Delta Natural Gas Company, Inc.
CASE NO. 2017-00406

FIRST PSC DATA REQUEST
DATED OCTOBER 19, 2017

4. Explain whether Delta explored the option of refinancing the existing notes at a lower interest rate. If so, explain why this option was not chosen. If not, explain why not.

Response:

Delta did review a calculation of the Prudential prepayment premium in the event Delta chose to refinance the existing notes at a lower interest rate. The amount of prepayment premium was such that any benefit from refinancing at a lower interest rate would have been eliminated with the cost of the prepayment premium.

<u>November 8, 2017 Supplemental Response</u>:

A copy of the calculation referenced in the initial response is attached in Excel format. Although interest rates have increased since the calculation was performed, the prepayment premium remained cost prohibitive.

<u>November 9, 2017 Supplemental Response</u>:

Prudential, like other similarly-situated companies, has the need to invest cash on a long-term basis. Therefore, when Prudential loans money, it structures loan agreements in a way that discourages early payoff. As such, Prudential note purchase agreements, including the Note Purchase and Private Shelf Agreement dated December 8, 2011, between Delta and Prudential discourage prepayment by requiring a make-whole amount if a note is repaid early. The calculation of the make-whole amount is set forth in the attachment to Delta's November 8, 2017 Supplemental Response ("Prepay Model").

The debt balance when Prudential prepared the Prepay Model was $52,000,000. Prudential calculated, assuming the debt was held to term, that Delta would pay Prudential a total of $77,904,587, including interest at 4.26% over the remaining 15 years (weighted average of 11.7 years). The "PV of cash flows" in the Prepay Model totaling $62,066,934 is meant to represent (as calculated per the Note Purchase and Private Shelf Agreement) the present value as defined by Prudential of that future stream of payments totaling $77,904,587 at current interest rates as determined per the Agreement.

While $62,066,934 was the current value of future payments as calculated per the agreement, if there was no prepayment penalty, Prudential would only receive the book balance of $52,000,000 upon prepayment.

Therefore, as calculated per the Agreement, the difference of $10,066,934 ($62,066,934 – $52,000,000) represents what Prudential would lose by permitting the prepayment, given the current interest rates when the Prepay Model was prepared. This $10,066,934 difference is thus the amount Prudential would have required as the make-whole amount. If the current interest rates were closer to the interest rate at the time the debt was issued, the present value of cash flows would be less and the make-whole amount would be less onerous.

As explained in the November 8, 2017 Supplemental Response, although interest rates have increased since the calculation was performed, the make-whole amount remained a cost prohibitive option.

Sponsoring Witness:

John B. Brown