sincerely,

Robert M. Watt, III

rmw:

Enclosure

cc: Parties of Record (w/ encl.)  
Anita Mitchell, Esq. (w/encl.)  
W. Steven Seelye (w/encl.)

RECEIVED

AUG 24 2010

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL )  
GAS COMPANY, INC. FOR ) CASE NO. 2010-00116  
AN ADJUSTMENT OF RATES )

\* \* \* \* \*

**NOTICE OF DELTA NATURAL GAS COMPANY, INC.  
OF FILING UPDATED FILING REQUIREMENT 10(6)(h)**

Delta Natural Gas Company, Inc. ("Delta") hereby give notice of filing an updated and revised Filing Requirement 10(6)(h), the original of which appears at Tab 27 of Delta's Application herein. Filing Requirement 10(6)(h) is attached hereto and is a calculation of Delta's revenue requirement, with supporting schedules, that has been updated to reflect changes since the Application was filed and to propose different rate treatment of the items noted therein.

Dated this 24<sup>th</sup> day of August 2010.

Respectfully submitted,

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Lindsey W. Ingram, III  
Stoll Keenon Ogden PLLC  
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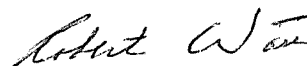


Counsel for Delta Natural Gas Company,  
Inc.

**CERTIFICATE OF SERVICE**

This is to certify that the foregoing pleading has been served by e-mailing and mailing a copy of same, postage prepaid, to the following persons on this 24<sup>th</sup> day of August 2010:

Dennis Howard, II, Esq.  
Lawrence W. Cook, Esq.  
Paul Adams, Esq.  
Assistant Attorneys General  
Office of Rate Intervention  
1024 Capital Center Drive  
Frankfort, KY 40601



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Counsel for Delta Natural Gas Company,  
Inc.

005522.136948/3915716.1

DELTA NATURAL GAS COMPANY, INC.  
Adjustments to Revenue Deficiency as Filed  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Summary  
8/23/2010 REVISION

	As Filed Amount	(a) Gas Inventory	(b) Depreciation Expenses	(c) Legal and Insurance Expenses	(d) Bad Debt	(e) Short Term Interest	(f) Pension	Rounding	Subtotal	(g) GCR	Revised
Cost of gas	18,064,100								18,064,100	4,279,600	22,343,700
Operations & maintenance	13,553,749	(578,600)	-	(77,522)	298		304,632	362	13,202,919		13,202,919
Depreciation expense	5,103,972		458,363						5,562,335		5,562,335
Taxes other than income taxes	1,972,714								1,972,714		1,972,714
Return	9,575,595	(6,279)	(39,796)	(894)	3	5,864	3,306	31	9,537,830		9,537,830
Income tax liability	3,117,893	(3,852)	(24,410)	(548)	2	(560)	2,028	19	3,090,572		3,090,572
Total revenue requirements	51,388,023	(588,731)	394,157	(78,964)	303	5,304	309,966	412	51,430,470	4,279,600	55,710,070
Revenues at present rates	(46,072,595)								(46,072,595)	(4,279,600)	(50,352,195)
Revenue deficiency	5,315,428	(588,731)	394,157	(78,964)	303	5,304	309,966	412	5,357,875		5,357,875

Percent increase 11.54%

11.63%

10.64%

(a) In 3-PSC 15d Delta said "In hindsight, Delta acknowledges that it would have been preferable for the Company to propose in its Application the establishment of a regulatory asset for this amount, rather than including the full amount of the gas storage losses in test year expenses. An amortization over three years would be a more appropriate way to recover these costs". The total amount in the test year is \$867,900. This adjustment (a) removes 2/3 of the gas storage losses from test year expenses and is shown on Revised Schedule 3 Line 5.

(b) Delta filed a Revised Schedule 4 with 3-PSC 12. The Revised Schedule 4 calculates the Depreciation Expense Adjustment to be \$1,770,077. Schedule 4 as originally filed calculated a \$1,311,714 Depreciation Expense Adjustment. This adjustment (b) increases the Depreciation Expense Adjustment by \$458,363, bringing it to \$1,770,077 per the attached Revised Schedule 4.

