

Delta Natural Gas Company, Inc.
CASE NO. 2018-00040

FIRST PSC DATA REQUEST
DATED MARCH 13, 2018

1. Provide Delta's income statement, balance sheet, and statement of retained earnings for the calendar year ending December 31, 2017.

Response:

See attached financial statements.

Sponsoring Witness:

Matthew D. Wesolosky

DELTA NATURAL GAS COMPANY, INC.

Financial Statements

as of

**December 31,
2017 & 2016**

FINAL

DELTA NATURAL GAS COMPANY, INC.
BALANCE SHEETS

	December 31,	
Assets	2017	2016
Gas Utility Plant, at Cost	\$ 244,058,336	\$ 236,465,973
Construction Work in Progress	565,052	1,901,355
Gas Stored Underground Non-Current	4,208,069	4,208,069
Less - Reserve for Depreciation	(106,862,642)	(102,322,876)
	\$ 141,968,815	\$ 140,252,521
Current Assets		
Cash	3,233,287	8,857,128
Receivables	8,457,142	6,865,591
Deferred Gas Cost	1,870,926	2,065,988
Gas in Storage, at Cost	2,355,001	1,774,293
Materials and Supplies, at Cost	606,456	551,517
Prepayments	1,732,297	1,187,291
	\$ 18,255,109	\$ 21,301,808
Other Assets		
Cash Surrender Value of Life Insurance	\$ 494,935	\$ 430,673
Unamortized Expenses	2,427,460	2,651,261
Receivable/Investment in Subsidiaries	4,963,385	4,761,392
Other	8,032,866	15,053,211
	\$ 15,918,646	\$ 22,896,537
Total Assets	\$ 176,142,570	\$ 184,450,866
Liabilities		
Capitalization		
Common Stock	\$ -	\$ 7,123,648
Additional Paid-In Capital	67,919,172	52,450,071
Capital Stock Expense	-	(2,671,938)
Retained Earnings	1,830,664	20,197,719
Total Equity	\$ 69,749,836	\$ 77,099,500
Long-term Debt	47,500,000	49,000,000
Total Capitalization	\$ 117,249,836	\$ 126,099,500
Current Liabilities		
Notes Payable	\$ -	\$ -
Current Portion of Long-Term Debt	1,500,000	1,500,000
Accounts Payable	5,611,392	3,876,483
Accrued Taxes	1,198,002	(277,873)
Refunds Due Customers	-	-
Customer Deposits	744,290	735,201
Accrued Interest	88,683	108,092
Current Deferred Income Taxes	616,005	894,826
Other	1,197,170	1,282,616
	\$ 10,955,542	\$ 8,119,345
Deferred Credits and Other		
Deferred Income Taxes	\$ 23,249,697	\$ 43,935,325
Regulatory Items	19,700,265	618,632
Asset Retirement Obligation and Other	4,987,230	4,688,262
Accumulated Provision for Pensions	-	989,802
	\$ 47,937,192	\$ 50,232,021
Total Liabilities	\$ 176,142,570	\$ 184,450,866

DELTA NATURAL GAS COMPANY, INC.

Statements of Equity December 31, Year-to-Date

Retained Earnings

	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 20,197,719	\$ 19,830,269
Net income (loss)	3,032,974	6,236,103
Common dividends	(5,160,572)	(5,868,653)
Reclass equity balances accumulated under prior ownership	<u>(16,239,457)</u>	<u>-</u>
Ending Balance	<u>\$ 1,830,664</u>	<u>\$ 20,197,719</u>

Additional Paid In Capital

Beginning Balance	\$ 52,450,071	\$ 51,772,857
Excess of sales price over par value of common stock	-	677,214
Reclass equity balances accumulated under prior ownership	<u>15,469,101</u>	<u>-</u>
Ending Balance	<u>\$ 67,919,172</u>	<u>\$ 52,450,071</u>
Common Stock	-	7,123,648
Capital Stock Expense	-	(2,671,938)
Total Equity	<u><u>\$ 69,749,836</u></u>	<u><u>\$ 77,099,500</u></u>

