

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.)

**ATTORNEY GENERAL’S THIRD DATA REQUESTS TO
JOINT APPLICANTS**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and pursuant to the Commission’s order in this matter dated May 16, 2017, submits his Third Data Requests to the Joint Applicants in this matter, to be answered no later than May 30, 2017, and in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Identify the witness who will be prepared to answer questions concerning each request.
- (3) Repeat the question to which each response is intended to refer. The Office of the Attorney General can provide counsel for Amended Joint Applicants with an electronic version of these questions, upon request.
- (4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information

within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

(6) If you believe any request appears confusing, request clarification directly from Counsel for the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, identify each variable contained in the printout which would not be self-evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, notify the Office of the Attorney General as soon as possible.

(10) As used herein, the words "document" or "documents" are to be construed broadly and shall mean the original of the same (and all non-identical copies or drafts thereof) and if the original is not available, the best copy available. These terms shall include all information recorded in any written, graphic or other tangible form and shall include, without limiting the generality of the foregoing, all reports;

memoranda; books or notebooks; written or recorded statements, interviews, affidavits and depositions; all letters or correspondence; telegrams, cables and telex messages; contracts, leases, insurance policies or other agreements; warnings and caution/hazard notices or labels; mechanical and electronic recordings and all information so stored, or transcripts of such recordings; calendars, appointment books, schedules, agendas and diary entries; notes or memoranda of conversations (telephonic or otherwise), meetings or conferences; legal pleadings and transcripts of legal proceedings; maps, models, charts, diagrams, graphs and other demonstrative materials; financial statements, annual reports, balance sheets and other accounting records; quotations or offers; bulletins, newsletters, pamphlets, brochures and all other similar publications; summaries or compilations of data; deeds, titles, or other instruments of ownership; blueprints and specifications; manuals, guidelines, regulations, procedures, policies and instructional materials of any type; photographs or pictures, film, microfilm and microfiche; videotapes; articles; announcements and notices of any type; surveys, studies, evaluations, tests and all research and development (R&D) materials; newspaper clippings and press releases; time cards, employee schedules or rosters, and other payroll records; cancelled checks, invoices, bills and receipts; and writings of any kind and all other tangible things upon which any handwriting, typing, printing, drawings, representations, graphic matter, magnetic or electrical impulses, or other forms of communication are recorded or produced, including audio and video recordings, computer stored information (whether or not in printout form), computer-readable media or other electronically maintained or transmitted information regardless of the media or format in which

they are stored, and all other rough drafts, revised drafts (including all handwritten notes or other marks on the same) and copies of documents as hereinbefore defined by whatever means made.

(11) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(12) In the event any document called for has been destroyed or transferred beyond the control of the company, state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(13) Provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response, in compliance with Kentucky Public Service Commission Regulations.

Respectfully submitted,

ANDY BESHEAR
ATTORNEY GENERAL



REBECCA W. GOODMAN
KENT A. CHANDLER
LAWRENCE W. COOK
ASSISTANT ATTORNEYS GENERAL
700 CAPITOL AVE., SUITE 20
FRANKFORT KY 40601
(502) 696-5453
FAX: (502) 573-8315
Rebecca.Goodman@ky.gov
Larry.Cook@ky.gov
Kent.Chandler@ky.gov

Certificate of Service and Filing

Counsel certifies that: (a) the foregoing is a true and accurate copy of the same document being filed in paper medium; (b) pursuant to 807 KAR 5:001 § 8(7)(c), there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and (c) the original and six (6) copies in paper medium are being filed with the Commission within two business days of the date certified below.

this 22nd day of May, 2017



Assistant Attorney General

Electronic Joint Application of PNG Companies LLC Drake Merger Sub Inc., and Delta Natural Gas Company, Inc. for Approval of an Acquisition of Ownership and Control of Delta Natural Gas Company, Inc. CASE No. 2017-00125
Attorney General's Third Data Requests to Joint Applicants

