

**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**  
**ATTORNEY GENERAL'S SUPPLEMENTAL DATA REQUESTS**  
**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  
Attorney General's Set II Data Requests  
Dated April 26, 2017**

**Question No. 001**

**Responding Witness: Preston D. Poljak**

Q-001 Reference the response to AG 1-50, the due diligence report attachment, beginning at p. 61 of 126.

- A. Discuss whether Joint Applicants intend to continue the insurance coverages therein identified.
- B. Provide details regarding any additional policies Joint Applicants either are intending, or are contemplating procuring.
- C. Provide a confidential copy of the redacted pages in this 126-page document.

A-001

- A. The Joint Applicants intend to continue the coverages.
- B. The Joint Applicants do not intend or contemplate the procurement of additional policies at this time.
- C. The Joint Applicants will provide to the Attorney General a confidential copy of the pages that were redacted from this document on the grounds of exemption from disclosure under KRS 61.878(1)(a). The remaining pages that were redacted from this document are protected from disclosure by the attorney-client privilege.

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

**CASE NO. 2017-00125**

**May 5, 2017 Joint Response to the  
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Dated April 26, 2017**

**Question No. 002**

**Responding Witness: Preston D. Poljak**

Q-002 Reference the response to AG 1-54. The response stated, in part, "PNG will file an application and seek approval from the PSC regarding any future issuance of debt at Delta that is subject to the approval of the Commission."

A. Will any future issuance of debt by Delta be related in any way to any debt PNG will or may incur to fund the transaction which is the subject of the instant docket?

A-002 PNG does not expect any future issuance of debt by Delta to be related to any debt PNG will or may incur to fund the transaction. Delta currently has \$50,500,000 of long-term debt outstanding that was issued under its Note Purchase and Private Shelf Agreement dated December 8, 2011. PNG is in the process of discussing a potential note exchange with the existing holders of this note whereby the existing holders will exchange the note issued by Delta for a note issued by PNG that contains the same principal, amortization schedule and interest rate that is contained in the existing note. To the extent the exchange occurs, a new note will be put in place between Delta and PNG that will contain the same economic terms as the existing note between Delta and its current noteholders. Therefore there will be no impact on Delta or its ratepayers as the economic terms will be unchanged from their current form. If Commission approval is required, Delta will seek Commission approval.

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

**CASE NO. 2017-00125**

**May 5, 2017 Joint Response to the  
Attorney General's Set II Data Requests  
Dated April 26, 2017**

**Question No. 003**

**Responding Witness: Preston D. Poljak**

Q-003 Reference the response to PSC 1-17, attachment KYPSC-17-1, Moody's Investors Service Credit Opinion, p. 2 of 5, the discussion regarding ring-fencing.

- A. Discuss the types of ring-fencing Joint Applicants have put in place regarding Delta.
- B. If the response to subpart a., above, is "none," state whether Joint Applicants would agree to the following:
- i. ring-fencing of Delta from all other Steel-River owned companies and LLCs;
  - ii. limiting Delta's dividend payable to PNG to a level that maintains a maximum debt to capitalization ratio at the utility, excluding working capital borrowing, of 55%;
  - iii. provisions prohibiting Delta from:
    1. guaranteeing debt or credit facilities of any PNG affiliate;
    2. mortgaging utility assets on behalf of an affiliate; and
    3. loaning funds or otherwise extending credit to any affiliate.

A-003

- A. None at this time. Ring-fencing cannot be implemented until the transaction closes.
- B.
- i. Please refer to the testimony of John McGuire filed in this proceeding on May 5, 2017 as part of Exhibit A to the Joint Applicants' Motion for Leave to File Amended Joint Application.
  - ii. PNG will agree to this provision.
  - iii. PNG will agree to the following provisions prohibiting Delta from:
    - i. Guaranteeing debt or credit facilities of any current PNG affiliate;
    - ii. Mortgaging utility assets on behalf of a current affiliate; and
    - iii. Loaning funds or otherwise extending credit to any current affiliate.

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

**CASE NO. 2017-00125**

**May 5, 2017 Joint Response to the  
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**Question No. 004**

**Responding Witness: John B. Brown**

Q-004 Reference the response to AG 1-27, wherein the Joint Applicants note that shares may be issued through the Dividend Reinvestment Plan (DRIP).

A. Explain in complete detail how any shares issued through the DRIP prior to the completion of the proposed transaction will be treated.

A-004 Any shares issued through the DRIP will add to the number of shares of Delta stock outstanding at closing and so will increase the total purchase price by the number of shares added through the DRIP times the \$30.50 per share purchase price.

