



Delta Natural Gas Company, Inc.

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Winchester, Kentucky 40391-9797

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May 14, 2010

Mr. Jeff Derouen
Executive Director
Public Service Commission
P O Box 615
Frankfort, KY 40602

RE: CASE NO. 2010-00127

Dear Mr. Derouen:

Enclosed are the original and five copies of Delta's response to the Second Data Request of the Commission Staff dated May 10, 2010 in the above-styled case.

Please indicate receipt of the compliance filing by date stamping the enclosed duplicate of this letter and returning it for our files in the envelope provided.

Sincerely,

John B. Brown
Chief Financial Officer, Treasurer and Secretary

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

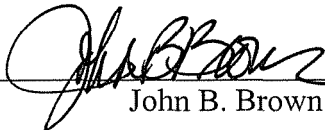
In the Matter of:

PURCHASED GAS ADJUSTMENT)	
FILING OF DELTA NATURAL GAS)	CASE NO. 2010-00127
COMPANY, INC.)	

CERTIFICATION

The undersigned, John B. Brown, states that he is Chief Financial Officer, Treasurer and Secretary of Delta Natural Gas Company, Inc., a corporation, ("Delta") and certifies that he supervised the preparation of the responses of Delta to the information requested in the Appendix attached to the Order dated May 10, 2010 in the above styled case and that the responses are true and accurate to the best of the undersigned's knowledge, information and belief formed after a reasonable inquiry.

Dated this 14th day of May, 2010.



John B. Brown

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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

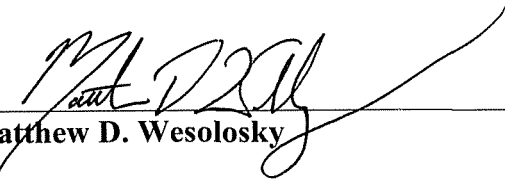
In the Matter of:

**PURCHASED GAS ADJUSTMENT)
FILING OF DELTA NATURAL GAS)
COMPANY, INC.)**

CASE NO. 2010-00127

VERIFICATION

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



Matthew D. Wesolosky

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of May, 2010.



Notary Public (SEAL)

My Commission Expires:

6/20/12

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED GAS ADJUSTMENT)	
FILING OF DELTA NATURAL GAS)	CASE NO. 2010-00127
COMPANY, INC.)	

**GCR DATA REQUEST
DATED MAY 10, 2010**

1. Confirm Delta's understanding that the issue of concern in the instant case is line loss as defined in the initial data request as the excess of purchases over sales as passed through the Gas Cost Recovery ("GCR") rate and not system lost and unaccounted-for gas.

RESPONSE

Yes. Delta understands that the issue of concern in the instant case is line loss as defined in the initial data request. To more accurately quantify Delta's percentage of line loss and unaccounted-for gas, Delta demonstrated that the Company's initial GCR filing did not include sufficient information to accurately calculate line loss that is "passed through Delta's GCR rates." Delta included the information about system lost and unaccounted-for gas in the responses to serve as an "alternative calculation" of line loss as passed through Delta's GCR rates as requested in Item 1a of the initial data request. Specifically, Delta demonstrated that the percentage of line loss is significantly less than the Commission inferred in its initial data requests, as the majority of the volume the Commission perceived to be line loss was comprised of company use and unbilled revenues. Delta attached as Exhibit I to Item 1a a chart illustrating how these various factors reconcile the percentage of line loss over the course of a year which resulted in a significantly smaller percentage of line loss. The provided data shows that while 100% of the cost of gas is recovered through the GCR mechanism, the system lost and unaccounted-for gas calculation shows that despite line losses, Delta can account for 98.8%, 97.6%, 97.4% and 97.8% of the volumes purchased for the calendar years 2009, 2008, 2007 and 2006, respectively. Accordingly, the recovery of line losses via the GCR mechanism did not exceed 5% in any of the years included in the instant case.

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Matthew D. Wesolosky

**DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2010-00127**

**GCR DATA REQUEST
DATED MAY 10, 2010**

2. Refer to Delta's response to Item 1.a. of Staff's initial data request.
 - a. Explain why a BTU adjustment is appropriate as a reconciling factor when all gas costs are already converted to an Mcf basis through the GCR mechanism.

RESPONSE

The quantity of gas purchased equals the quantity of gas consumed on a dekatherm basis but can have differing MCF due to the British Thermal Unit ("BTU") content of the gas. Purchased gas is measured on a dekatherm basis, while measurement of consumption is on a MCF basis. Due to the varying BTU of gas throughout the system we are unable to perfectly match the BTU of gas consumed versus purchased. Conversion of purchased dekatherms to Mcf is not precise but rather an estimate. A majority of Delta's system throughput is comprised of local production transported off Delta's system to interconnected pipelines. Due to receipt of the locally produced gas, Delta's system flows natural gas with varying BTU content ranging from 1030 to 1250, which makes Delta's system unique, as compared to other natural gas systems. Therefore, actual volumes can vary significantly from converted volumes when using an average conversion rate. To calculate the supply volume per books on Schedule IV of the GCR filing, Delta uses the average pipeline BTU where purchases occur to convert the dekatherms purchased to Mcf. However, since Delta's system utilizes displacement, gas is purchased at one point to replace gas consumed by an end user at a different point. The BTU content often differs at the two points, creating an additional reconciling item. The adjustment was our attempt to utilize an estimated BTU for our system versus the BTU of the pipelines.

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- 2.b. Explain why an imbalance adjustment is appropriate as a reconciling factor in terms of factoring in differences between "predicted" and actual flow.