1. Assuming the contemplated transaction is approved, will SteelRiver Infrastructure Fund North America LP, and SteelRiver LDC Investments LP [hereinafter "Amended Joint Applicants"] confirm that Delta and its ratepayers will not be exposed to any increased costs for shared corporate services that it otherwise would not have faced but for the approval? If so, identify all such costs as completely as possible.
2. Reference the application, p. 7, wherein it is stated: ". . . the acquisition by PNG of control over Delta will have no adverse impact on the provision of service by Delta to Delta's customers." Can the Amended Joint Applicants identify any additional benefits Delta ratepayers will receive as a result of the proposed transfer of control? If so, please state with specificity.
3. Reference the application, p. 8, the third bullet point, wherein the original Joint Applicants pledge to, "[e]xpand Delta's partnerships and working relationships with economic development leaders within the communities and within government to help drive and support the further success and growth of the communities within the Delta footprint."
 - a. Do the Amended Joint Applicants also pledge to expand Delta's partnerships and working relationships with Kentucky-based community action centers and other low-income advocate support groups? If not, why not?
4. In the event the Commission approves the contemplated transaction, if the Amended Joint Applicants, and/or their affiliates experience any changes in their equity-to-capital ratio, please describe any potential effect on Delta and its ratepayers.
5. Provide a chart depicting Amended Joint Applicants' organizational structure, including all subsidiaries, affiliates, and all parent companies.
6. Identify the members of the Amended Joint Applicants' respective boards of directors or members.
7. Provide copies of any and all filings the Amended Joint Applicants submitted to any state or federal agency regarding the contemplated transaction.
8. Provide a copy of the most recent audited financial statements for each of the Amended Joint Applicants.
9. In the event the Commission approves the contemplated transaction, state whether the Amended Joint Applicants will honor all contractual and

- regulatory commitments which Delta entered into prior to the closing of the transaction.
10. State the amount of termination fees, and / or any and all other fees and expenses Amended Joint Applicants would have to pay if the contemplated transaction is not consummated.
 - a. Of those fees, state the amount for which Delta ratepayers would, or could, become responsible.
 - b. If Delta ratepayers would be responsible for any such fees / expenses, state whether the company would have to file a rate case to recover such sums.
 11. Identify the ways in which the Amended Joint Applicants have chosen to be taxed by the IRS, and by any relevant state government.
 12. State whether either one or both of the Amended Joint Applicants has or have reserved the right to adjust their regular dividends or distributions, as the case may be, pending completion of the transaction. If so:
 - a. For how long will any modification to the dividend / distribution remain in effect?
 - b. Provide, in complete detail, the rationale for any such adjustment.
 - c. State whether that entity intends on seeking Commission approval of same, and if not, why not.
 - d. As a result of any potential increase in dividend / distribution, state:
 - (i) how much additional funding for corporate expenses of any type or sort that entity will seek from Delta's ratepayers; and
 - (ii) whether any such adjustment will cause Delta to file a rate case, and if so, when.
 13. As a result of the contemplated transaction, will Delta ratepayers be asked in any manner whatsoever to contribute toward any costs associated with operating any of the Amended Joint Applicants business operations, or those of its affiliates and subsidiaries?
 14. Discuss what effect the addition of the Amended Joint Applicants to the petition in this matter will have on the ability of: (i) PNG Companies, LLC; and (ii) Delta to borrow capital.

15. Provide copies of any and all reports, analyses or reviews of the credit profile for Delta after any approval of the application as conducted by any/each of the Amended Joint Applicants.
16. Identify, in detail, any and all tax advantages, benefits and/or savings the Amended Joint Applicants expect to result from the contemplated transaction, and provide any relevant quantifications.
17. State whether the Amended Joint Applicants currently have any deferred tax accounts on their respective balance sheets. If "yes," please identify the account(s), the amount carried therein, and provide a summary of the nature of the balance, and the reason for same.
18. For each deferred tax balance identified above, state what impact the contemplated transaction will have on the account (e.g., will the contemplated transaction result in a loss of any deferred tax credits?).
19. If the contemplated transaction is approved, identify any and all other cost savings for Delta ratepayers that are expected to result from the addition of Amended Joint Applicants to the petition in this matter.
20. If the contemplated transaction is approved, state whether Delta would be guaranteeing the credit of any of Amended Joint Applicants, and/or any of their affiliates or subsidiaries.
21. Do the Amended Joint Applicants agree that there are two categories of costs for the proposed transaction, namely: (1) costs-to-achieve the transaction (e.g., due diligence reports, legal counsel, etc.); and (2) costs-to-achieve cost savings in the post-transaction structure (e.g., systems integration, etc.)? If not, please identify the categories and provide a definition. Regardless of the answer, please provide the following:
 - a. For the costs-to-achieve the transaction, explain how the Amended Joint Applicants determine the costs that are allocated to or the responsibility of their respective owners, and those costs that are allocated to or the responsibility of their respective ratepayers, if any. Include any allocation methodologies.
 - b. For the costs-to-achieve cost savings in the post-transaction structure, explain how the Amended Joint Applicants determine the costs that are allocated to or the responsibility of their respective owners, and those costs that are allocated to or the responsibility of their respective ratepayers, if any. Include any allocation methodologies.

