

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

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

**JOINT RESPONSE OF**  
**PNG COMPANIES LLC, DRAKE MERGER SUB INC.**  
**AND DELTA NATURAL GAS COMPANY, INC.**  
**TO THE**  
**COMMISSION STAFF'S INITIAL REQUEST**  
**FOR INFORMATION TO JOINT APPLICANTS**  
**DATED APRIL 7, 2017**

**FILED: April 19, 2017**

**PNG COMPANIES LLC, DRAKE MERGER SUB INC. AND DELTA  
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**CASE NO. 2017-00125**

**April 19, 2017 Joint Response to the  
Commission Staff Initial Data Requests  
Dated April 7, 2017**

**Question No. 001**

**Responding Witness: Glenn R. Jennings, Morgan K. O'Brien**

Q-001 Refer to the Application, page 1, which states that the proposed acquisition is subject to the approval of Delta's shareholders, the Commission, and other regulatory agencies.

- A. Provide the status of and timetable for the approval of the proposed acquisition by Delta's shareholders.
- B. Identify the other regulatory agencies that must approve the proposed acquisition, and the status of and timetable for each agency's approval of the proposed transaction.

A-001

- A. Delta filed the preliminary proxy statement with the SEC on March 24, 2017. The SEC had no comments on our filing so we are free to proceed. Delta's Board met on April 13, 2017 to set the record date for the vote for April 25, 2017 and the meeting date for June 1, 2017. Delta will file the final proxy statement with the SEC on April 27, 2017 and mail the materials to shareholders on or about May 2, 2017 in preparation for the special meeting on June 1, 2017.
- B. The FTC is the only other regulatory agency that would have jurisdiction over the proposed acquisition. The early termination letter from the FTC is attached as KYPSC-1.

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**Question No. 002**

**Responding Witness: Morgan K. O'Brien**

Q-002 Refer to the Application, page 6, which sets forth the merger commitments included in the Agreement and Plan of Merger ("APM"). Describe in specific detail the compensation, benefits, and severance protections for non-executive employees of Delta.

A-002 PNG has committed to provide wages and benefits that are no less favorable than the levels in effect immediately prior to closing for all Delta employees for a period of at least 1 year after closing. A severance program which provides eligible employees up to 3 months of severance payments in the event of termination also exists after the expiration of the one year anniversary of closing and continues through the 18-month anniversary of closing. Please refer also to the response to Question Number 023 of the Attorney General's Initial Data Requests to the Joint Applicants.

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**Question No. 003**

**Responding Witness: Morgan K. O'Brien**

Q-003 Refer to the Application, page 6, and the APM, Section 1.6(b).

- A. For the five current Delta executive officers who will be offered positions with Delta after the closing of the proposed transaction, provide:
- i. Each officer's name and current title;
  - ii. Each officer's current employment status;
  - iii. Each officer's proposed title, job duties, and compensation, if finalized. If the proposed title and job duties of any of the five executive officers have not been finalized, provide an expected timeline for a decision.
- B. State whether the Joint Applicants have identified the independent director who will be appointed to Delta's Board of Directors post-closing. If not, explain how the independent director will be selected.
- C. If the independent director has been identified, state whether Delta's current Board of Directors has approved the proposed independent director to be appointed to Delta's Board of Directors once the proposed transaction closes. If the independent director has been approved, provide the person's name and a description of the person's qualifications.

A-003 A. i. The current officers and their titles are shown below

Glenn Jennings – Chairman of the Board, President & CEO  
John Brown – Principal Financial Officer, Chief Operating Officer, Treasurer and Secretary  
Johnny Caudill – Vice President – Distribution  
Brian Ramsey – Vice President – Transmission & Gas Supply  
Matthew Wesolosky – Principal Accounting Officer, Vice President – Controller

- ii. All officers are currently full time employees.

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A-003 Continued

iii. Proposed job titles and duties for each of the individuals are still being assessed and are expected to be finalized prior to closing. The current plan is to maintain the same slate of officers after closing for up to a year before implementing any changes.

B & C. The independent director has not yet been identified.