DELTA NATURAL GAS COMPANY, INC.
STATEMENTS OF INCOME

	Year-to-Date December 31,		12 Months Ended December 31,	
	2017	2016	2017	2016
Operating Revenues	\$ 48,563,292	\$ 46,351,653	\$ 48,563,292	\$ 46,351,653
Operating Expenses				
Gas Purchased	\$ 14,503,487	\$ 12,421,241	\$ 14,503,487	\$ 12,421,241
Operations	12,327,787	12,763,139	12,327,787	12,763,139
Maintenance	790,741	730,391	790,741	730,391
Depreciation	6,389,586	6,315,467	6,389,586	6,315,467
Property & Other Taxes	3,175,097	2,760,879	3,175,097	2,760,879
Income Taxes	3,714,060	3,200,457	3,714,060	3,200,457
Total	\$ 40,900,758	\$ 38,191,574	\$ 40,900,758	\$ 38,191,574
Operating Income	\$ 7,662,534	\$ 8,160,079	\$ 7,662,534	\$ 8,160,079
Other Income (Expense), Net	\$ (2,277,441)	\$ 522,719	\$ (2,277,441)	\$ 522,719
Other Deductions				
Interest				
Long-Term Debt	\$ 2,151,300	\$ 2,213,274	\$ 2,151,300	\$ 2,213,274
Amortization	223,800	230,200	223,800	230,200
Other Interest Expense (Income)	(22,981)	3,221	(22,981)	3,221
Total	\$ 2,352,119	\$ 2,446,695	\$ 2,352,119	\$ 2,446,695
Net Income (Loss)	\$ 3,032,974	\$ 6,236,103	\$ 3,032,974	\$ 6,236,103
Number of Customers, at End of Period			35,331	35,193

Delta Natural Gas Company, Inc.
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2. Provide Delta's Net Investment Rate Base and Capital Structure for the calendar year ending December 31, 2017. Provide all supporting work papers, assumptions, and calculations.

Response:

See attached.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company
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Item 2
Rate Base

<u>Line Number</u>		<u>12/31/17 Amount</u>
1	Total utility plant in service per books	<u>248,831,458</u>
2	Add: Materials and supplies (13 mo avg)	601,873
3	Prepayments (13 mo avg)	1,606,091
4	Less: KPSC prepaid	(50,735)
5	Gas in storage (13 mo avg)	2,649,118
6	Unamortized debt expense per books	2,427,460
7	Cash working capital allowance (1/8 O&M)	<u>1,639,816</u>
8	Subtotal	<u>257,705,080</u>
9	Deduct: Accumulated depreciation per books	(109,174,722)
11	Cost of removal	2,312,080
12	Customer advance for construction	(44,365)
13	Accumulated deferred income taxes on rate base items	<u>(42,810,629)</u>
14	Subtotal	<u>(149,717,636)</u>
15	Rate base	107,987,444

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3. Using the financial information provided in the responses to Items 1 and 2, calculate:
 - a. Delta's actual Return on Equity (income available to common shareholders divided by common equity) for the calendar year ending December 31, 2017.
 - b. Delta's average cost of long-term debt for the calendar year ending December 31, 2017.
 - c. Delta's average cost of short-term debt for the calendar year ending December 31, 2017.
 - d. Provide all supporting work papers, assumptions, and calculations.

Response:

See attached.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company
Case No. 2018-00040
Item 3

Item 3. a. - Actual Return on Equity

Net Income, per PSC Report page 116	3,032,974
Less: Net Income from Non-Regulated Subsidiaries	<u>(990,000)</u>
Delta Net Income Available to Common Shareholders	2,042,974
Common Equity	<u>69,749,836</u>
Actual Return on Equity	2.9290%

Item 3. b. - Average Cost of Long-Term Debt

	Balance		
	Beginning	Ending	Average
Long-Term Debt	50,500,000	49,000,000	49,750,000
Interest Expense on Long-Term Debt			2,151,300
Debt Expense Amortization			<u>223,800</u>
Total Cost of Long-Term Debt			2,375,100
Rate			4.7741%

Item 3. c. - Average Cost of Short-Term Debt

Delta had no short-term debt outstanding during 2017.

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4. Using the Capital Structure provided in the response to Item 1 and the return/interest rates calculated in the response to Item 3, fill out the table below:

<u>Component of Capitalization</u>	<u>Per Books 12/31/17</u>	<u>Ratios</u>	<u>Actual Rates</u>	<u>Average Weighted Cost</u>
Short-Term Debt				
Long-Term Debt				
Preferred Stock				
Common Equity	_____	_____	_____	_____
Total Capitalization	<u>\$ _____</u>	<u>0.000%</u>	<u>_____</u>	<u>0.000%</u>

Response:

See attached.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company
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Item 4
Capital Structure

Component of Capitalization	Per Books 12/31/2017	Ratios	Actual Rates	Average Weighted Cost
Short-Term Debt	\$ -	0.00%	NA	0.00000%
Long-Term Debt	49,000,000	41.26%	4.7741%	1.96995%
Preferred Stock	-	0.00%	NA	0.00000%
Common Equity	69,749,836	58.74%	2.9290%	1.72040%
Total Capitalization	\$ 118,749,836	100.00%		3.69035%

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5. Refer to the Direct Testimony of Matthew D. Wesolosky (“Wesolosky Testimony”), Schedule MDW-2, Tax Expense Impact
- a. Using the table below, provide the calculation of the gross revenue conversion factor (“GRCF”) including a 35 percent Federal Income Tax (“FIT”) rate.