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- c. For the costs-to-achieve the transaction, explain how the Amended Joint Applicants determine the costs that are allocated to or the responsibility of their respective non-regulated operations. Include any allocation methodologies.
- d. For the costs-to-achieve cost savings in the post-transaction structure, explain how the Amended Joint Applicants determine the costs that are allocated to or the responsibility of their respective regulated operations. Include any allocation methodologies.
- e. Do the Amended Joint Applicants agree that there are certain costs associated with the contemplated transaction that are attributable solely to the process of obtaining the approval of the transaction (e.g. legal counsel for the regulatory proceedings)?
- f. Do the Amended Joint Applicants consider the reduction of tax liability or the obtainment of tax benefits as cost savings?
- g. Do the Amended Joint Applicants consider the reduction of a company's or unit's operating loss a cost savings?
- h. Supply an itemized schedule that shows the cost-to-achieve the transaction by year for as many years as your projections provide. (This is a request for a schedule that shows the estimated costs by year, by applicant.)
- i. For the schedule requested under sub-part [h] (the prior question), please identify by year for as many years as your projections provide the following:
 - (1) the assignment of costs to each of the Amended Joint Applicants' owners;
 - (2) the assignment of costs to each of the Amended Joint Applicants' ratepayers, if any; and
 - (3) the breakdown of the assignment of costs between regulated and non-regulated operations of each of the Amended Joint Applicants.
- j. Supply an itemized schedule that shows the costs-to-achieve the cost savings in the post-transaction structure by year for as many years as your projections provide. (This is a request for a schedule that depicts the estimated costs by year.)

- k. For the schedule requested under sub-part [j] (the prior question), please identify by year for as many years as your projections provide the following:
- (1) the assignment of costs to each of the Amended Joint Applicants' owners;
 - (2) the assignment of costs to each of the Amended Joint Applicants' ratepayers, if any; and
 - (3) the breakdown of the assignment of costs between regulated and non-regulated operations.
22. For each category of costs to achieve cost savings in the post transaction structure, did the Amended Joint Applicants determine the allocation percentages to separate out the non-regulated cost savings from the regulated costs savings? For example, did the Amended Joint Applicants determine the amount of total staffing cost savings to allocate to regulated operations and the amount to allocate to non-regulated operations?
23. Provide documentation of all allocations. If the Amended Joint Applicants did not do so, please explain why.
24. For each category of costs to achieve cost savings in the post transaction structure, identify the allocation process, including the factors, for allocating costs between regulated and non-regulated operations.
25. For each category of costs to achieve cost savings in the post transaction structure, identify the corresponding amount of cost savings allocated to non-regulated operations for that category.
26. Provide a copy of any and all due diligence report(s) the Amended Joint Applicants conducted.
27. In the course of conducting their due diligence reviews, did the Amended Joint Applicants identify any facts or circumstances that would have a material adverse effect on their customers? If yes, please identify same and provide the associated documents.
28. If the contemplated transaction is approved, state whether Delta would be required to pledge any of its assets to finance the debt or any purchases of the Amended Joint Applicants, and/or any of their affiliates and subsidiaries.

29. If the contemplated transaction is approved, state whether Delta or its current subsidiaries will, as a condition of the contemplated transaction, be required to grant liens or encumbrances, or otherwise pledge any of their assets to finance any or all of the costs of the transaction.
30. Identify how much debt the Amended Joint Applicants, stated independently for each one, plan to incur in order to consummate the proposed transaction. Will Delta ratepayers be required to reimburse one or more of the Amended Joint Applicants for debt incurred for this purpose? If so, state how much, categorized by each Amended Joint Applicant.
31. If the contemplated transaction is approved, state whether the Amended Joint Applicants would require Delta to give any type or sort of preference to its gas suppliers. If so, identify any and all such gas suppliers.
32. Assuming the contemplated transaction is fully approved in every jurisdiction and by every regulatory authority, state whether any officers or directors of the Amended Joint Applicants will receive any bonus, compensation, distributions, retirement matches, incentives, insurance, use of corporate-owned property and/or any other remuneration of any type or sort. Please identify the applicable individuals, the method of remuneration, and the cash value thereof.
33. Assuming the contemplated transaction is approved by all relevant regulatory authorities, explain the process through which Delta will be able to challenge the allocation of a cost from a parent entity or affiliate. If the ability to challenge the allocation of a cost will not exist, then affirmatively state that fact.
34. Please provide all minutes of all meetings held during which the Boards of Directors or meeting of members of each of the Amended Joint Applicants discussed the contemplated transaction.
35. With regard to your response to the question immediately above, provide copies of the resolutions of all Boards of Directors or meeting of members that were required to approve the contemplated transaction.
36. Will the contemplated transaction result in any changes in accounting principles for either of the Amended Joint Applicants or any of their subsidiaries or affiliates? If yes, please summarize the change(s), and identify the impact on Delta ratepayers, whether direct or indirect, if any.
37. Do the Amended Joint Applicants anticipate any substantive changes in any existing contracts which Delta holds with other vendors (e.g., engineering,

