



Delta Natural Gas Company, Inc.

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October 19, 2012

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

RECEIVED
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PUBLIC SERVICE
COMMISSION

Dear Mr. Derouen:

Re: Delta Natural Gas Company, Inc. Case No. 2008-00408

This letter is in response to the Commission's request in the Order for Case No. 2008-00408, *Considerations of the New Federal Standards of the Energy Independence and Security Act of 2007*, to provide the pertinent policies and procedures to ensure that cost-effective energy efficiency is given the same priority as all other cost effective resources by Delta Natural Gas Company, Inc. Delta hereby files an original and three copies of information related to said Order.

Please acknowledge receipt of this response by placing the File Stamp of Your Office on the enclosed additional copy and returning it for the Company's files.

Please contact me at 859-744-6171 extension 149 if you have any questions about this response.

Sincerely,

Matthew D. Wesolosky
Vice President - Controller



Delta Natural Gas Company, Inc.

Accounting/Finance Practices

SUBJECT Regulatory - Conservation /Efficiency Policy
PRACTICE NO. AA8-1 PAGE 1 OF 1
ISSUED BY Matthew Wesolosky APPROVED BY Glenn R. Jennings
DATE EFFECTIVE 10/1/2012 CANCELING None

Overview

The purpose of this practice is to ensure that cost-effective energy efficiency is given the same priority as all other cost-effective resources for Delta's customers. Delta promotes energy efficiency through the operation of its Conservation/Efficiency Program ("CEP") (Attachment I), which is a tariffed Demand-Side Management program allowed under KRS 278.285 and approved in case no. 2008-00062. Additionally, the design of Delta's current base rates promote energy efficiency.

Conservation/Efficiency Program

The CEP aligns Delta's interest with that of the residential rate payer, by providing a mechanism to recover the lost base revenue associated with customer conservation and efficiency, as well as the expenses associated with promoting conservation and efficiency. Conservation and efficiency is promoted through three separate components of the CEP, which include rebates on high efficiency appliances, home energy audits and customer awareness.

Rate Design

Delta promotes customer conservation through the rate design sought in its general rate cases. Delta's base rates include a fixed monthly customer charge along with a volumetric rate. To partially decouple the revenue Delta earns from the volumes of gas sold, a majority of the base rate increase granted in Delta's two most recent rate cases (2010-00116 and 2007-00089) was allocated to the monthly customer charge rather than the volumetric rate in an effort to move towards a rate design that partially removes the Company's disincentive to promote conservation. In future rate proceedings Delta will continue to address customer conservation in its rate design.

Customer Conservation/Efficiency Program

Delta Natural Gas Company, Inc.

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Program Overview

PROGRAM MISSION

It is the desire of Delta Natural Gas Company, Inc. to promote the prudent use of natural gas as one of our most valued domestic natural resources. The promotion and implementation of conservation measures by the consumer are an intricate part of our strategy and a sound national energy policy. In accordance with that policy and philosophy we are unveiling a new program to benefit our customers and bring attention to the importance of conservation.

BACKGROUND

To address recent market changes regarding higher energy prices and public conservation sentiments, Delta Natural Gas Company has established its Customer Conservation/Efficiency Program (“CEP” or “the Program”) that promotes energy conservation and high efficiency equipment choices.

The Program is designed as a demand-side management program which aligns the interest of the Company with that of the customer. The Program encourages customers to conserve and efficiently use natural gas while not acting as a detriment to the financial performance of the Company.

While Delta is in business to sell natural gas and make a profit from those sales, the trend of customers going off service to use alternative fuels serves as a reminder to the Company of its commitment to service and to maintain long term customers. The investment of facilities to bring gas service to a community is contingent on those customers remaining satisfied consumers for an extended period of time to properly recover the investment.