(c) Delta detailed legal expenses of \$69,889 in Item 52.a of 2-PSC and insurance expenses of \$7,633 in Item 4 of 1-AG that did not belong in the test year. This adjustment (c) removes these expenses from the test year and are shown on Revised Schedule 3 Lines 6 and 7. It also adjusts Prepaids in Rate Base shown on Revised Schedule 6.

(d) In 2-PSC 4 c.(1), Delta pointed out an error which caused the pro forma bad debt expense adjustment to be understated by \$298. Schedule 3.3, revised for the error, is attached.

(e) Updated response to 2-PSC 4.e.(2) filed August 19, 2010 states that the interest rate for Delta's short-term debt as of August 1, 2010 is 1.805%. The interest rate as originally filed was 1.7486% as of April 1, 2010. Increasing the interest rate increased Return, but decreased the Equity Portion of Return to a greater extent, resulting in a decrease in income tax liability. Schedule 8, revised for the update, is attached.

(f) Updated response to 1-AG 60 filed August 19, 2010 shows that Delta's most recent calculation of Net Periodic Pension Cost is \$1,128,632. Per 1-AG-61, test year Net Periodic Pension Cost was \$824,000 so test year expenses are understated by \$304,632. Revised Schedule 3 Line 14 is attached.

(g) Updated GCR per Order in Case No. 2010-00254, effective July 26, 2010. Reflected in Revised Schedule 2.

DELTA NATURAL GAS COMPANY, INC.  
Revenue Requirements and Deficiency  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule I  
8/23/2010 REVISION

<u>Line Number</u>		<u>Schedule</u>	<u>Amount</u>
1	Cost of gas	2	22,343,700
2	Operations & maintenance expense	3	13,202,919
3	Depreciation expense	4	5,562,335
4	Taxes other than income taxes	5	1,972,714
5	Return	6	9,537,830
6	Income tax liability	7	<u>3,090,573</u> *
7	Total revenue requirements		55,710,069
8	Revenues at present rates	2	<u>(50,352,195)</u>
9	Revenue deficiency		<u>5,357,875</u>
10	Percent increase		<u>10.64%</u>

\* This amount is grossed up to include the increased PSC assessment as a result of the increased revenue. See Schedule 7 for details.

DELTA NATURAL GAS COMPANY, INC.  
Summary of Revenues and Cost of Gas at Present Rates  
Test Year Ended 12/31/09

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Actual Billed Revenue	Elimination of Gas Cost Adjustment	Correction	Net Revenue Before Temperature Adjustment	Temperature Adjustment	GCR at Current Rates	Adjusted Billings at Current Rates	Increase in Revenue	Percentage Increase
				(Column (1) + (2) + (3))			(Column (4) + (5) + (6))		
<b>REVENUE</b>									
Residential	\$ 30,606,864	\$ (17,994,255)		\$ 12,612,609	\$ (57,963)	\$ 12,087,601	\$ 24,642,247	\$ 3,555,438	14.43%
Small Non-Residential GS	9,073,688	(5,663,368)		3,410,320	(13,572)	3,796,115	7,192,863	598,292	8.32%
Large Non-Residential GS - Commercial	11,908,202	(8,082,383)		3,825,819	4,894	5,639,442	9,470,155	635,954	6.72%
Large Non-Residential GS - Industrial	1,203,947	(895,797)		308,150	640	607,555	916,345	40,981	4.47%
Total Large Non-Residential GS	13,112,149	(8,978,180)		4,133,969	5,534	6,246,997	10,386,500	676,935	6.52%
Interruptible	29,572	(24,286)		5,286	-	16,498	21,784	111	
Interruptible - Commercial	327,000	(275,248)		51,752	53	188,875	240,679	1,265	
Interruptible - Industrial	356,572	(299,534)		57,038	53	205,373	262,464	1,376	0.52%
Total Interruptible									
Unmetered Gas Lights	5,249	(3,703)		1,546		2,777	4,323	69	
Residential	3,766	(2,643)		1,123		2,016	3,139	162	
Commercial	5,274	(3,701)		1,573		2,822	4,395	228	
Small Commercial	14,289	(10,047)		4,242		7,615	11,857	459	3.87%
Unmetered Gas Lights									
Total Retail	\$ 53,163,562	\$ (32,945,385)	\$ -	\$ 20,218,177	\$ (65,947)	\$ 22,343,701	\$ 42,495,931	\$ 4,832,500	
Special Contracts	\$ 309,428	\$ -	\$ -	\$ 309,428	\$ -	\$ -	\$ 309,428	\$ -	
Small Non-Residential GS	186,481	-	-	186,481	366	-	186,847	18,546	
Large Non-Residential GS	2,203,535	-	-	2,203,535	2,470	-	2,206,005	251,729	
Residential	8,471	-	-	8,471	-	-	8,471	2,070	
Interruptible	1,427,029	-	-	1,427,029	-	-	1,427,029	-	
On System Transportation	4,134,944	-	-	4,134,944	2,836	-	4,137,780	272,345	6.58%
Off System Transportation	3,415,904	-	-	3,415,904	-	-	3,415,904	253,030	7.41%
Total Transportation	\$ 7,550,848	\$ -	\$ -	\$ 7,550,848	\$ 2,836	\$ -	\$ 7,553,684	\$ 525,375	6.96%
Miscellaneous Revenue	\$ 302,580	\$ -	\$ -	\$ 302,580	\$ -	\$ -	\$ 302,580	\$ -	0.00%
Total Operating Revenue	\$ 61,016,990	\$ (32,945,385)	\$ -	\$ 28,071,605	\$ (63,111)	\$ 22,343,701	\$ 50,352,195	\$ 5,357,875	10.64%