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

**May 5, 2017 Joint Response to the  
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**Question No. 005**

**Responding Witness: Preston D. Poljak**

Q-005 Reference the response to AG 1-25.

A. How are the listed entities taxed for state tax purposes?

A-005 These entities are disregarded for state income tax purposes. However, these entities are regarded and thus taxed at the state level for non-income tax purposes.

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

**May 5, 2017 Joint Response to the  
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**Question No. 006**

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

Q-006 Reference the response to AG 1-23.

A. Confirm that if an employee is terminated without cause before the end of the "no impact period," the severance paid to the employee, as laid out in the response, would be paid for by Delta ratepayers.

A-006 Severance paid in the "no-impact period" would be considered a transaction cost and Delta would not seek recovery of the severance pay in its rates.

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

**CASE NO. 2017-00125**

**May 5, 2017 Joint Response to the  
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**Question No. 007**

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

Q-007 Reference the response to AG 1-20.

A. Explain in complete detail the experience the Joint Applicants, except Delta, have in replacing Alydyl-A pipe.

A-007 DOT and industry practices identify Aldyl-A plastic pipe as higher risk pipeline because of risk of failing due to premature cracking. Aldyl A makes up 235 miles or about 2% of the total distribution miles in the Peoples' pipeline system. Due to its unique risk characteristics it is risk ranked in the Peoples' Distribution Integrity Management Plan (DIMP) as a separate risk ranking category. Overall risk is lower than unprotected bare steel but has a higher overall risk than coated steel and plastic. Peoples' normal operating procedure is to evaluate entire Aldyl A segments as candidates for replacement consistent with our risk models.



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

**May 5, 2017 Joint Response to the  
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**Question No. 008**

**Responding Witness: Preston D. Poljak**

Q-008 Reference the response to PSC 1-20.

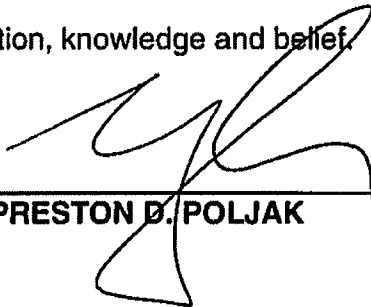
A. Provide the amount of "Goodwill" PNG Companies LLC will include in its accounting entry illustrated in this response. If this amount is provided elsewhere in the record, provide the location in the record where it can be found.

A-008 Using December 31, 2016 Balance Sheet and common stock share data from Delta Natural Gas Company, Inc.'s Form 10-Q, the projected Goodwill amount would be approximately \$140 million. Any changes in Delta's net book value at the time the transaction closes would be reflected in the goodwill value actually recorded at that time.

**VERIFICATION**

COMMONWEALTH OF PENNSYLVANIA )  
 ) **SS:**  
COUNTY OF ALLEGHENY )

**PRESTON D. POLJAK**, being duly sworn, deposes and says that he is the Senior Vice President and Chief Financial Officer of PNG Companies LLC ("PNG"); that he has read the foregoing responses for which he is identified as the witness and knows the matters contained therein relating to PNG and its affiliates; and that said matters are true and correct to the best of his information, knowledge and belief.

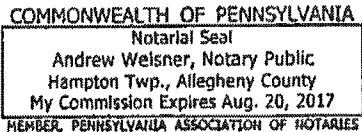
  
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**PRESTON D. POLJAK**

Subscribed and sworn to before me, a Notary Public in and for the above County and State, on this 4th day of May, 2017.

  
\_\_\_\_\_  
Notary Public

My Commission Expires:

8/20/17






**VERIFICATION**

COMMONWEALTH OF PENNSYLVANIA )  
  )  
COUNTY OF ALLEGHENY                    )    **SS:**  
  )

**MORGAN K. O'BRIEN**, being duly sworn, deposes and says that he is the President and Chief Executive Officer of PNG Companies LLC ("PNG") and a Vice President of Drake Merger Sub Inc. ("Drake"); that he has read the foregoing responses for which he is identified as the witness and knows the matters contained therein relating to PNG and Drake and their affiliates; and that said matters are true and correct to the best of his information, knowledge and belief.

  
**MORGAN K. O'BRIEN**

Subscribed and sworn to before me, a Notary Public in and for the above County and State, on this 4<sup>th</sup> day of May, 2017.

  
**Notary Public**

My Commission Expires:  
8/20/17

COMMONWEALTH OF PENNSYLVANIA  
Notarial Seal  
Andrew Weisner, Notary Public  
Hampton Twp., Allegheny County  
My Commission Expires Aug. 20, 2017  
MEMBER, PENNSYLVANIA ASSOCIATION OF NOTARIES