Over the last several years Delta has fielded consumer inquiries concerning possible heating equipment upgrade incentives and information related to lowering natural gas consumption through conservation and increased insulation measures. To meet the public interest and assist our customer base, Delta in turn developed and offered a home energy audit program at no cost to the customer.

Delta’s Customer Development Department and the local Branch Offices have jointly performed these audits. The audits identified many home construction deficiencies and made recommendations to correct the problems as well as showing the homeowner many inexpensive energy tips to make the home more energy efficient.

PROGRAM BENEFITS

When considering energy efficiency from natural resource to end use, natural gas at the wellhead has 10 BTUs and arrives at the consumer's home around 9 BTUs of energy. Whereas electricity requirements at a power plant of 10 BTUs of coal or oil through the generation process only produce 3 BTUs of electricity to the consumer. As a resource natural gas is more efficient.

Delta has designed its Program to proactively address the concerns of its residential customer base related to decreasing consumption of our limited natural resource. The Program's mission is to decrease consumption through conservation and the efficient use of natural gas.

The decrease in gas usage of many of these customers through conservation or more efficient equipment will benefit Delta by having more satisfied customers. It will benefit the general population by preserving for future use more natural gas.

CONSERVATION

The Program promotes energy conservation through a home energy audit program and energy savings awareness. The home energy audit program is targeted to residential customers and identifies the specific steps they can take in their homes to conserve natural gas. As a result of the home energy audit the participant will be given an audit report which identifies the specific areas where the customer can conserve natural gas. Additionally, conservation tips will be periodically mailed to Delta's residential customers which give them facts and tips to promote overall conservation.

EFFICIENCY

A key component of Delta's CEP Program is the transition from older, antiquated gas fired equipment to newer technologies with higher efficiencies. This is an important step for many consumers to better use of natural gas.

The program allows for rebate incentives for both the installation of a high efficiency natural gas appliance in new construction and the upgrade of existing Delta customers from their existing appliances to high efficiency models. Program rebates are available for high efficiency gas furnaces, space heaters, logs and water heaters.

RATE RECOVERY

The Program has a Conservation/Efficiency Cost Recovery Component (CEPRC) which is a billing adjustment to recover all direct and indirect costs associated with the program. To align the Company's interest with the customer's, the CEPRC also recovers the demand charges associated with the lost margin on the program participants, as well as an incentive based on the commodity savings generated through the Program.

High Efficiency Heating Program

Program

Existing or new conversion customers that change their current heating system (natural gas, propane, electric) to a high efficiency forced air gas furnace, high efficiency space heater, high efficiency gas logs or high efficiency gas fireplace are eligible for rebates under the Program. New homes shall be eligible for the same program if a high efficiency model is installed. Rebate amounts are determined per heating unit.

Product Information

High efficiency gas furnaces operate without a standing pilot that burns gas continuously. This saves the customer money. Ninety percent plus efficiency gas furnaces offer the consumer optional multiple stage burners and variable speed fan packages to improve their efficient use of natural gas. It is possible that a high efficiency furnace could save up to 40% of the energy cost over older technology units.

High efficiency gas logs are designed in such a manner that all produced heat stays inside the dwelling. Vented gas logs typically provide about 20% heat with the other 80% extracted by the chimney to the outdoors and they have substantial BTU inputs requiring more fuel. In addition to producing less heat, vented gas logs and fireplaces have a compounding effect on the other heating systems within a home as they pull interior heat out through the chimney. This in turn can cause greater fuel usage and higher energy bills. High efficiency gas logs and fireplaces basically operate at or near 99.9% efficiency giving the homeowners the best heat value for their energy needs. High efficiency gas logs are not affected by power outages and do not have the environmental pollution issues found in wood smoke or coal byproducts. As the cleanest burning of all the fossil fuels, high efficiency natural gas logs and fireplaces offer benefits to the environment and can lessen the pollution concerns of electric power generation by lowering the electric demand.