Line No.	Description	Rates	State	Federal
1	Operating Revenue		100.00000%	100.00000%
2	Less: Uncollectible Expense			
3	Less: PSC Assessment			
4	Less: Production Activities Deduction State			
5				
6	Income before State Income Tax		100.00000%	100.00000%
7	State Income Tax		0.00000%	0.00000%
8				
9	Income before Federal Income Tax			100.00000%
10	Federal Income Tax			0.00000%
11				
12	Operating Income Percentage (Line 9-Line 10)			100.00000%
13				
14	Gross Revenue Conversion FACTOR (Line 1 / Line 12)			1.00000
15				
16	Composite Income Tax Rate (Line 7 + Line 10)			0.00000%
17				
18	Common Equity Gross-up (Line 16 / (1- Line 16))			0.00000%

- b. Using the table in 5.a., provide the calculation of the GRCF including a 21 percent FIT rate.

Response:

See attached. Amounts in this data request have been calculated using a 34% federal income tax rate, as Delta’s federal taxable income is less than \$10 million.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company
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Item 5

Item 5. a. - Gross Revenue Conversion Factor (34% Federal Income Tax Rate)

Line #	Description	Rates	State	Federal
1	Operating Revenue		100.0000%	100.0000%
2	Less: Uncollectible Expense		-0.1830%	-0.1830%
3	Less: PSC Assessment		-0.1996%	-0.1996%
4	Less: Production Activities Deduction State		0.0000%	0.0000%
5				
6	Income Before State Income Tax		99.6174%	99.6174%
7	State Income Tax	6%	5.9770%	5.9770%
8				
9	Income Before Federal Income Tax			93.6404%
10	Federal Income Tax	34%		31.8377%
11				
12	Operating Income Percentage (Line 9 - Line 10)			61.8026%
13				
14	Gross Revenue Conversion FACTOR (Line 1 / Line 12)			1.61805
15				
16	Composite Income Tax Rate (Line 7 + Line 10)			37.8148%
17				
18	Common Equity Gross-Up (Line 16 / (1 - Line 16))			60.8099%

Item 5. b. - Gross Revenue Conversion Factor (21% Federal Income Tax Rate)

Line #	Description	Rates	State	Federal
1	Operating Revenue		100.0000%	100.0000%
2	Less: Uncollectible Expense		-0.1830%	-0.1830%
3	Less: PSC Assessment		-0.1996%	-0.1996%
4	Less: Production Activities Deduction State		0.0000%	0.0000%
5				
6	Income Before State Income Tax		99.6174%	99.6174%
7	State Income Tax	6%	5.9770%	5.9770%
8				
9	Income Before Federal Income Tax			93.6404%
10	Federal Income Tax	21%		19.6645%
11				
12	Operating Income Percentage (Line 9 - Line 10)			73.9759%
13				
14	Gross Revenue Conversion FACTOR (Line 1 / Line 12)			1.35179
15				
16	Composite Income Tax Rate (Line 7 + Line 10)			25.6415%
17				
18	Common Equity Gross-Up (Line 16 / (1 - Line 16))			34.4837%

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6. Using the table below, calculate the weighted average cost of capital (“WACC”) with a 35 percent FIT rate and WACC with a 21 percent FIT rate.

Component of Capitalization	Average Weighted Cost	Adjusted Weighted Cost of Capital to Reflect 35% Fed. Tax Rate		Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate	
		Equity Gross-up	Adj. Cost	Equity Gross-up	Adj. Cost
Short-Term Debt			0.00%		0.00%
Long-Term Debt			0.00%		0.00%
Preferred Stock			0.00%		0.00%
Common Equity			0.00%		0.00%
Total Capitalization	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%

Response:

See attached.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company
Case No. 2018-00040
Item 6
Weighted Cost of Capital

Component of Capitalization	Average Weighted Cost	Adjusted Weighted Cost of Capital to Reflect 34% Fed. Tax Rate		Adjusted Weighted Cost of Capital to Reflect 21% Fed. Tax Rate	
		Equity Gross-Up	Adj. Cost	Equity Gross-Up	Adj. Cost
Short-Term Debt	0.0000%	1.00000	0.0000%	1.00000	0.0000%
Long-Term Debt	1.9699%	1.00000	1.9699%	1.00000	1.9699%
Preferred Stock	0.0000%	1.00000	0.0000%	1.00000	0.0000%
Common Equity	1.7204%	1.61805	2.7837%	1.35179	2.3256%
Total Capitalization	3.6903%		4.7536%		4.2956%

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7. Refer to the Wesolosky Testimony, page 10, where Mr. Wesolosky explains that Delta is using the “Reverse Georgia Method” to amortize its excess accumulated deferred income taxes (“ADIT”) because Delta’s property records do not have the detail sufficient to calculate the excess ADIT amortization under the average rate assumption method (“ARAM”). Provide the work papers, assumptions, and calculations that Delta used to estimate the remaining life of its utility assets of 21 years.