DELTA NATURAL GAS COMPANY, INC.  
Operations and Maintenance Expenses  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule 3  
8/23/2010 REVISION

Line Number		Schedule	Amount
1	Adjustments		
2	Payroll expense	3.1	(41,046)
3	Rate case expense	3.2	(10,948)
4	Bad debt expense	3.3	331,291
5	Natural gas inventory adjustment (assume 3 yr amortization)		(578,600)
6	Legal expense		(69,889)
7	Insurance expense		(7,633)
8	A/C 1.913 Advertising expense		(1,438)
9	A/C 1.930.12 Lobbying expense		(16,952)
10	Lobbying benefits and taxes, calculated below		(2,242)
11	A/C 1.930.10 Public and community relations		(26,450)
12	A/C 1.930.04 Marketing		(1,944)
13	A/C 1.930.11 Conservation		(600)
14	A/C 1.926.02 Pension (\$1,128,632 - \$824,000)		304,632
15	Balance revenue requirement to increase in revenue		(43)
16	Total adjustments		(121,862)
17	Per books		13,324,781
18	O&M Adjusted		13,202,919

Lobbying Benefits and Taxes Adjustment

Line Number		Amount
19	Pro forma lobbying payroll expense	4,740
20	Benefits and taxes loading rate	47.3%
21	Lobbying benefits and taxes	2,242

DELTA NATURAL GAS COMPANY, INC.  
Payroll Expense Adjustment  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule 3.1  
8/23/2010 REVISION

<u>Line Number</u>		<u>Amount</u>
1	Annualized salaries and wages	7,465,704
2	Pro forma capitalized wages and subsidiary allocation	<u>1,867,474</u>
3	Pro forma salary and wage expense	5,598,230
4	Actual 2009 test year salary and wage expense	<u>5,639,276</u>
5	Pro forma payroll adjustment	<u>(41,046)</u>



DELTA NATURAL GAS COMPANY, INC.  
Rate Case Expense Adjustment  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule 3.2  
8/23/2010 REVISION

<u>Line</u> <u>Number</u>		<u>Amount</u>
1	Estimate of expenses for Case No. 2010-00116 (2007-00089 actual)	304,178
2	Unamortized expenses from Case No. 2007-00089, calculated below	<u>12,177</u>
3	Total expenses to be amortized	<u>316,355</u>
4	Annual projected expenses (based on 3 year amortization period)	105,452
5	Amount of amortization in test year (9,700 monthly amortization x 12)	<u>116,400</u>
6	Adjustment amount	<u>(10,948)</u>

Unamortized Expenses from Case No. 2007-00089

<u>Line</u> <u>Number</u>			<u>Amount</u>
7	Balance at 12/31/09		99,477
8	Monthly amortization	9,700	
9	Estimated # of months prior to 2007-00089 rates effective	<u>9</u>	<u>87,300</u>
10	Balance at 9/30/10		<u>12,177</u>