- information technology, maintenance, etc.)? If so, please summarize the changes.
38. Do the Amended Joint Applicants anticipate entering any new contracts as a consequence of the contemplated transaction? If so, will any of the entities with whom the Amended Joint Applicants will enter into said contract(s) be affiliated in any way with the Amended Joint Applicants, or any of their employees, owners, officers, contractors, consultants, or directors?
 39. As to the Amended Joint Applicants, provide a copy of any and all materials, including but not limited to transcripts of presentations, recordings or notes of presentations, or other information, regarding any and all financial analyses concerning the transaction.
 40. Will the transaction result in any write-ups, write-offs, or a restatement of financial results of Delta, the Amended Joint Applicants, or their affiliates? If yes, explain in detail with all financial ramifications for Delta's ratepayers.
 41. Post-transaction, will the Amended Joint Applicants or their affiliates be required to make any filings with the Securities and Exchange Commission? If yes, identify and explain the filing requirement(s).
 42. Will the Amended Joint Applicants commit to not use "pushdown accounting" in any manner arising from the contemplated transaction? If not, why not?
 43. Assuming the contemplated transaction receives full approval from all relevant regulatory authorities, what amount of liquid assets will the Amended Joint Applicants hold?
 44. Identify with specificity each factor, stated-reason, or rationale of the Amended Joint Applicants offered in support of their argument in the instant matter that the contemplated transaction is consistent with the public interest, within the meaning of KRS Ch. 278 et seq.
 45. Do the Amended Joint Applicants anticipate, project, or otherwise forecast any additional reorganizations, mergers, change of control, or other transactions involving Delta for the thirty-six (36) month period following any potential approval and consummation of this purchase agreement? If yes, then describe in detail.
 46. Are the Amended Joint Applicants willing to make a commitment that if they do not hold Delta for at least a ten-year (10) period, then they will pay (to the Commonwealth of Kentucky) an exit fee if they voluntarily enter into a subsequent agreement to sell Delta? If not, then please explain why not.

47. Will Delta and / or its ratepayers, directly or indirectly, incur any additional costs, liabilities, or obligations in conjunction with the proposed transaction in connection with the repayment and refinancing of closing indebtedness?
48. With regard to any pending or threatened litigation (including but not limited to any pending or threatened regulatory review, shareholder lawsuits, or supervision enforcement actions) involving Delta, its parent entities and its affiliates, are the Amended Joint Applicants making any provisions in which they will agree to fund the defense of pending or threatened litigation? If so, please explain in detail. If not, please explain why not.
49. Assuming the contemplated transaction is approved, and with the addition of the Amended Joint Applicants to the petition in this case, will Delta be exposed to any type of contractual liability or obligations that it otherwise would not have faced but for the approval? If so, please describe in detail.
50. Assuming the contemplated transaction is approved, and with the addition of the Amended Joint Applicants to the petition in this case, will Delta be exposed to any increased insurance premiums, whether health insurance, disability, life, etc., that it otherwise would not have faced but for the approval? If so, please describe in detail.
51. Assuming the contemplated transaction is approved, and with the addition of the Amended Joint Applicants to the petition in this case, will Delta be exposed to any additional contributions to any pension plans, medical plans, etc. for employees that it otherwise would not have faced but for the approval? If so, please describe in detail, together with any applicable employee's or officer's name(s), if known, as well as amount.
52. State whether Amended Joint Applicants ever have or currently do retain the services of lobbyists related in any manner to: (a) any employee of the federal government; and / or (b) any employee of the Commonwealth of Kentucky. If so, identify the lobbyist and employee, and explain in detail whether the retention of these services constituted a conflict of interest or potential conflict under any applicable law, and if so, why. Identify any corrective action either or both of the Amended Joint Applicants believe may be required to remedy any conflict or potential conflict.
53. 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 Amended Joint Applicants have put in place regarding Delta.

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- 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.
54. State whether any of the Joint Applicants (including the Amended Joint Applicants) are parties to any litigation regarding the subject matter of the proposed transaction. If so, identify the style of each such litigation and the court in which it was filed.