Response:

The remaining life of 21 years was an estimate based on September 30, 2017 plant balances. The attached schedule calculates the amortization period under the Reverse South Georgia Method to be 22.49 years, based on December 31, 2017 plant balances. The schedule attached to Item 8 of this data request reflects the amortization of protected differences using the weighted average remaining life of 22.49 years.

The average remaining life of 22.49 years is based on estimated property-related timing differences as of December 31, 2017. If the Commission orders Delta to begin refunding excess deferred income taxes prior to filing the 2017 tax return, Delta requests the ability to adjust the excess deferred income taxes on its balance sheet to reflect actual amounts with the amortization to be adjusted in Delta’s next general rate case.

Delta believes the proposed amortization of protected excess deferred income taxes, as shown on the attached schedule, complies with the normalization requirements. Those amounts could be subject to change depending on future guidance issued by the IRS related to the TCJA. Since the penalties for a normalization violation include the loss of accelerated depreciation for federal income tax purposes, Delta continues to consult with its tax advisors and software consultants to confirm its assessment that the Reverse South Georgia Method is appropriate. However, Delta respectfully requests that any orders issued in this case which precede additional IRS guidance should be subject to adjustment if effects of the order would cause a normalization violation if not remediated.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company
Case No. 2018-00040
Item 7