Product Requirement, Qualifications, Rebate

| Equipment Type | Efficiency Level | BTU Input | Rebate Amount |
|-----------------------|-------------------------|-------------------|----------------------|
| Forced Air Furnace | 90% or greater | 30,000 or greater | \$400.00 |
| Dual Fuel | 90% or greater | 30,000 or greater | \$300.00 |
| Space Heater | 99% | 10,000 or greater | \$100.00 |
| Gas Logs | 99% | 18,000 or greater | \$100.00 |
| Gas Fireplace | 90% or greater | 18,000 or greater | \$100.00 |

Guidelines

High efficiency gas heating equipment installation must have occurred after the program inception date of October 1, 2007. Equipment must meet the above stated qualifications and be approved by the American Gas Association or other similar organization. All equipment must be properly installed and meet the code requirements as stated by the NFPA 54 handbook and all State and local code requirements. A local Customer Service Representative from Delta is required to inspect the installation for proper operation and compliance with safety requirements.

Rebate Disbursement

Rebates will be processed after the equipment inspection by the Customer Service Representative or, in the case of new construction homes, after the initial meter set. Rebates will be sent to the service address unless otherwise indicated. In the case of homebuilders utilizing the program, all rebates will be sent to their business addresses.

High Efficiency Water Heater Program

Program

Existing or new conversion customers that change their current water heater (natural gas, propane, electric) to a high efficiency natural gas tank model, power vent or on-demand model are eligible for rebates. New homes shall be eligible for rebates if a high efficiency model is installed. Rebate amounts are determined per heating unit.

Product Information

High efficiency gas water heaters are constructed with increased insulation along the outer shell and the addition of heat retention baffles inside the flue. Most power vent gas water heaters incorporate submerged combustion chambers and their burner configurations actually heat a greater area of water. On demand water heaters have no standing pilot light and typically utilize around 25 % less fuel than those with pilot lights. Natural gas water heaters have a higher recovery rate since there is not an electric element to heat up like on the electric models. Gas water heaters typically have a longer life due to the simplistic nature of a gas burner and over time will not lose their efficiency as tends to happen with electric heating elements. Conventionally vented or direct vent gas water heaters are not affected by power outages. Gas water heaters will lessen summer electric load and, therefore, decrease peak electric demand issues on the hottest of summer days. As the cleanest burning of all the fossil fuels natural gas fired water heaters offer benefits to the environment and can lessen the pollution concerns of electric power generation by lowering the load requirements.

Product Requirement, Qualifications, Rebate

| Equipment Type | Efficiency Level | Unit Requirement | Rebate Amount |
|----------------------------|-------------------------|-------------------------|----------------------|
| High Efficiency Tank Model | 0.62 Energy Factor | 40 gallon or greater | \$200.00 |
| Power Vent Model | 0.62 energy Factor | 40 gallon or greater | \$250.00 |
| On Demand Model | 99% | | \$300.00 |

Guidelines

Water heater installation must have occurred after the program implementation date of October 1, 2007. Equipment must meet the above stated qualifications and be approved by the American Gas Association or other similar organization. All equipment must be properly installed and meet the code requirements as stated by the NFPA 54 handbook and all State and local code requirements. A local Customer Service Representative from

Delta is required to inspect the installation for proper operation and compliance with safety requirements.

Rebate Disbursement

Rebates will be processed after the equipment inspection by the Customer Service Representative or, in the case of new construction homes, after the initial meter set. Rebates will be sent to the service address unless otherwise indicated. In the case of homebuilders utilizing the program, all rebates will be sent to their business addresses.

Home Energy Audit Program

Program

Delta will offer a free energy audit to residential customers within its service area. The program will include an information packet and home energy conservation kit.

