

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC JOINT APPLICATION OF PNG)	
COMPANIES LLC, DRAKE MERGER SUB INC.)	
AND DELTA NATURAL GAS COMPANY, INC.)	CASE NO.
FOR APPROVAL OF AN ACQUISITION OF)	2017-00125
OWNERSHIP AND CONTROL OF DELTA)	
NATURAL GAS COMPANY, INC.)	

JOINT RESPONSE OF
PNG COMPANIES LLC, DRAKE MERGER SUB INC.
AND DELTA NATURAL GAS COMPANY, INC.
TO THE
COMMISSION STAFF'S SECOND REQUEST
FOR INFORMATION TO JOINT APPLICANTS
DATED APRIL 26, 2017

FILED: May 5, 2017

**PNG COMPANIES LLC, DRAKE MERGER SUB INC. AND DELTA
NATURAL GAS COMPANY**

CASE NO. 2017-00125

**May 5, 2017 Joint Response to the
Commission Staff Set II Data Requests
Dated April 26, 2017**

Question No. 001

Responding Witness: Morgan K. O'Brien

Q-001 Refer to Joint Applicants' response to Commission Staff's First Request for Information ("Response to Staff's First Request"), Item 4, which states that "[t]he analysis will identify all of Delta's unique requirements in order to determine what systems will be implemented." Explain and give examples of "unique requirements" that impact the types of technology PNG might implement post-closing.

A-001 Based on the experience of PNG Companies LLC with technology integrations of other acquired companies, unique requirements tend to be related to specific commission regulations or local or state law. Examples could include the following;

- Custom coding for customer billing requirements specified by the Commission
- Tracking for unique rate mechanisms, such as a weather normalization clause
- Specific Kentucky taxation
- Application of approved cost allocation methodologies
- Reporting on state specific programs

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Question No. 002

Responding Witness: Morgan K. O'Brien

Q-002 Refer to the Response to Staff's First Request, Item 7. Explain why Joint Applicants have not yet finalized the size and identify of Delta's post-close Board of Directors, and state the date that the size and identify of Delta's post-close Board of Directors will be finalized.

A-002 PNG is in the process of determining the size and identity of Delta's Board of Directors and plans to finalize those determinations prior to closing. As mentioned in the written testimony filed by Morgan K. O'Brien in this proceeding in support of the Joint Application, Delta's current board will recommend someone be added to the post-close board to serve as an independent director that has insight to and is engaged with the communities in Kentucky. We expect Delta's board to make recommendations after Delta's upcoming May board meeting. Therefore, we expect to have the individual identified prior to closing of the transaction. The Joint Applicants will notify the Commission as soon as the individual had been identified

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Question No. 003

Responding Witness: Morgan K. O'Brien

Q-003 Refer to the Application, page 11, wherein Joint Applicants state that "Delta will maintain Delta's rates in effect at Closing, and may seek to modify those rates from time to time in accordance with Kentucky law and the Commission's regulations." State whether Joint Applicants believe that Delta's existing customers can be served at Delta's current rates with no decline in service after the proposed transaction closes.

A-003 Yes, PNG believes that Delta's current service level can be maintained at current rates after the proposed transaction closes and for the immediate future thereafter.

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Question No. 004

Responding Witness: Morgan K. O'Brien

Q-004 Refer to the Response to Staff's First Request, Item 8, Attachment KYPSC-8.

- A. Provide a brief explanation of small volume gas transportation services for residential customers, whether they are required in Pennsylvania, and whether Joint Applicants intend to pursue the provision of such service in Delta's service area.
- B. Provide an explanation of Peoples Natural Gas Company LLC's Rider H, Ratepayer Trust Rate Credit, the specific circumstances giving rise to Rider H, and the details surrounding the establishment of the \$35 million trust amount.

A-004

- A. In Pennsylvania, small volume residential and commercial customers are allowed to choose the supplier of their commodity. The utility acquires and holds the capacity to serve these customers and releases on a recallable basis any capacity to the chosen supplier. Among the three Pennsylvania utilities of PNG Companies LLC, participation for Residential customers varies from a high of 25% of the customers to a less than 1 %, depending on the company and the availability of suppliers serving the system. Suppliers must be licensed by the state to participate. PNG has no immediate plans to implement transportation service for small customers in Delta's service area.
- B. Pursuant to the Settlement at Document A-2008-2063737, the acquisition by SteelRiver of The Peoples Natural Gas Company from Dominion Resources, Dominion agreed to deposit \$35 million to be placed in an irrevocable trust exclusively for the benefit of the ratepayers of PNG Companies LLC. The deposited amount, plus interest, net of taxes and trust expenses, was to be flowed to ratepayers as a distribution rate credit. The credit was to be allocated among the rate classes proportionate to any base rate revenue award in PNG's next base rate proceeding. The credit began with the compliance filing in Peoples 2010 Base rate case at Pa PUC Docket R-2010-2285985, and was refunded over three years. The transaction with Dominion Resources was structured to include a IRC Section 338 (h)(10) election. This required that the tax basis of the assets being acquired were to be set at the fair market value of the assets upon closing. There is no such election being made as part of this proposed transaction.