Calculation of Amortization Period for Reverse South Georgia Method

Plant Account	12/31/2017				Capital Recovery		Estimated Remaining Life (years)	Weighted Average Remaining Life
	Cost	Reserve	Net Book Value	% of Total Net Book Value	Depreciation Rate	Annualized Depreciation		
301.00 - ORGANIZATION	53,151	-	53,151	0.04%	0.00%	-	-	-
325.00 - GATHERING LAND & RIGHTS	97,038	82,200	14,838	0.01%	3.00%	2,911	5.10	0.00
327.00 - GATHERING COMP STAT STRUCT	47,947	39,847	8,099	0.01%	3.00%	1,438	5.63	0.00
331.00 - NATURAL GAS WELL EQUIPMENT	7,795	7,795	-	0.00%	4.00%	312	-	-
332.00 - GATHERING LINES	2,120,526	1,678,938	441,588	0.32%	2.25%	47,712	9.26	0.03
333.00 - GATHERING COMP STAT EQUIPM	882,373	861,048	21,325	0.02%	4.00%	35,295	0.60	0.00
334.00 - GATHR MEAS & REGLTR STAT E	180,881	105,985	74,896	0.05%	2.72%	4,920	15.22	0.01
350.01 - STORAGE LAND	74,295	-	74,295	0.05%	0.00%	-	-	-
350.02 - STORAGE - RIGHT OF WAY	186,821	-	186,821	0.14%	0.00%	-	-	-
350.05 - GAS RIGHTS WELLS	1,495	-	1,495	0.00%	0.00%	-	-	-
351.00 - STORAGE STRUCTURES & IMPRO	706,162	180,743	525,419	0.38%	2.58%	18,219	28.84	0.11
352.00 - STORAGE WELLS	8,219,579	687,842	7,531,737	5.51%	3.19%	262,205	28.72	1.58
352.01 - STORAGE RIGHTS	860,396	527,238	333,158	0.24%	1.85%	15,917	20.93	0.05
352.02 - STORAGE RESERVOIRS	1,759,384	910,063	849,321	0.62%	1.83%	32,197	26.38	0.16
352.03 - NONRECOVERABLE NATURAL GAS	294,307	186,125	108,182	0.08%	1.75%	5,150	21.01	0.02
353.00 - STORAGE LINES	6,074,567	2,855,538	3,219,028	2.36%	2.05%	124,529	25.85	0.61
354.00 - STORAGE COMPRESSOR STATION	4,411,355	1,655,688	2,755,666	2.02%	1.96%	86,463	31.87	0.64
355.00 - STORAGE MEASURING & REGULA	1,153,241	227,591	925,650	0.68%	2.59%	29,869	30.99	0.21
356.00 - PURIFICATION EQUIPMENT	6,408,247	1,296,949	5,111,298	3.74%	3.19%	204,423	25.00	0.94
357.00 - STORAGE OTHER EQUIPMENT	109,795	45,471	64,324	0.05%	0.51%	560	114.86	0.06
365.01 - TRAN LAND & LAND RIGHTS	425,056	-	425,056	0.31%	0.00%	-	-	-
365.02 - TRAN RIGHTS OF WAY	1,250,583	-	1,250,583	0.91%	0.00%	-	-	-
365.03 - LAND RIGHTS DEPRECIABLE	163,626	163,626	-	0.00%	2.50%	4,091	-	-
366.00 - TRAN STRUCTURES & IMPROVEM	257,175	129,756	127,419	0.09%	2.30%	5,915	21.54	0.02
367.00 - TRANSMISSION MAINS	26,645,003	16,264,298	10,380,705	7.59%	2.33%	620,829	16.72	1.27
367.01 - TRANSMISSION MAINS - HP	18,389,359	8,072,262	10,317,097	7.55%	2.33%	428,472	24.08	1.82
368.00 - TRANSM COMPRESSOR STAT EQU	8,706,862	3,259,998	5,446,863	3.98%	3.26%	283,844	19.19	0.76
369.00 - TRANSMISSION MEAS & REG EQ	4,164,393	1,760,685	2,403,708	1.76%	3.05%	127,014	18.92	0.33
371.00 - TRANSMISSION OTHER EQUIPME	441,763	347,090	94,673	0.07%	2.19%	9,675	9.79	0.01
374.00 - DISTRIBUTION RIGHT OF WAYS	267,120	-	267,120	0.20%	0.00%	-	-	-
374.01 - DISTRIBUTION LAND	75,837	-	75,837	0.06%	0.00%	-	-	-
375.00 - DIST STRUCTURES & IMPROVEM	109,015	79,190	29,825	0.02%	2.34%	2,551	11.69	0.00
376.00 - DISTRIBUTION MAINS	81,922,311	39,675,207	42,247,104	30.91%	3.10%	2,539,592	16.64	5.14
378.00 - DIST GENERAL REG STATIONS	2,076,709	857,454	1,219,254	0.89%	2.73%	56,694	21.51	0.19
379.00 - DIST CITY GATE REG STATION	948,946	463,683	485,262	0.36%	1.80%	17,081	28.41	0.10
380.00 - DISTRIBUTION SERVICES	19,146,073	989,403	18,156,669	13.28%	2.69%	515,029	35.25	4.68
381.00 - DISTRIBUTION METERS	9,012,709	3,512,714	5,499,995	4.02%	2.90%	261,369	21.04	0.85
382.00 - DIST METER & REG INSTALLAT	3,575,495	1,006,700	2,568,795	1.88%	1.53%	54,705	46.96	0.88
383.00 - DIST REGULATORS	4,127,547	2,455,735	1,671,812	1.22%	4.13%	170,468	9.81	0.12
385.00 - DIST INDUSTRIAL METER SET	1,676,151	578,017	1,098,134	0.80%	1.83%	30,674	35.80	0.29
389.00 - GEN LAND & LAND RIGHTS	999,354	-	999,354	0.73%	0.00%	-	-	-
390.00 - GEN STRUCTURES & IMPROVEME	5,828,961	2,714,025	3,114,936	2.28%	2.00%	116,579	26.72	0.61
391.00 - OFFICE FURNITURE & EQUIPME	180,448	52,197	128,252	0.09%	1.00%	1,804	71.09	0.06
392.00 - TRANSPORTATION EQUIPMENT	4,980,527	2,272,812	2,707,715	1.98%	8.14%	405,415	6.68	0.13
393.00 - STORES EQUIPMENT	36,011	35,221	789	0.00%	2.00%	720	1.10	-
394.00 - TOOLS, SHOP & GARAGE EQUIP	892,043	402,923	489,120	0.36%	4.00%	35,682	13.71	0.05
394.01 - COMPRESSED NAT GAS STAT & E	271,352	271,352	-	0.00%	0.00%	-	-	-
395.00 - LABORATORY EQUIPMENT	293,796	249,532	44,264	0.03%	5.00%	14,690	3.01	0.00
396.00 - POWER OPERATED EQUIPMENT	3,946,761	1,127,584	2,819,176	2.06%	2.00%	78,935	35.72	0.74
397.00 - COMMUNICATION EQUIPMENT	339,748	147,431	192,317	0.14%	5.00%	16,987	11.32	0.02
398.00 - MISCELLANEOUS EQUIPMENT	50,132	35,128	15,004	0.01%	2.00%	1,003	14.96	0.00
399.01 - MAPPING COSTS	638,509	638,509	-	0.00%	4.00%	25,540	-	-
399.02 - COMPUTER SOFTWARE	4,689,324	4,689,324	-	0.00%	10.00%	468,932	-	-
399.03 - COMPUTER HARDWARE	910,221	805,141	105,081	0.08%	10.00%	91,022	1.15	0.00
399.031 - COMPUTERIZED OFFICE EQUIP	209,611	206,193	3,419	0.00%	10.00%	20,961	0.16	-
Add:	241,297,882	104,612,255	136,685,627					22.49
Asset Retirement Costs	3,348,908	2,838,841	510,067					
Acquisition Adjustments	(580,759)	(580,759)	-					
Construction Work in Process	565,053	-	565,053					
Total Utility Plant	244,631,084	106,870,337	137,760,747					