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**Question No. 004**

**Responding Witness: Morgan K. O'Brien**

Q-004 Refer to the Application, page 7, which states that PNG has the financial ability to "leverage the significant technology investments" to improve the level of customer service provide by Delta and better manage Delta's resources. Explain in specific detail what technology will be implemented, its cost, and how that technology will improve Delta's customer service and resource management.

A-004 Upon close, the Joint Applicants will conduct a closer examination of the many opportunities to leverage the significant technology improvements that have been made over the last few years and installed at the Peoples Utilities. Working together with the Delta employees, who have an in-depth knowledge of their customers and business processes, we can develop the best processes and systems to benefit the customers and promote safety for both customers and employees.

Much like the other companies before they were acquired and integrated into PNG, Delta has many processes that are more manual in nature. Further, Delta had begun looking at upgrading their Customer Care and Billing systems. With the Peoples Utilities already having recently implemented state of the art systems in both of these areas, we believe there are great opportunities for improvements for Delta's customers. In some cases, the new systems and improvements may not have been financially feasible for a company as small as Delta. After the close, a detailed analysis will be performed. The analysis will identify all of Delta's unique requirements in order to determine what systems will be implemented. The costs would predominately include employee software licenses and data conversion.

As part of PNG's previous acquisitions and integrations, we purchased and implemented the latest technology that will, in turn, be available for Delta and its customers. These investments are difficult to build the business case on a standalone basis for smaller utilities like Delta. But when you combine the benefits of all the PNG Utilities being able to leverage these benefits, it makes a great deal of sense. The Peoples Utilities invested over \$47 MM in new hardware, software, and voice and data networks. We evaluated, purchased and implemented the latest technology and versions available for Financial Accounting, Tax Reporting, Escheatment, Gas and Energy Trading, SCADA, Customer Care and Billing, Call Center Systems, Bill Print, Metering, Customer Service Systems such as Work Force Management, Web, Customer Portals, Customer Correspondence, Gas Estimation and Forecasting, Regulatory Reporting, Sales and Marketing, Land Management, Operations and Field Management, Engineering, GIS, Pipeline Integrity, Safety and Training systems, Compliance and compliance reporting systems, Mobile

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A-004 Continued

Device Management, Business Intelligence, data warehousing systems, Server Management, Storage Management, Backup Management, E-Mail Services, Office Systems

Software, Batch processing, Desktop Services, voice network including PBX, voice applications and IVR, Transport Network including Microwave, dedicated Leased Lines, Data Network including Routers, switches, firewalls, security, and Disaster Recovery.

The Peoples Utilities also implemented SAP software, which is used in major utilities worldwide. One of the SAP modules is Customer Care and Billing that is listed above. Other systems were added such as a fully integrated contact center system including an Interactive Voice Response (IVR), an Automatic Number Identification (ANI) system to identify and retrieve customer records based on the incoming phone number, or other inputted digits, to allow the Customer Service Representative to have immediate access to customer information through automated screen pops which is a feature of a computer telephony integration (CTI) application that automatically displays all of the relevant caller and account information on a call center agent's screen during a call. These integrated systems facilitate faster call resolution by synchronizing customer file screen pop with incoming calls and transfers and improves customer satisfaction by enabling faster, more personalized customer interactions. The contact center system also provides call monitoring and tracking to support a more effective and efficient call center.

In addition, we have a Customer Portal where customers can “self-serve”. The customer can view/receive their bills and/or notifications online. The customer can do a “move-in” or “move out” and make appointments. They can pay their bills online or check their usage. Customers can even make payment arrangements online, which to some, is more comfortable than talking with an agent. We also have Chat available for customers. All of these options are offered to make our customers’ lives better. We found that there is an entire segment of our customer community who wouldn’t call or engage with the utility other than through channels such as Chat. While this increased, rather than decreased, the number of transactions, our customers were better served in ways most comfortable to them.

We have created portals used by social service agencies for easier access to information to process low income grants and other third party assistance from Social Service Agencies.

We have mobile systems that track our field service representatives and their work. The field representative can manage a customer order and update the information in real time. Our Call Center/Customer Service people know immediately where the field representative is/was and what work had been done.

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If there is an emergency, our dispatch center can see online which field service person is closest to the premise and they can be dispatched with greater speed.