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Question No. 005

Responding Witness: Morgan K. O'Brien

Q-005 Refer to the Response to Staff's First Request, Item 16, regarding why the application filed by Joint Applicants did not request approval for SteelRiver LDC Ventures LLC or SteelRiver Infrastructure Fund North America LP to acquire direct or indirect control of Delta. Note Joint Applicants' reference to Case No. 2002-00018, Application for Approval of the Transfer of Control of Kentucky-American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GMBH (Ky. PSC May 30, 2002), to support their contention that neither the Commission nor KRS 278.020 require that SteelRiver LDC Ventures LLC or SteelRiver Infrastructure Fund North America LP be a party to this proceeding.

- A. Confirm that Joint Applicants' acknowledge that Case No. 2002-00018 sought Commission approval to transfer control of Kentucky-American Water Company to RWE Aktiengesellschaft ("RWE") and Thames Water Aqua Holdings GMBH ("Thames"), and that RWE and Thames were to become the indirect corporate parents of Kentucky-American Water Company.
- B. Confirm that Joint Applicants have not sought Commission approval to transfer control of Delta to PNG's corporate parents, SteelRiver LDC Ventures LLC or SteelRiver Infrastructure Fund North America LP.
- C. State whether Joint Applicants intend to amend their application to request Commission approval for SteelRiver LDC Ventures LLC or SteelRiver Infrastructure Fund North America LP, as the corporate parents of PNG, to acquire indirect control of Delta.

A-005 Please refer to the Motion for Leave to File Amended Joint Application that was filed in this proceeding by the Joint Applicants on May 5, 2017.

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Question No. 006

Responding Witness: Morgan K. O'Brien

Q-006 Refer to the Response to Staff's First Request, Item 14, which states that initial financing of the purchase price will occur under PNG's \$300 million Revolving Credit Agreement. Also refer to Joint Applicants' response to the Attorney General's Initial Data Requests ("Response to AG's First Request"), Item 72, which states that "[p]ost-closing, PNG plans to maintain a \$400M revolving credit facility which will be available to provide liquidity for PNG operations." Reconcile the different amount of the credit facilities and state whether PNG intends to obtain a higher credit facility after the transaction closes.

A-006 PNG currently maintains a \$300 million revolving credit facility and is in the process of refinancing and increasing the size of this facility to \$400 million to meet PNG's future needs, regardless of whether the proposed acquisition of Delta closes.

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Question No. 007

Responding Witness: Morgan K. O'Brien

Q-007 Refer to the Response to AG's First Request, Items 19, State whether Joint Applicants, SteelRiver LDC Ventures LLC or SteelRiver Infrastructure Fund North America LP will provide written acceptance of the following commitments and assurances:

- A. All costs associated with the proposed transaction will not have the effect of increasing Delta's rates for gas service.
- B. Neither Delta nor its ratepayers, directly or indirectly, will incur any additional costs, liabilities, or obligations in conjunction with the acquisition of Delta by Joint Applicants, SteelRiver LDC Ventures LLC, or SteelRiver Infrastructure Fund North America LP.
- C. Delta will not incur any additional indebtedness or pledge any assets to finance any part of the purchase price paid by PNG for Delta stock.
- D. Delta will not guarantee the credit of PNG or any of PNG's affiliates.
- E. Delta will not pledge any of its assets to finance the debt or any purchases of PNG or any of PNG's affiliates except after prior Commission approval pursuant to KRS 278.300.

A-007

Please refer to the Motion for Leave to File Amended Joint Application that was filed in this proceeding by the Joint Applicants on May 5, 2017. As stated in the testimony of John McGuire, filed as an exhibit to such Motion, the Joint Applicants, including the SteelRiver entities for whom leave is sought to become additional Joint Applicants, will agree to the following commitments and assurances:

:

- A. All costs associated with the proposed transaction will not have the effect of increasing Delta's rate for gas service.
- B. Neither Delta nor its ratepayers, directly or indirectly, will incur any additional costs, liabilities, or obligations in conjunction with the acquisition of Delta by Joint Applicants, SteelRiver LDC Ventures LLC, or SteelRiver Infrastructure Fund North America LP.
- C. Delta will not incur any additional indebtedness or pledge and assets to finance any part of the purchase price paid by PNG for Delta stock.