Per PSC Report 110

Delta Natural Gas Company, Inc.
CASE NO. 2018-00040

FIRST PSC DATA REQUEST
DATED MARCH 13, 2018

8. Refer to the Wesolosky Testimony, Schedule MDW-3, Measurement of Deferred Taxes.
- a. MDW-3 is an itemized list of Delta's ADITs. The Tax Cuts and Jobs Act ("TCJA") separates the excess ADIT into two categories, protected and unprotected. For each deferred tax listed on the schedule, identify if Delta considers it to be "protected" or "unprotected" and include an explanation for Delta's position for each deferred tax.
 - b. For the unprotected, excess ADIT identified in the response to Item 8.a., explain why an amortization period of 21 years is appropriate and provide the remaining regulatory life of each asset, property and account that gave rise to the protected excess ADIT.
 - c. Delta states that it estimated excess ADIT using September 30, 2017 balances that will be updated when the December 31, 2017 tax return is filed. Update the schedules using the ADIT estimates as of December 31, 2017.

Response:

- a. Delta considers all property-related excess deferred income taxes to be protected. All non-property related excess deferred income taxes are unprotected. The attached schedule is an updated MDW-3 which categorizes the deferred taxes by protected and unprotected.
- b. Delta chose to amortize all excess deferred taxes over the same period to be consistent with past practice. When Delta adopted Financial Accounting Standards 109 – Accounting for Income Taxes in 1993, the excess deferred income taxes recognized were amortized over 21 years and 5 months. Delta has updated the attached schedule to reflect amortization periods of both 5 and 15 years.
- c. The attached schedule has been updated to include December 31, 2017 balances.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company

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Item 8

Schedule I

Calculation of Excess Deferred Income Taxes

	12/31/2017 Estimated Cumulative Timing Difference	Deferred Rate	Deferred 12/31/2017 Balance	New Statutory Rate	Remeasured Deferred at New Rate	Estimated Excess Deferred Taxes
<i>Protected</i>						
1.282.01 DEF INC TAX ACCEL DEPR - FEDERAL	(107,381,181)	34.00%	(36,530,436)	21.00%	(22,550,048)	(13,980,388)
1.282.01 DEF INC TAX ACCEL DEPR - STATE	(89,996,084)	3.96%	(3,563,845)	4.74%	(4,265,814)	701,969
1.282.18 DEF INC TAX COST OF REMOVAL	(2,312,079)	37.96%	(877,665)	25.74%	(595,129)	(282,536)
1.282.14 DEF INC TAX ASSET RETIREMENT OBLIGATION	3,553,047	37.96%	1,348,737	25.74%	914,554	434,183
1.283.06 DEF INC TAX ARO REG ASSET	(3,080,201)	37.96%	(1,169,244)	25.74%	(792,844)	(376,400)
1.283.07 DEF INC TAX ARC DEPRECIATION	(502,372)	37.96%	(190,700)	25.74%	(129,311)	(61,389)
1.283.10 DEF INC TAX - 2005 KY RATE CHANGE		{2}	119,307	25.74%	119,307	-
1.283.20 DEF INC TAX - 2018 FED RATE CHANGE		{3}	4,951,542		4,951,542	-
			(35,912,304)		(22,347,743)	(13,564,561)
					<i>Annual Amortization (22.49 years)</i>	<i>(603,137)</i>

	Estimated Cumulative Timing Difference	Deferred Rate	Deferred 12/31/2017 Balance	New Statutory Rate	Remeasured Deferred at New Rate	Estimated Excess Deferred Taxes
<i>Unprotected</i>						
1.242.13 DEF INC TAX DEFERRED GAS COST	(1,870,925)	37.96%	(710,203)	25.74%	(481,576)	(228,627)
1.242.14 DEF INC TAX BAD DEBT RESERVE	151,790	37.96%	57,619	25.74%	39,071	18,548
1.242.16 DEF INC TAX PREPAID INS	(746,910)	37.96%	(283,527)	25.74%	(192,255)	(91,272)
1.242.19 DEF INC TAX PROFESSIONAL FEES	72,800	37.96%	27,635	25.74%	18,739	8,896
1.282.02 DEF INC TAX PENSION PLAN	(2,898,732)	37.96%	(1,100,359)	25.74%	(746,134)	(354,225)
1.282.06 DEF INC TAX ANNUAL LEAVE PLAN	604,407	37.96%	229,433	25.74%	155,574	73,859
1.282.07 DEF INC TAX CONSTRUCTION CONTRIBUTIONS	44,363	37.96%	16,840	25.74%	11,419	5,421
1.282.10 DEF INC TAX DEBT EXPENSE	(2,359,857)	37.96%	(895,802)	25.74%	(607,427)	(288,375)
1.282.12 DEF INC TAX STORAGE GAS	99,616	37.96%	37,814	25.74%	25,641	12,173
1.283.00 DEF INC TAX UNRECOVERED PENSION EXPENSE	(354,190)	37.96%	(134,451)	25.74%	(91,169)	(43,282)
1.283.03 DEF INC TAX SUPPLEMENTAL RETIREMENT PLAN	1,360,294	37.96%	516,368	25.74%	350,140	166,228
			(2,238,633)		(1,517,977)	(720,656)
					<i>Annual Amortization (15-years)</i>	<i>(48,044)</i>
					<i>Annual Amortization (5-years)</i>	<i>(144,131)</i>