When our field representatives discover a leak, they can put the leak directly on the mobile map with all of the related information and orders are created. The field employees have all of our pipeline and other facility data available to them, right in the truck, whether they are in connected or disconnect mode. They have engineering drawings, leak sketches, regulator data sheets and other technical documents available. They also have their Standard Operating Procedures (SOP) online. This ensures that everyone always has access to the information that they need and that data is always up to date.

All of these systems have been implemented to improve Customer Service, while improving safety for our customers and employees.



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**Question No. 005**

**Responding Witness: Morgan K. O'Brien**

Q-005 Please refer to the Joint Application, page 8, which states that PNG has the financial ability to provide Delta employees with "the most state of the art tools" to continue to improve safety. Explain in specific detail what "state of the art tools" will be implemented and how said tools will improve the safety of providing utility service to Delta's customers.

A-005 Please refer to the response to Question Number 004.

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**Question No. 006**

**Responding Witness: Morgan K. O'Brien**

Q-006 Please refer to the Application, page 8, which states that PNG will expand Delta's partnerships and working relationships with economic development leaders. Describe what plans PNG has to implement expanded partnerships and economic development efforts.

A-006 Delta plans to continue its efforts in working toward economic development and promoting growth in its service areas. After the closing, these efforts will be evaluated and expanded where practical and feasible. This will include involvement with state and local government leaders, as well as with state and regional economic development efforts. This will also include community action centers and low-income advocacy support groups.

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**Question No. 007**

**Responding Witness: Morgan K. O'Brien**

Q-007 Describe in specific detail the size and identify the potential members of Delta's Board of Directors once the proposed transaction closes.

A-007 The final size and identity of Delta's post-close Board of Directors is still being developed. As previously discussed, PNG has committed to having an independent director included in this group.

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**Question No. 008**

**Responding Witness: Morgan K. O'Brien**

Q-008 Provide the current tariffs of PNG's local gas distribution company affiliates.

A-008 Please refer to the attachment labeled KYPSC-8 which includes the currently effective tariffs for Peoples Natural Gas LLC; Peoples Natural Gas LLC – Equitable Division; Peoples TWP LLC; Peoples Gas WV LLC; and Peoples Gas KY LLC.

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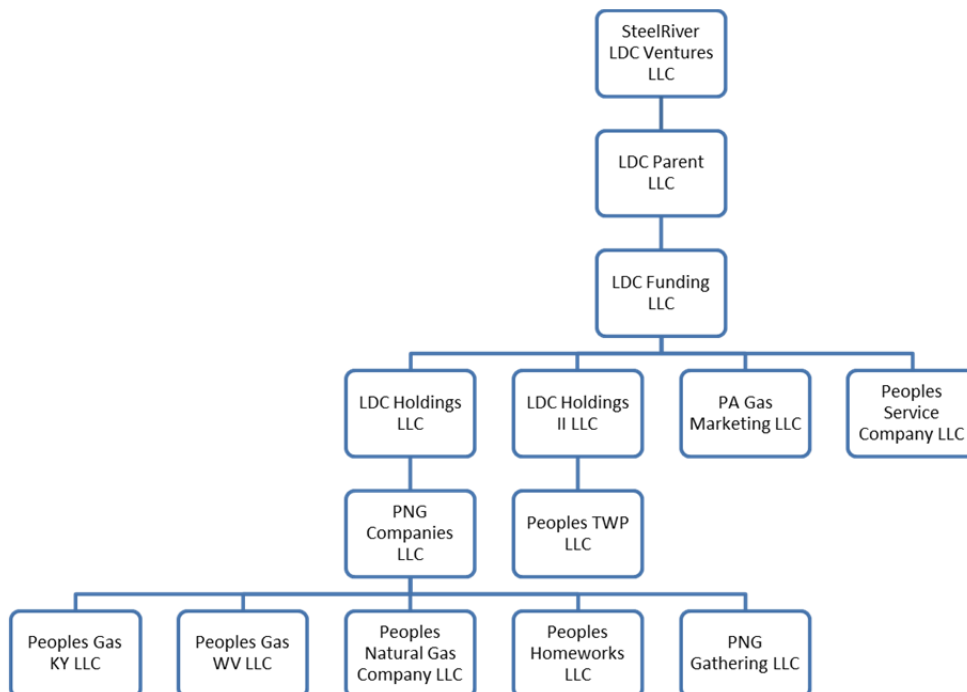
**Question No. 009**

**Responding Witness: Preston D. Poljak**

Q-009 Provide an organizational chart showing the current organizational structure of PNG, PNG's affiliates, and PNG's parent company or companies.