DELTA NATURAL GAS COMPANY, INC.  
 Bad Debt Expense Adjustment  
 Test Year Ended 12/31/09

	12/31/2009			12/31/2008		
	Delta	Subs	Total	Delta	Subs	Total
<b>Rollforward of Bad Debt Reserve</b>						
Beginning Balance	(282,691)	(569,000)	(851,691)	(251,603)		(251,603)
Write-offs	512,384		512,384	548,612		548,612
Net collections of previously written-off a/c's and other	(68,248)	-	(68,248)	(62,755)	-	(62,755)
Subtotal net write-offs	444,136	-	444,136	485,857	-	485,857
Expense A/C 904	(383,588)		(383,588)	(516,945)	(569,000)	(1,085,945)
Transfer of reserve for Subsidiaries to Subsidiary books		469,000	469,000			
Relief of reserve due to cash received	-	100,000	100,000	-		-
Subtotal net expense	(383,588)	569,000	185,412	(516,945)	(569,000)	(1,085,945)
Ending Balance	(222,143)	-	(222,143)	(282,691)	(569,000)	(851,691)

<b>Computation of Bad Debt Expense Adjustment</b>	
Regulated sales, at retail	53,163,562
Purchased gas expense	32,945,385
Base revenue	20,218,177
% of base to total	<u>38.03%</u>
Test year regulated bad debt expense	383,588
% of base to total	<u>38.03%</u>
Pro forma bad debt expense	145,879
Account 1.904 for test year	<u>(185,412)</u>
Pro forma adjustment	<u>331,291</u>

DELTA NATURAL GAS COMPANY, INC.  
 Depreciation Expense  
 Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
 Schedule 4  
 8/23/2010 REVISION

Line Number	Acct No	Description	Plant 12/31/2009	Depreciation Rate			Depr Expense	
				Cost of Removal	Salvage	Capital Recovery		Total
1	301	Organization	53,151			0.00%	0.00%	-
2	302	Franchise & Consent	-			0.00%	0.00%	-
3		Sub Total	<u>53,151</u>					<u>-</u>
PRODUCTION								
4	304	Land & Rights	-			0.00%	0.00%	-
5	305	Structures & Improvements	-			2.20%	2.20%	-
6	325	Right of Ways	79,004			3.00%	3.00%	2,370
7	327	Comp Stations Structures	45,721			3.00%	3.00%	1,372
8	331	Well Equipment	7,795			4.00%	4.00%	312
9	332	Field Lines	1,915,975			2.25%	2.25%	43,109
10	333	Compressor Station Equipment	749,211			4.00%	4.00%	29,968
11	334	Measuring & Regulator Stations	147,297			2.72%	2.72%	4,006
12		Sub Total	<u>2,945,003</u>					<u>81,137</u>
STORAGE & PROCESSING								
13	35001	Storage Land	14,142			0.00%	0.00%	-
14	35002	Storage Right of Way	177,425			0.00%	0.00%	-
15	35005	Gas Rights Well	1,495			0.00%	0.00%	-
16	35006	Gas Rights Storage	-			5.00%	5.00%	-
17	351	Structures and Improvements	292,484			2.58%	2.58%	7,546
18	352	Storage Wells	2,876,146			3.19%	3.19%	91,749
19	35201	Storage Rights	860,396			1.85%	1.85%	15,917
20	35202	Storage Reservoirs	1,881,731			1.83%	1.83%	34,436
21	35203	Non-Recoverable Natural Gas	294,307			1.75%	1.75%	5,150
22	353	Storage Lines	5,102,436			2.05%	2.05%	104,600
23	354	Storage Compressor Station Equipment	2,526,069			1.96%	1.96%	49,511
24	355	Storage Measuring & Regulator Equipment	438,951			2.59%	2.59%	11,369
25	356	Purification Equipment	409,570			3.19%	3.19%	13,065
26	357	Storage Other Equipment	47,209			0.51%	0.51%	241
27		Sub Total	<u>14,922,361</u>					<u>333,584</u>
TRANSMISSION								
28	3651	Land and Rights	140,670			0.00%	0.00%	-
29	3652	Rights of Way	1,215,558			0.00%	0.00%	-
30	3653	Land Rights CVPL	163,626			2.50%	2.50%	4,091
31	366	Structures and Improvements	250,172			2.30%	2.30%	5,754
32	367	Transmission Mains	42,032,176	0.02%		2.33%	2.35%	987,756
33	368	Compressor Station Equipment	7,576,006			3.26%	3.26%	246,978
34	369	Measuring & Regulator Station Equipment	3,384,707	0.48%		3.05%	3.53%	119,480
35	371	Other Equipment	448,106			2.19%	2.19%	9,814
36		Sub Total	<u>55,211,021</u>					<u>1,373,873</u>

DELTA NATURAL GAS COMPANY, INC.