Total Deferred Taxes and Excess Deferred Taxes (23,865,720) (14,285,217)

{2} see Item 8, Schedule II for calculation of deferred tax balance

{3} Deferred taxes on 2018 regulatory liability = 25.74% * (\$14,285,217 / (1 - 25.74%))

Delta Natural Gas Company

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Item 8

Schedule II

Remeasurement of Regulatory Liability for 2005 Rate Change

Gross excess deferred taxes on 2005 KY rate change	837,300
Less: amortization to date	<u>(493,100)</u>
Excess deferred taxes, net of amortization	344,200
 Regulatory liability	
(excess deferred taxes, net / (1 - 37.96%))	(554,803)
(excess deferred taxes, net / (1 - 25.74%))	<u>(463,507)</u>
 Deferred income taxes on	
2005 KY reg liability, at new rates	119,307

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9. Using Delta's responses to this Request for Information and the table below provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

<u>Line No.</u>	<u>Description</u>	<u>35% Federal Income Tax Rate</u>	<u>21% Federal Income Tax Rate</u>	<u>Revenue Impact</u>
1	Net Investment Rate Base			
2	Returns Adjusted For Income Taxes			
3				
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	\$ --	\$ --	
5				
6	Amortization of Excess ADIT (Protected) – Using Aram			
7	Amortization of Excess ADIT (Unprotected)			
8				
9	Total Amortization of Excess ADIT (Line 6 + Line 7)			
10	Gross-Up Factor Using 21% Federal Tax Rate		--	
11				
12	Total Reduction in Deferred Income Tax Expense (Line 9 x Line 10)			--
13				
14	Total Reduction in Revenue Requirements (Line 4 + Line 12)			\$ --

If Delta lacks sufficient information to apply the ARAM method, as previously indicated, please instead use the Reverse South Georgia Method to calculate the amortization of excess protected ADIT in Line 6 of the above table. If estimates and assumptions were made to calculate the amounts identified in response to this Request, please identify and describe any and all estimates and assumptions.

Response:

See attached.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company

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Item 9

Schedule I

Revenue Impact - Rate Base and 15-year Amortization of Unprotected

Line No.	Description	34% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Net Investment Rate Base	\$ 107,987,444	\$ 107,987,444	
2	Returns Adjusted for Income Taxes	<u>4.75365%</u>	<u>4.29557%</u>	
3				
4	Required Annual Operating Income Before Taxes (Line 1 x line 2)	\$ 5,133,343	\$ 4,638,677	\$ (494,666)
5				
6	Amortization of Excess ADIT (Protected) - Reverse South Georgia		(603,137)	
7	Amortization of Excess ADIT (Unprotected)		<u>(48,044)</u>	
8				
9	Total Amortization of Excess ADIT (Line 6 + Line 7)		(651,181)	
10	Gross-Up Factor Using 21% Federal Tax Rate		1.35179	
11				
12	Total Reduction in Deferred Income Tax Expense (Line 9 x Line 10)			<u>(880,261)</u>
13				
14	Total Reduction in Revenue Requirements (Line 4 + Line 12)			<u>\$ (1,374,927)</u>

Delta Natural Gas Company

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Item 9

Schedule II

Revenue Impact - Rate Base and 5-year Amortization of Unprotected

Line No.	Description	34% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Net Investment Rate Base	\$ 107,987,444	\$ 107,987,444	
2	Returns Adjusted for Income Taxes	<u>4.75365%</u>	<u>4.29557%</u>	
3				
4	Required Annual Operating Income Before Taxes (Line 1 x line 2)	\$ 5,133,343	\$ 4,638,677	\$ (494,666)
5				
6	Amortization of Excess ADIT (Protected) - Reverse South Georgia		(603,137)	
7	Amortization of Excess ADIT (Unprotected)		<u>(144,131)</u>	
8				
9	Total Amortization of Excess ADIT (Line 6 + Line 7)		(747,269)	
10	Gross-Up Factor Using 21% Federal Tax Rate		1.35179	
11				
12	Total Reduction in Deferred Income Tax Expense (Line 9 x Line 10)			<u>(1,010,152)</u>
13				
14	Total Reduction in Revenue Requirements (Line 4 + Line 12)			<u>\$ (1,504,818)</u>