A-009 See organizational structure below. SteelRiver LDC Ventures LLC is owned by SteelRiver Infrastructure Fund North America LP and an affiliated fund.

All of the operations of the operating companies are managed at the PNG Companies LLC level and below, including Peoples TWP LLC, through service agreements approved by the Pennsylvania PUC. PNG Companies LLC has the management team that oversees and manages the day to day business of the operating companies. It also has a board of directors that is made up of the SteelRiver Management team who manage the funds that house the ultimate equity investors, independent directors of PNG, and the CEO of PNG. This is the board that approved the Delta acquisition. There are no employees of any of the companies above PNG Companies LLC. Therefore, only PNG Companies LLC will have any oversight or control of Delta going forward.



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**Question No. 010**

**Responding Witness: Morgan K. O'Brien**

Q-010 Refer to APM, Section 5.6(a).

- A. Explain in detail the entity named "SteelRiver Operations LP," its relationship to PNG, and its role in the proposed merger transaction.
- B. Provide a copy of the Confidentiality Agreement dated as of August 30, 2016, between SteelRiver Operations LP and Delta.

A-010 SteelRiver Operations LP ("SRO") is an affiliate of SteelRiver Infrastructure Associates LLC (the general partner of SteelRiver Infrastructure Fund North America LP ("SRIFNA")) and SteelRiver Infrastructure Associates III LLC (the general partner of SteelRiver LDC Investments LP ("SRLDCI")). Please refer to the response to Question Number 015 for more detail on the services performed by SRO and its affiliates (collectively defined as "SteelRiver" in such response), including the relationship between SteelRiver and PNG. SRO and its affiliates initiated discussions with the senior management of Delta, and entered into the confidentiality agreement referenced in the response.

The Confidentiality Agreement dated as of August 30, 2016, between SRO and Delta is labeled as KYPSC-10 and is attached.

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**Question No. 011**

**Responding Witness: Preston D. Poljak**

Q-011 Refer to the APM, Section 8.11, notice to Drake Merger Sub, Inc. Explain in detail the entity named "SteelRiver Partners," its relationship to PNG, and its role in the proposed merger transaction .

A-011 There is no legal entity named "SteelRiver Partners." The words "SteelRiver Partners" are used as a domain name. As further described in the response to Question Number 015, "SteelRiver" refers collectively to SteelRiver Infrastructure Associates LLC (the general partner of SRIFNA, SteelRiver Infrastructure Associates III LLC (the general partner of SRLDCI) and their investment-management affiliates. SteelRiver's website is [www.steelriverpartners.com](http://www.steelriverpartners.com) and its staff email addresses use "steelriverpartners.com" as the domain name.

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**Question No. 012**

**Responding Witness: Morgan K. O'Brien**

Q-012 Refer to the Direct Testimony of Morgan K. O'Brien, ("O'Brien Testimony") pages 13-14. Provide resumes for the three PNG personnel identified as having future oversight responsibilities for Delta's business.

A-012 Please see the attachment labeled KYPSC-12 which includes the resumes of Morgan K. O'Brien, Joseph A. Gregorini and Lynda W. Petrichevich.



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**Question No. 013**

**Responding Witness: Morgan K. O'Brien**

Q-013 Refer to O'Brien Testimony, page 14, lines 9-10. Describe in detail the Board of PNG and provide the Board members' names and addresses.

A-013 The members of the PNG Companies LLC Board of Managers are listed below. Their business address is 375 North Shore Drive, Suite 600, Pittsburgh, PA 15212.

Christopher P. Kinney

Dennis T. Mahoney, Jr.

John McGuire

James Mahoney

Victor Roque

Morgan K. O'Brien

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**Question No. 014**

**Responding Witness: Preston D. Poljak**

Q-014 Refer to the Direct Testimony of Preston D. Poljak ("Poljak Testimony"), page 5, lines 9-10. If part of the purchase price is to be financed, provide details of the loan agreement.