Depreciation Expense  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule 4  
8/23/2010 REVISION

Line Number	Acct No	Description	Plant 12/31/2009	Depreciation Rate			Depr Expense	
				Cost of Removal	Salvage	Capital Recovery		Total
DISTRIBUTION								
1	374	Distribution Rights of Way	264,479			0.00%	0.00%	-
2	37401	Distribution Land	63,206			0.00%	0.00%	-
3	375	Structures & Improvements	112,359			2.34%	2.34%	2,629
4	376	Distribution Mains	66,875,341	0.01%		3.10%	3.11%	2,079,823
5	378	Measuring & Regulator Station - General	1,435,143	0.45%		2.73%	3.18%	45,638
6	379	Measuring & Regulator Station - City Gate	500,033	0.37%		1.80%	2.17%	10,851
7	380	Services	13,709,008	0.42%		2.69%	3.11%	426,350
8	381	Meters	9,302,928			2.90%	2.90%	269,785
9	382	Meter and Regulator Installation	3,186,037	2.47%		1.53%	4.00%	127,441
10	383	House Regulators	3,478,550		-0.25%	4.38%	4.13%	143,664
11	385	Industrial Meter Sets	1,597,032	0.32%		1.83%	2.15%	34,336
12		Sub Total	<u>100,524,116</u>					<u>3,140,517</u>
GENERAL								
13	389	Land and Rights	999,354			0.00%	0.00%	-
14	390	Structures and Improvements	5,355,492		-1.33%	3.33%	2.00%	107,110
15	391	Office Furniture and Equipment	146,777		-0.05%	1.05%	1.00%	1,468
16	392	Autos and Trucks	4,201,697		-3.49%	11.63%	8.14%	342,018
17	393	Stores Equipment	36,011			2.00%	2.00%	720
18	394	Tools and Work Equipment	703,034		-0.21%	4.21%	4.00%	28,121
19	39401	Comp NG Stat and Equipment	283,352			0.00%	0.00%	-
20	395	Laboratory Equipment	237,610			5.00%	5.00%	11,881
21	396	Power Operated Equipment	3,294,567		-1.33%	3.33%	2.00%	65,891
22	397	Communication Equipment	386,003		-0.26%	5.26%	5.00%	19,300
23	398	Miscellaneous Equipment	44,382		-0.11%	2.11%	2.00%	888
24	3991	Other Tangible Equipment	638,509			4.00%	4.00%	25,540
25	3992	Computer Software	3,720,474			10.00%	10.00%	372,047
26	3993	Computer Hardware	968,541		-0.53%	10.53%	10.00%	96,854
27	399031	Computerized Office Equipment	226,689		-0.53%	10.53%	10.00%	22,669
28		Sub Total	<u>21,242,492</u>					<u>1,094,507</u>
29		TOTAL A/C 101 and 106 less ARO's	<u>194,898,144</u>					<u>6,023,618</u>
CWIP								
366			174				2.30%	4
367			1,836				2.35%	43
368			835				3.26%	27
369			50,510				3.53%	1,783
371			17,802				2.19%	390
376			(38,587)				3.11%	(1,200)
378			23,918				3.18%	761
380			3,493				3.11%	109
	Overhead 53010		441,990					
	Total CWIP		<u>501,971</u>					<u>1,917</u>

DELTA NATURAL GAS COMPANY, INC.