RESPONSE

Imbalances arise based on the difference between the estimated volumes purchased from suppliers versus the quantities which actually flow into or out of Delta's system. To the extent Delta has generated an imbalance for its own gas supply where Delta is in a long or short position, amounts invoiced from the supplier differ from expected amounts received from the pipeline. Subsequent month's invoices account for prior month's imbalances. The GCR filing includes invoiced amounts which do not account for current month imbalances.

Additionally, transportation customers generate imbalances on Delta's system. To the extent a transportation customer is in a long or short position, they have provided more or less gas into Delta's system from their supplier than they consumed which creates an imbalance.

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3. Explain whether Delta has considered adding any reconciling factors to its GCR mechanism that would better match its purchased gas cost to recovery.

RESPONSE

Through the years, Delta has considered proposing changes to its GCR mechanism that would do a better job of reducing the levels of unrecovered gas costs that the Company carries. As Exhibit I to this second data request shows, Delta consistently carries large balances of unrecovered gas costs, in periods of both rising and falling gas prices. If the mechanism were working efficiently, the average balance of the account should be zero, with periods of over-recoveries balancing periods of under-recoveries. Refinements to the mechanism utilizing the reconciling items listed in response to Item 1a. of the Commission's First Data Request would address the issues of matching "purchased gas cost to recovery" and improving the "mismatch between calendar month purchases and billing month sales" as referred to in Items 3 and 4 of this data request. Such refinements would make the mechanism more efficient with respect to cost recovery and likely accelerate the recovery of gas costs from our customers. The refinements would have no impact on the ultimate dollars recovered from our customers and such refinements would not be intended to quantify line loss as discussed in Item 5.

While Delta has considered and is open to such changes, the Company realizes that the reconciling items mentioned are judgmental estimates. In weighing the benefits of refining the calculation with the costs of introducing estimates into the mechanism, the Company believes that the customers are ultimately better served by maintaining a GCR mechanism which relies more on actual values than estimated values and for which the inputs are more transparent, reproducible, and readily understood.

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Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
Exhibit I
Unrecovered Gas Costs

	Q1	Q2	Q3	Q4	Average
2009	6,243,000	1,517,000	1,704,000	4,220,000	3,421,000
2008	5,384,000	6,145,000	9,729,000	14,099,000	8,839,000
2007	2,207,000	3,124,000	5,040,000	8,917,000	4,822,000
2006	8,429,000	3,021,000	3,138,000	5,426,000	5,004,000

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DATED MAY 10, 2010**

4. Explain whether Delta has considered changing its Actual Adjustment calculation to improve the mismatch between calendar month purchases and billing month sales. Provide any supporting calculations available.

RESPONSE

See response to Item 3.

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CASE NO. 2010-00127

GCR DATA REQUEST
DATED MAY 10, 2010

5. Refer to Delta's response to Items 3. and 1.a of Staff's initial request. With the understanding that, for purposes of the GCR, the Commission defines line loss as the excess of purchases over sales, and that the Commission has consistently held that line loss as recovered through the GCR is limited to five percent, explain why the excess of purchases over sales was so much greater in 2007 and 2008 compared to the other years included in the responses.

RESPONSE

While gas cost recovery adjustment mechanisms at other companies may include sufficient information to calculate a meaningful amount of "line loss as recovered through the GCR", Delta's does not. The supply volumes shown on Schedule IV of the GCR filing are provided only to give the reviewer a context for the gas costs incurred. The supply volumes shown are not used elsewhere in the filing, are not intended to track line loss and do not influence the GCR rate. If the Commission intends to use Delta's quarterly GCR filings as a tool to monitor line loss, the data provided in Delta's filing would need to be modified in order to provide the relevant information. Delta maintains that the amount of unaccounted for-gas (which includes line loss) as recovered through the GCR was 1.2%, 2.4%, 2.6% and 2.2% for the calendar years 2009, 2008, 2007 and 2006, respectively as shown in Exhibit I in the response to the initial data request. As this response demonstrated, and consistent with the long-standing Commission practice in this regard, the value did not exceed 5% for any of the years included in the review.

As shown above, system-wide unaccounted for gas was higher in 2007 and 2008 compared to the other years, which contributed to the "excess of purchases over sales" in those years pointed out by the Commission. In addition, the various reconciling items detailed in Exhibit I from the initial data request were more significant in 2007 and 2008 than in the other years. We attribute this increase in unaccounted for gas to increased local production of natural gas transported off Delta's system. Increases in locally produced volumes transported off Delta's system increase the variability of the BTU content of the gas in Delta's system and thus reduces the precision in our estimated BTU adjustment. Based on the practical limitations to perfectly match quantities purchased to quantities sold, it is very difficult to draw precise conclusions regarding line loss and unaccounted for gas.

The primary constraint in reconciling purchases and sales includes the fact that purchases are measured by calendar month on a dekatherm basis and consumption is measured by billing cycle on a Mcf basis. The Company uses estimates to best reconcile these factors to retail purchases and retail sales by month on a Mcf basis. A component of the

difference between retail purchases and retail sales is in fact line loss, however to the extent that difference exceeds system-wide line loss, we attribute that difference to imprecision in the calculations used to reconcile purchases and sales including unbilled revenue estimations and BTU conversions. Unbilled gas is a rote calculation performed by a computer program to estimate unbilled usage. Specific weather trends and the extent to which customers choose to manage their gas consumption cannot be measured within the context of the program. Additionally, as noted in response to Item 2a., conversion of purchased dekatherms to Mcf is not precise but rather an estimate as our system flows gas with varying BTU content. Finally, Delta's off-system transportation imbalances are initially measured in dekatherm and then converted to Mcf based on an estimated BTU similar to the conversion of purchases and thus prone to the same degree of uncertainty.

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