A-014 Initial financing of the purchase price will occur from borrowings under the PNG Companies LLC \$300M Revolving Credit Agreement dated August 2013. Such agreement contains normal and customary terms and conditions, covenants, etc.

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**Question No. 015**

**Responding Witness: Preston D. Poljak**

Q-015 Refer to the Poljak Testimony, page 2, lines 17-19. Explain in detail the entities named "SteelRiver LDC Ventures LLC" and "SteelRiver Infrastructure Fund North America, LP," their role in the proposed merger transaction, and the extent to which either or both of these entities will acquire any control of Delta, as control is defined in KRS 278.020(7), if the proposed merger transaction is approved.

A-015 PNG Companies LLC is an indirect wholly-owned subsidiary of SteelRiver LDC Ventures LLC ("LDC Ventures"). LDC Ventures is owned in part by SRIFNA and in part by SRLDCI. SRIFNA is an investment fund that focuses on infrastructure assets, while SRLDCI is an investment fund raised to finance the acquisition of Equitable Gas Company by PNG Companies LLC from EQT Corporation in December 2013.

SteelRiver Infrastructure Associates LLC, the general partner of SRIFNA, and SteelRiver Infrastructure Associates III LLC, the general partner of SRLDCI, and their affiliated investment management entities (collectively "SteelRiver") manage infrastructure investments throughout North America in funds with total committed capital of \$2.2 billion. SteelRiver has a dedicated asset management team that embraces core values of professionalism, low staff turnover, and strong risk management. SteelRiver invests in other premier infrastructure assets in the United States, in addition to the Peoples Utilities.<sup>1</sup>

SRIFNA is an investment fund focused on infrastructure assets. SRIFNA invests for the long term in infrastructure businesses that provide essential services. Investors in SRIFNA include public employee and other pension plans and insurance companies located throughout North America and Europe. The investors in the funds have a conservative approach to investment. Pension funds and insurance companies, by their nature, have very long-term

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<sup>1</sup> SteelRiver owns Diversified Port Holdings LLC (formerly ICS Holdings), a leading operator of break bulk sea ports in Florida, Louisiana, Georgia, and Alabama; Trans Bay Cable LLC, a 400 megawatt high-voltage direct current electric submarine cable connecting generating facilities in the East Bay to the City of San Francisco, which supplies 40% of the electricity needs of San Francisco at peak periods and is regulated by the Federal Energy Regulatory Commission ("FERC") and the California Public Utility Commission ("CaPUC"); and Patriot Rail Corp., a leading operator of short line and regional freight railroads in the United States, which includes 13 railroads with over 500 total rail miles traversing 13 states and is regulated by the Federal Railroad Administration.

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A-015 Continued

obligations and, to meet these obligations, they seek a stable, steady and fair return on infrastructure investments to be held for a significant period of time. For this reason, the investment philosophy and strategy of the funds is to seek a stable, steady and fair return on investments to be held for a significant period of time, not to generate short-term gains for the investors.

SRIFNA indirectly acquired and owned 100% of Peoples in February 2010; and indirectly acquired and owned 100% of Peoples TWP in June 2011. In connection with the acquisition of Equitable Gas Company in December 2013, SRIFNA and SRLDCI established LDC Ventures to indirectly hold ownership in the three Pennsylvania gas utilities. Since that time, Peoples and Peoples TWP have been 100% indirectly owned by SRIFNA and SRLDCI (through LDC Ventures) in the percentages set forth above.

Other than indirect ownership of PNG Companies LLC, SRIFNA and SRLDCI will play no role in the proposed merger transaction. For these reasons, although the SteelRiver entities are the ultimate investors in the assets of the PNG Companies, they do not act as a short-term manager of the day-to-day operations of the PNG Companies.

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**Question No. 016**

**Responding Witness: Preston D. Poljak**

Q-016 If, upon approval of the proposed merger transaction, SteelRiver LDC Ventures LLC or SteelRiver Infrastructure Fund North America LP will have any direct or indirect control of Delta, explain in detail why the proposed merger application does not request approval for those entities to acquire direct or indirect control of Delta.