Depreciation Expense  
 Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
 Schedule 4  
 8/23/2010 REVISION

Line Number	Acct No	Description	Plant 12/31/2009	Depreciation Rate			Depr Expense
				Cost of Removal	Salvage	Capital Recovery	
		ACQUISITION ADJUSTMENT					
1	1.114	Tranex	(1,045,704)				(58,800)
2	1.114.01	Mt. Olivet	464,945				-
3		Total Acquisition Adjustment	(580,759)				(58,800)
4	1.117	Gas Stored Underground	4,208,069				
5							
6		Total Utility Plant In Service	199,027,425				5,966,735
		ASSET RETIREMENT OBLIGATION					
	339	Gathering Asset Retirement Cost	10,790				
	358	Storage Asset Retirement Cost	11,721				
	372	Transmission Asset Retirement Cost	34,920				
	388	Distribution Asset Retirement Cost	80,914				
		Excluded from plant accounts above	138,345				
10		Reconciled Total	199,165,770				
11		Per Delta Balance Sheet	199,165,770				
12		Difference	-				
		TRANSPORTATION CLEARING					
13		Transportation Equipment					(339,000)
14		Power Operated Equipment					(65,400)
15		Pro Forma Depreciation Expense					5,562,335
16		Per Delta Income Statement					3,792,258
17		Depreciation Expense Adjustment					1,770,077

DELTA NATURAL GAS COMPANY, INC.  
Taxes Other Than Income Taxes  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule 5  
8/23/2010 REVISION

<u>Line Number</u>		<u>FICA</u>	<u>Medicare</u>	<u>FUTA</u>	<u>SUTA</u>
	<b>Payroll tax adjustment</b>				
1	Tax base (pro forma)	7,073,904	7,465,704	1,170,179	1,332,024
2	Less test year deductions	<u>(289,186)</u>	<u>(289,186)</u>	_____	_____
3	Tax base after deductions	6,784,718	7,176,518	1,170,179	1,332,024
4	Applicable rate	<u>6.20%</u>	<u>1.45%</u>	<u>0.80%</u>	<u>1.10%</u>
5	Pro forma payroll tax increase	<u>420,653</u>	<u>104,060</u>	<u>9,361</u>	<u>14,652</u>
6	Total pro forma payroll taxes				548,726
7	Payroll taxes (a/c 1.408.03 excluding bonus)				<u>556,588</u>
8	Total payroll tax adjustment				(7,862)
9	Ratio of salaries and wages charged to expense to total wages				<u>75%</u>
10	Payroll tax adjustment applicable to expense				<u>(5,897)</u>
	<b>Property tax adjustment</b>				
				<u>Schedule</u>	
11	Pro forma property taxes			5.1	1,394,198
12	Property taxes (a/c 1.408.02)				<u>1,320,467</u>
13	Property tax adjustment				<u>73,731</u>
<b>14</b>	<b>Total adjustments to taxes other than income taxes</b>				<b>67,835</b>
<b>15</b>	<b>Taxes other than income taxes, per books</b>				<b><u>1,904,879</u></b>
<b>16</b>	<b>Taxes other than income taxes adjusted</b>				<b><u>1,972,714</u></b>

DELTA NATURAL GAS COMPANY, INC.  
 Computation of Property Taxes based on 12/31/09 Values  
 Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
 Schedule 5.1  
 8/23/2010 REVISION

	Tax District	12/31/09 Values	Tax Rate per \$100 Last Paid	Calculated Tax
COUNTY	BATH	3,032,714	0.7839	23,773
	BELL (1)	35,645,670	0.2642	94,176
	BOURBON	701,600	0.7490	5,255
	CLARK	4,197,450	0.7187	30,167
	CLAY	10,201,176	0.7367	75,152
	ESTILL	3,297,215	1.0820	35,676
	FAYETTE	1,190,858	0.9110	10,849
	FLEMING	3,519	0.7328	26
	GARRARD	369,956	1.0142	3,752
	JACKSON	1,896,699	0.9032	17,131
	JESSAMINE	12,769,163	0.8046	102,741
	KNOX (1)	17,481,611	0.3184	55,661
	LAUREL	12,388,803	0.6413	79,449
	LEE	1,451,099	1.0363	15,038
	LESLIE	6,684	0.8744	58
	MADISON (1)	16,094,524	0.2600	41,846
	MASON	62,723	0.8093	508
	MENIFEE	655,782	0.7974	5,229
	MONTGOMERY	1,460,630	0.8430	12,313
	POWELL	4,261,570	0.5368	22,876
	ROBERTSON	273,689	0.9441	2,584
	ROWAN	3,085,221	0.6916	21,337
	WHITLEY (1)	13,721,641	0.2547	34,949
	TOTAL	144,250,000		690,547
CITY	ANNVILLE			
	BARBOURVILLE *	1,875,536	0.7412	13,901
	BEATTYVILLE	382,810	0.3000	1,148
	BEREA (1) *	3,736,839	0.1000	3,737
	CLAY CITY	586,063	0.0995	583
	CORBIN - Knox	568,865	0.7737	4,401
	CORBIN - Whitley	3,453,327	0.7806	26,957
	FRENCHBURG	347,261	0.0600	208
	LAKEVIEW HEIGHTS	268,758	0.0900	242
	LONDON	2,381,400	0.1107	2,636
	MANCHESTER	841,766	0.3430	2,887
	MIDDLESBORO (1) *	3,010,541	0.0910	2,740
	MT OLIVET	64,919	0.3111	202

