

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA)	
NATURAL GAS COMPANY, INC. FOR AN)	CASE NO.
ADJUSTMENT OF ITS RATES AND A)	2021-00185
CERTIFICATE OF PUBLIC CONVENIENCE)	
AND NECESSITY)	

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY, BY
AND THROUGH THE OFFICE OF RATE INTERVENTION

The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested is due on October 27, 2021. The Commission directs the Attorney General to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

The Attorney General shall make timely amendment to any prior response if the Attorney General obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which the Attorney General fails or refuses to furnish all or part of the requested information, the Attorney General shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, the Attorney General shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Direct Testimony of Richard Baudino (Baudino Testimony) generally.
 - a. Provide Exhibits RAB-2-6 in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.
 - b. For each of the return on equity (ROE) methods employed, provide a separate discussion of the assumptions required and why each assumption can

reasonably be assumed. If assumptions cannot be reasonably assumed, explain why not.

2. Refer to the Baudino Testimony, page 10, Table 1. Provide an update with the most recent data available.

3. Refer to the Baudino Testimony, page 11, Figure 2. Provide an update with the most recent data available.

4. Refer to the Baudino Testimony, page 14, Figure 3. Provide an update with the most recent data available.

5. Refer to the Baudino Testimony, page 15, lines 10–15.

a. Explain whether a proxy group of seven regulated gas distribution utilities represents a large enough representative sample on which to derive statistically significant ROE estimates.

b. In addition to using gas utilities, explain whether using water utilities as additional proxy companies would be appropriate in the Discounted Cash Flow and Capital Asset Pricing Model analyses and, if not, why not.

6. Refer to the Baudino Testimony, page 18, lines 18–20. Explain why the most reasonable period over which to estimate dividend yields is six months.

7. Refer to the Baudino Testimony, page 26, line 3. Explain why using an average of both the median and average values is better than relying on one or the other.

8. Refer to the Baudino Testimony, page 26, lines 19–22, and page 27, lines 1–5. Explain why the “historical risk premium of stock returns over the long-term government bond returns has been significantly influenced upward by substantial growth

in the price/earnings (“P/E”) ratio” is important and why Duff and Phelps subtracted out the percent equity ratio for stocks from the historical risk premium.

9. Refer to the Baudino Testimony, page 26, lines 13–18 and page 27 lines 7–15. Explain the reasoning for using 20-year Treasury bonds to determine the historical Market Risk Premium, but 30-year Treasury bonds were used as the risk free rate.

10. Refer to the Baudino Testimony, page 27, lines 12–15. Provide a greater explanation of Duff and Phelps’ “normalized” risk free rate, and how it incorporates expected inflation.

11. Refer to the Baudino Testimony, page 31, lines 17–25 and page 32, lines 1–6. Explain what impact, if any, the acquisition of Delta Natural Gas Company, Inc. (Delta) by Essential Utilities would have on the estimated ROE.

12. Refer to the Baudino Testimony, page 32, lines 8–22 and page 33, lines 1–4. Mr. Baudino recommends an equity ratio of 50.00 percent for Delta based upon the 2020 average equity ratios of the proxy group. Refer to Delta’s Response to Staff’s First Request for Information, Item 20. Historically, Delta’s equity ratio has ranged from 49.16 percent to 60.42 percent and is 54.48 percent for the first quarter of 2021. Explain how Mr. Baudino’s proposed 50.00 percent equity ratio aligns with Delta’s historical equity ratios.

13. Refer to the Baudino Testimony, Exhibit RAB-3 page 1 of 2. Comparing the projected Earnings per Share (EPS) growth rates of Value Line, Zacks and Yahoo! Finance, several are close and others are very different, e.g. New Jersey Resources, South Jersey Industries, and Spire Inc. Explain the factors, if known, in Value Line’s EPS

analyses versus other analysts' projections that would lead to such divergent results for select companies only.

14. Refer to the Baudino Testimony, Exhibit RAB-5, page 1 of 2. Provide an explanation for the column "Adjusted Arithmetic Mean."

15. Refer to the Direct Testimony of Bion C. Ostrander (Ostrander Testimony), page 12, lines 12–14. Confirm that this statement relates to Delta's filings on September 21 and 22, 2021. Explain whether these filings materially change any recommendation.

16. Refer to the Ostrander Testimony, page 24, Table BCO-2, line 27. Explain why the average should include the base period, instead of using 2018–2020.

17. Refer to the Ostrander Testimony, pages 32–34. Provide the reasonable employee level to include in base rates.

18. Refer to the Ostrander Testimony, page 34, line 15, through page 35, line 8. Explain why this adjustment would not increase Delta's rate base.

19. Refer to the Ostrander Testimony, page 48, lines 3–9. Explain why the recommended adjustment removes 50 percent of the allocated overhead and provide the basis for the 50 percent reduction.

20. Refer to the Ostrander Testimony, page 52, lines 6–12. Explain why the recommended adjustment removes 50 percent of the increase in medical and dental benefit costs and provide the basis for the 50 percent reduction.

21. Refer to the Ostrander Testimony, page 66, lines 3–5.

a. Explain why additions should be included for 2021 that exceed those reasonably expected to be completed by Delta.

- b. Explain why all of the 2022 forecasted additions should be removed.



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cc: Parties of Record

Case No. 2021-00185

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