A-016 KRS 278.020 confers jurisdiction upon the Commission over any transfer of control of a utility, and it requires an application for Commission approval and Commission review of the proposed transfer and the acquirer's ability to provide reasonable utility service. KRS 278.020, however, does not expressly require that a transferor or acquirer apply for Commission approval nor does it prohibit a corporate subsidiary from doing so on behalf of a corporate parent. At the request of the Commission, PNG Companies will respond to questions about SteelRiver and its operations, and SteelRiver will confer authority upon PNG to make commitments on its behalf. The absence of SteelRiver will neither interfere with nor impede the Commission's review nor deprive any party of its right to due process. The Commission has acted previously upon applications for transfer of control in which an acquirer or transferor was not a party to the proceeding. See, e.g., 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), pp. 9-12.

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**Question No. 017**

**Responding Witness: Preston D. Poljak**

Q-017 Refer to the Poljak testimony, page 7, line 18. Provide PNG's most recent reports from Moody's Investors Service and Standard & Poor's.

A-017 Please refer to the attachments labeled KYPSC-17-1 and KYPSC-17-2.

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**Question No. 018**

**Responding Witness: Preston D. Poljak**

Q-018 Refer to the Poljak Testimony, pages 9-10. Provide the PNG internal code of conduct.

A-018 Please refer to the attachment labeled KYPSC-18.

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**Question No. 019**

**Responding Witness: Preston D. Poljak**

Q-019 Provide PNG's most recent quarterly and 12-month balance sheet, income statement and statement of cash flows.

A-019 Please refer to the attachment labeled KYPSC-19.



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**Question No. 020**

**Responding Witness: Preston D. Poljak**

Q-020 Provide the proposed journal entry or entries PNG will make to record the ownership transfer.

A-020 Please see the journal entries below.

**Delta Natural Gas Company, Inc.**

	<u>DR</u>	<u>CR</u>
Retained Earnings	\$XXX	
Premium on Common Shares		\$XXX

To eliminate Retained Earnings accumulated under previous stock ownership.

**PNG Companies LLC**


	<u>DR</u>	<u>CR</u>
Investment in Subsidiary	\$XXX	
Goodwill	\$XXX	
Cash		\$XXX
Debt		\$XXX

To record PNG Companies LLC's acquired investment in Delta Natural Gas Company, Inc.

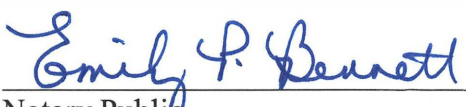
VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF CLARK )

The undersigned, Matthew D. Wesolosky, being duly sworn, deposes and says that he is Vice President-Controller 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.

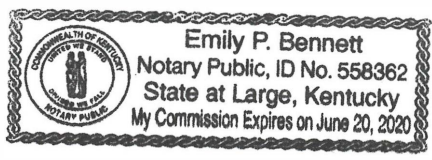
  
Matthew D. Wesolosky

Subscribed and sworn to before me, a Notary Public, in said County and State this 17<sup>th</sup> day of April 2017.

 (SEAL)  
Notary Public

My Commission Expires:

6/20/2020



VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF CLARK )

The undersigned, Glenn R. Jennings, being duly sworn, deposes and says that he is Chairman of the Board, President and Chief Executive Officer 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.

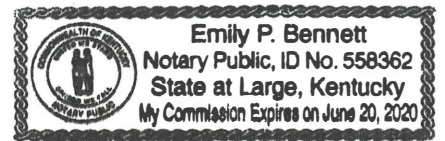
Glenn R. Jennings  
Glenn R. Jennings

Subscribed and sworn to before me, a Notary Public, in said County and State this 17<sup>th</sup> day of April 2017.

Emily P. Bennett (SEAL)  
Notary Public

My Commission Expires:

6/20/2020



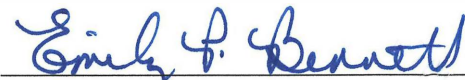
VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 )  
COUNTY OF CLARK ) SS:

The undersigned, John B Brown, being duly sworn, deposes and says that he is Chief Operating Officer, Treasurer and Secretary 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.

  
\_\_\_\_\_  
John B. Brown

Subscribed and sworn to before me, a Notary Public, in said County and State this 17<sup>th</sup> day of April 2017.

 (SEAL)  
\_\_\_\_\_  
Notary Public

My Commission Expires:

6/20/20