DELTA NATURAL GAS COMPANY, INC.  
 Computation of Property Taxes based on 12/31/09 Values  
 Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
 Schedule 5.1  
 8/23/2010 REVISION

Tax District	12/31/09 Values	Tax Rate per \$100 Last Paid	Calculated Tax
NICHOLASVILLE	8,400,994	0.1713	14,391
NORTH MIDDLETOWN	107,970	0.1800	194
OWINGSVILLE	1,328,083	0.2274	3,020
PINEVILLE (1)	605,915	0.2790	1,691
RICHMOND	588,414	0.1349	794
SALT LICK	503,970	0.6908	3,481
SHARPSBURG	170,683	0.0286	49
STANTON	1,452,133	0.0830	1,205
WILLIAMSBURG (1)	2,426,086	0.2463	5,975
WILMORE	<u>1,416,612</u>	0.2730	<u>3,867</u>
TOTAL	<u>34,518,948</u>		<u>94,311</u>
* = INDEPENDENT SCHOOL DISTRICT			
STATE OF KENTUCKY	<u>144,250,000</u>	0.1792	<u>258,509</u>

(1) SCHOOL DISTRICTS WITH SEPARATE BILLING OR VALUE

BEREA	3,736,839	0.8254	30,844
MIDDLESBORO	3,010,541	0.4807	14,472
PINEVILLE	605,915	0.4132	2,504
BELL CO.	32,029,214	0.4152	132,985
KNOX CO.	15,037,209	0.4170	62,705
MADISON CO.	12,357,685	0.5388	66,583
WHITLEY CO.	7,842,227	0.3948	30,961
WILLIAMSBURG	<u>2,426,086</u>	0.4030	<u>9,777</u>
TOTAL	<u>77,045,716</u>		<u>350,831</u>
TOTAL COMPANY			<u><u>1,394,198</u></u>



DELTA NATURAL GAS COMPANY, INC.  
Rate Base and Return  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule 6  
8/23/2010 REVISION

<u>Line Number</u>		<u>Amount</u>
1	Total utility plant in service per books	<u>199,027,425</u>
2	Add: Materials and supplies (13 mo avg)	596,121
3	Prepayments (13 mo avg)	1,678,137
4	Less: KPSC prepaid	(47,027)
5	Gas in storage (13 mo avg)	3,777,901
6	Unamortized debt expense per books	4,542,382
7	Cash working capital allowance (1/8 O&M)	<u>1,650,365</u>
8	Subtotal	<u>12,197,879</u>
9	Deduct: Accumulated depreciation per books	(70,042,570)
10	Depreciation adjustment (Schedule 4)	(1,770,077)
11	Cost of removal	(75,264)
12	Customer advance for construction	(54,605)
13	Accumulated deferred income taxes	<u>(29,427,209)</u>
14	Subtotal	<u>(101,369,725)</u>
15	Rate base	109,855,579
16	Weighted cost of capital	<u>8.682153%</u>
17	Return	9,537,830
18	Test year operating income	<u>6,968,511</u>
19	Operating income adjustment	<u>2,569,319</u>

DELTA NATURAL GAS COMPANY, INC.  
Income Taxes  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule 7  
8/23/2010 REVISION