Audit Information

The audit will encompass a thorough analysis of the dwelling's usage history and the detection of any abnormalities or trends relative to the square footage, load and surrounding dwelling usage trends. The audit will check for proper changes of the heating system filtering devices and clearance from obstructions of all return air registers. Outer wall switch plates and outlets will be inspected for insulation protection or gasket installation. Ceiling insulation levels will be observed and recommendations made as to suggested levels for the Kentucky climate zone. When visible and accessible, the home duct system will be inspected for proper insulation and seals to prevent air leakage and heat loss. All exterior windows and doors will be checked for unwanted leakage and improper sealing to cut down on energy losses. A thermal imaging camera will be utilized to show the consumer the area of greatest heat loss on the dwelling. Options and recommendations will be discussed with the occupant over conservation settings and the use of a programmable thermostat. The customer will be provided information regarding energy conservation and a written report of the energy audit with suggestions to improve the individual dwelling. An energy audit kit consisting of caulk, switch plate and outlet gaskets, electric outlet plugs and weather stripping will be provided at no cost to each consumer for whom an audit is performed.

Areas Not Covered Under Energy Audit Program

Delta will not inspect the heating equipment, make adjustments or alter any settings as part of this energy audit process. All equipment issues are the responsibility of the home or business owner and recommendations will be made to contact a licensed HVAC professional for equipment tune ups or general maintenance. Any corrections to the duct system or insulation levels are the responsibility of the home or business owner. Further consultations with those contractors involved in supplying that material or actually installing insulation will be the responsibility of the home or business owner.

Guidelines

The homeowner or business owner must be present during the audit. Delta personnel will not enter a furnished dwelling without the owner or a representative present. Safety concerns or potential deficiencies will be noted and communicated to the home or

business owner to the best of the energy auditor's ability. Those safety violations so noted involving natural gas will be reported to the local distribution office and a qualified Customer Service Representative will be asked to inspect the possible safety concern. The energy audit is not a safety inspection nor does it serve as an acknowledgement that the building is up to Kentucky Building code or safety standards. Delta will in no way be responsible or obligated to find or locate any violation of Kentucky Building Codes or safety violations. The energy audit is in no way a building inspection with regards to insect inspection, structural stability or safety /code regulations. Delta does not warrant or make guaranteed projections as to the actual savings from implementing the findings of the provided energy audit. The free materials in the Delta Energy Audit Kit will be provided to a responsible adult at each location and any liability issues involving those materials are the responsibility of the home or business owner. Product safety, liability and installation issues are not the responsibility of Delta. Delta does not assume any liability for the misuse of these products. The party receiving the energy audit does have the opportunity and right to refuse these materials.

Audit Cost and Scheduling

The energy audit is a service provided at no cost to any Delta customer classified as residential or small commercial. Delta's customers should call in advance for scheduling and Delta will try to make the appointments during the heating season to better assist in finding cold air infiltration and potential energy loss. Delta only provides this service between normal business hours: Monday through Friday 8:00 a.m. – 4:30 p.m. The energy audit usually takes 45 minutes to 1 hour to complete and, therefore, Delta does not schedule audits after 3:30 p.m.

Program BudgetBudgeted Program ParticipationDemand Side Management Projected Budget 2008 -2016

| | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>DSM Rebates</u> |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------------|
| <u>High Efficiency Heating</u> | | | | | | | | | | | |
| H. Eff. Forced Air Furnaces | 160 | 208 | 224 | 224 | 240 | 240 | 256 | 256 | 274 | 286 | \$400 |
| H. Eff. Dual Fuel Units | 20 | 26 | 28 | 28 | 30 | 30 | 32 | 32 | 34 | 36 | \$300 |
| H. Eff. Gas Space Heating | 20 | 26 | 28 | 28 | 30 | 30 | 32 | 32 | 34 | 36 | \$100 |
| H. Eff. Gas Logs/Fireplaces | 340 | 340 | 360 | 380 | 400 | 400 | 400 | 420 | 428 | 432 | \$100 |
| Total H. Eff. Heating Units | 540 | 600 | 640 | 660 | 700 | 700 | 720 | 740 | 770 | 790 | |
| <u>H. Eff. Water Heaters</u> | | | | | | | | | | | |
| H. Eff. Holding Tank Models | 63 | 72 | 81 | 81 | 90 | 90 | 99 | 99 | 107 | 111 | \$200 |
| H. Eff. Power Vent Models | 6 | 7 | 8 | 8 | 9 | 9 | 10 | 10 | 11 | 11 | \$250 |
| H. Eff. On-Demand Models | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | \$300 |
| Total H. Eff. W. Heaters | 70 | 80 | 90 | 90 | 100 | 100 | 110 | 110 | 119 | 123 | |
| <u>Energy Audits</u> | | | | | | | | | | | |
| Residential Energy Audits | 46 | 70 | 85 | 95 | 105 | 110 | 120 | 130 | 134 | 140 | Audit Cost \$20 |
| Total Energy Audits | 46 | 70 | 85 | 95 | 105 | 110 | 120 | 130 | 134 | 140 | |

Budgeted Expenditures**DSM Budget/ Year**

| | | | | | | | | | | |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| H. Eff. Forced Air Furnace | \$64,000 | \$83,200 | \$89,600 | \$89,600 | \$96,000 | \$96,000 | \$102,400 | \$102,400 | \$109,600 | \$114,400 |
| H. Eff. Dual Fuel Units | \$6,000 | \$7,800 | \$8,400 | \$8,400 | \$9,000 | \$9,000 | \$9,600 | \$9,600 | \$10,200 | \$10,800 |
| H. Eff. Gas Space Heating | \$2,000 | \$2,600 | \$2,800 | \$2,800 | \$3,000 | \$3,000 | \$3,200 | \$3,200 | \$3,400 | \$3,600 |
| H. Eff. Gas Log/Fireplaces | \$34,000 | \$34,000 | \$36,000 | \$38,000 | \$40,000 | \$40,000 | \$40,000 | \$42,000 | \$42,800 | \$43,200 |
| H. Eff. Holding Tank Models | \$12,600 | \$14,400 | \$16,200 | \$16,200 | \$18,000 | \$18,000 | \$19,800 | \$19,800 | \$21,400 | \$22,200 |
| H. Eff. Power Vent Models | \$1,500 | \$1,750 | \$2,000 | \$2,000 | \$2,250 | \$2,250 | \$2,500 | \$2,500 | \$2,750 | \$2,750 |
| H. Eff. On-Demand Models | \$300 | \$300 | \$300 | \$300 | \$300 | \$300 | \$300 | \$300 | \$300 | \$300 |
| Residential Energy Audits | \$920 | \$1,400 | \$1,700 | \$1,900 | \$2,100 | \$2,200 | \$2,400 | \$2,600 | \$2,680 | \$2,800 |
| Program Advertising | \$25,000 | \$20,000 | \$10,000 | \$6,000 | \$6,000 | \$6,000 | \$6,000 | \$6,000 | \$6,000 | \$6,000 |
| Infrared Thermal Camera | \$10,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Labor | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 |
| Office Expenses | \$800 | \$800 | \$800 | \$800 | \$800 | \$800 | \$800 | \$800 | \$800 | \$800 |
| Total Expenses | \$167,120 | \$176,250 | \$177,800 | \$176,000 | \$187,450 | \$187,550 | \$197,000 | \$199,200 | \$209,930 | \$216,850 |