<u>Line Number</u>		<u>Schedule</u>	<u>Amount</u>
1	Return, net of tax	6	9,537,830
2	Interest deduction	8	<u>4,244,395</u>
3	Equity portion of return		<u>5,293,435</u>
4	Application of tax rate to equity return 37.96%	7.1	2,009,388
5	ITC amortization (A/C 1.420)		(31,950)
6	Amortization of regulatory liability (A/C 1.410.01)		<u>(64,800)</u>
7			1,912,638
8	Tax expansion factor		<u>1.6118633</u>
9	Total income tax liability		<u>3,082,911</u>
10	Tax expansion factor, including PSC assesement		<u>1.6158691</u>
11	Total income tax liability, including PSC assessment gross up		<u>3,090,573</u>
12	Income tax expense, per books		<u>2,081,177</u>
13	Income tax adjustment		<u><u>1,009,395</u></u>

Computation of Pro Forma Effective Income Tax Rate

<u>Line Number</u>		<u>Amount</u>
14	Pre-tax net income	8,376,346
15	Total income tax liability	<u>3,082,911</u>
16	Net income	<u><u>5,293,435</u></u>
17	Pro Forma Effective Income Tax Rate	<u>36.805%</u>

DELTA NATURAL GAS COMPANY, INC.  
Computation of Composite Income Tax Rate  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule 7.1  
8/23/2010 REVISION

<u>Line Number</u>		<u>Amount</u>
1	Assume pre-tax income of	100
2	State income tax rate of	<u>6.00%</u>
3	State income tax	<u>6.00</u>
4	Taxable income for Federal income tax computation	94.00
5	Federal income tax rate	<u>34.00%</u>
6	Federal income tax	<u>31.96</u>
7	Total state and federal income tax	<u>37.96</u>
8	Therefore, the composite rate is	<u>37.96%</u>
9	Federal	31.96%
10	State	<u>6.00%</u>
11	Total	<u>37.96%</u>

DELTA NATURAL GAS COMPANY, INC.  
 Capital Structure and Interest Expense  
 Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
 Schedule 8  
 8/23/2010 REVISION

Line Number		Amounts	Ratios	Cost Rates	Weighted Cost of Capital
1	Equity				
2	Per DNG Balance Sheet	(58,437,147)			
3	Remove net unbilled impact	1,700,897			
4	Subsidiaries	<u>243,912</u>			
5		(56,492,338)	44.49%	12.000%	5.339%
6	Long Term Debt	(58,459,000)	46.04%	6.830%	3.145%
7	Short Term Debt	<u>(12,015,728)</u>	9.46%	2.096%	<u>0.198%</u>
8		<u>(126,967,066)</u>			<u>8.682%</u>

Calculation of Pro Forma Interest Expense and Adjustment

Cost of Long Term Debt, December 31, 2009					
9	7.000% Debentures			19,510,000	1,365,700
10	5.750% Debentures			<u>38,949,000</u>	<u>2,239,568</u>
11					3,605,268
12	Debt Expense Amortization				<u>387,263</u>
13	Annual Long Term Debt Expense				<u>3,992,531</u>
14	Rate			<u>58,459,000</u>	<u>6.830%</u>
Cost of Short Term Debt, December 31, 2009 (rate as of 8/1/10)					
15	1.805% Notes payable			12,015,728	216,884
16	0.125% Unused line			27,984,272	<u>34,980</u>
17	Annual Short Term Debt Expense				<u>251,864</u>
18	Rate			12,015,728	<u>2.096%</u>
19	Total Calculated Interest Expense				4,244,395
20	Per Books				<u>4,075,601</u>
21	Adjustment				<u>168,794</u>

DELTA NATURAL GAS COMPANY, INC.  
Interest Coverage  
Test Year Ended 12/31/09

FR 10(6)(h) Tab 27  
Schedule 9  
8/23/2010 REVISION

Line Number		Schedule	Test Year	Pro Forma
1	Net income		2,892,910	5,293,435
2	Interest on debt	8	<u>4,075,601</u>	<u>4,244,395</u>
3	Operating income	6	6,968,511	9,537,830
4	Income taxes	7	<u>2,081,177</u>	<u>3,082,911</u>
5	Total		<u>9,049,688</u>	<u>12,620,741</u>
6	Times interest earned			
7	After taxes		<u>1.71</u>	<u>2.25</u>
8	Before taxes		<u>2.22</u>	<u>2.97</u>