Conservation Estimates

| <u>Equipment Conservation Summary</u> | | | | | | | |
|--|-------------------------|-------------------------|----------------------|---------------------|------------------------|----------------------|-----------------------------|
| | <u>% Efficiency</u> | | <u>Ccf Conserved</u> | <u>% Efficiency</u> | | <u>Ccf Conserved</u> | <u>Program Conservation</u> |
| | <u>80%</u> | <u>90%</u> | | <u>70%</u> | <u>90%</u> | | |
| <u>A. High Efficiency Heating Savings</u> | | | | | | | |
| 1. High Efficiency Forced Air Furnaces | 547.92 | 487.04 | 60.88 | 626.20 | 487.04 | 139.15 | 100.02 |
| 2. High Efficiency Dual Fuel Units | | | | | | | 20.85 |
| 3. High Efficiency Gas Space Heating | <u>80%</u> 61.98 | <u>99.00%</u> 50.08 | 11.90 | <u>70%</u> 70.83 | <u>99.00%</u> 50.08 | 20.75 | 16.33 |
| 4. High Efficiency Gas Logs/Fireplaces | <u>47%</u> 105.4 | <u>99.00%</u> 50 | 55.40 | | | | 55.40 |
| <u>B. High Efficiency Water Heating Savings</u> | | | | | | | |
| 1. High Efficiency Holding Tank Models | <u>.52 EF</u> 279.71 | <u>.62 EF</u> 234.60 | 45.11 | | | | 45.11 |
| 2. High Efficiency Power Vent Models | <u>.52 EF</u> 279.71 | <u>.67 EF</u> 217.09 | 62.62 | | | | 62.62 |
| 3. High Efficiency On-Demand Models | <u>.52 EF</u> 279.71 | <u>.85 EF</u> 171.12 | 108.59 | | | | 108.59 |
| <u>C. Energy Audits</u> | | | | | | | |
| 1. Residential Energy Audits | | | 30.00 | | | | 30.00 |

Cost Recovery

Delta will recover its costs associated with the program through the Conservation/Efficiency Program Cost Recovery Mechanism (CEPRC) which is a tariff applicable to all residential customers. The tariff can be broken down into the following four specific components:

- Conservation/Efficiency Cost Recovery (CEPCR)
- CEP Revenue from Lost Sales (CEPLS)
- CEP Incentive (CEPI)
- CEP Balance Adjustment (CEPBA)

CEPCR

Under the tariff, the CEPCR shall include all actual costs, direct and indirect, under this program which have been approved by the Commission. This includes all direct costs associated with the program including rebates paid under the program, the cost of energy audit supplies, and customer awareness related to conservation/efficiency. In addition, indirect costs shall include the costs of planning, developing, implementing, monitoring, and evaluating CEP programs. In addition, all costs incurred by or on behalf of the program, including but not limited to costs for consultants, employees and administrative expenses, will be recovered through the CEPCR.

CEPLS

To effectively promote and execute the program, the Company shall recover the annual lost sales attributable to customer conservation/efficiency created as a result of the Program. This aligns the Company's interest with that of its customers by reducing the correlation between volume and revenue for those customers who elect to participate in the program. The lost sales are the estimated conservation, per participant, times the base rate for the applicable customer. The goal is to make the Company whole for promoting the program. Lost sales are based on the cumulative lost sales since the program inception and will reset when the Company completes a general rate case.

CEPI

As a result of the program, the customers who participate in the program will save on their gas bills due to decreased usage, which results in decreased commodity charges. As an incentive for the Company to devote the necessary monetary and physical resources to promote and administer the program, the Company will earn a fifteen percent (15%) incentive based on the net resource savings of the Program participants.

Net resource savings are defined as Program benefits less utility Program costs and participant costs where Program benefits will be calculated on the basis of the present value of Delta's avoided commodity costs over the expected life of the Program. For the purpose of calculating the Program benefits, a ten year Program life is assumed with future gas costs over the ten-year period based on projection in the Department of Energy's *Annual Energy Outlook*. The present

value is calculated based on Delta's discount rate used for financial reporting purposes which is based on the rates of high-quality fixed-income investment.

CEPBA

The CEPBA is a balancing adjustment to adjust the current rates for any over-(under-) collections of the previous year's CEP rates. An interest factor is applied to any over-(under-) collections based on the Average 3-Month Commercial Paper Rate for the Program year.