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10. Using Delta's responses to this Request for Information and the table below provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Capitalization			
2	Returns Adjusted For Income Taxes			
3				
4	Required Annual Operating Income Before Taxes (Line 1 x Line 2)	\$ --	\$ --	\$ --
5				
6	Amortization of Excess ADIT (Protected) – Using Aram			
7	Amortization of Excess ADIT (Unprotected)			
8				
9	Total Amortization of Excess ADIT (Line 6 + Line 7)			
10	Gross-Up Factor Using 21% Federal Tax Rate		--	
11				
12	Total Reduction in Deferred Income Tax Expense (Line 9 x Line 10)			--
13				
14	Total Reduction in Revenue Requirements (Line 4 + Line 12)			\$ --

Response:

See attached.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company

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Item 10

Schedule I

Revenue Impact - Capitalization and 15-year Amortization of Unprotected

Line No.	Description	34% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Capitalization	\$ 118,749,836	\$ 118,749,836	
2	Returns Adjusted for Income Taxes	<u>4.75365%</u>	<u>4.29557%</u>	
3				
4	Required Annual Operating Income Before Taxes (Line 1 x line 2)	\$ 5,644,949	\$ 5,100,983	\$ (543,966)
5				
6	Amortization of Excess ADIT (Protected) - Reverse South Georgia		(603,137)	
7	Amortization of Excess ADIT (Unprotected)		<u>(48,044)</u>	
8				
9	Total Amortization of Excess ADIT (Line 6 + Line 7)		(651,181)	
10	Gross-Up Factor Using 21% Federal Tax Rate		1.35179	
11				
12	Total Reduction in Deferred Income Tax Expense (Line 9 x Line 10)			<u>(880,261)</u>
13				
14	Total Reduction in Revenue Requirements (Line 4 + Line 12)			<u>\$ (1,424,228)</u>

Delta Natural Gas Company

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Item 10

Schedule II

Revenue Impact - Capitalization and 5-year Amortization of Unprotected

Line No.	Description	34% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Capitalization	\$ 118,749,836	\$ 118,749,836	
2	Returns Adjusted for Income Taxes	<u>4.75365%</u>	<u>4.29557%</u>	
3				
4	Required Annual Operating Income Before Taxes (Line 1 x line 2)	\$ 5,644,949	\$ 5,100,983	\$ (543,966)
5				
6	Amortization of Excess ADIT (Protected) - Reverse South Georgia		(603,137)	
7	Amortization of Excess ADIT (Unprotected)		<u>(144,131)</u>	
8				
9	Total Amortization of Excess ADIT (Line 6 + Line 7)		(747,269)	
10	Gross-Up Factor Using 21% Federal Tax Rate		1.35179	
11				
12	Total Reduction in Deferred Income Tax Expense (Line 9 x Line 10)			<u>(1,010,152)</u>
13				
14	Total Reduction in Revenue Requirements (Line 4 + Line 12)			<u>\$ (1,554,118)</u>

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11. Refer to the Wesolosky Testimony, Schedule MDW-1, Calculation of Customer Rate Reduction. Provide an updated schedule to reflect the actual revenues recorded in 2017 by customer class.

Response:

See attached.

Sponsoring Witness:

Matthew D. Wesolsoky

Delta Natural Gas Company, Inc.

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Item 11

Impact on Customer Rates

Rate Reduction, 15-year amortization for Unprotected Differences

	2017 Revenue	Class Allocation	Allocated Tax Adjustment	# of Customers bills for the 12 months ended December 31, 2017	Monthly per Customer Tax Reduction Rate
Residential	\$ 22,577,547	52.1%	\$ (716,337)	355,470	\$ (2.02)
Small Non-Residential	6,811,830	15.7%	\$ (215,864)	50,246	(4.30)
Large Non-Residential	12,290,412	28.4%	\$ (390,479)	11,780	(33.15)
Interruptible	1,660,864	3.8%	\$ (52,247)	373	(140.07)
	\$ 43,340,653	100.0%	\$ (1,374,927)	417,869	

Item 9

Rate Reduction, 5-year amortization for Unprotected Differences

	2017 Revenue	Class Allocation	Allocated Tax Adjustment	# of Customers bills for the 12 months ended December 31, 2017	per Customer Tax Reduction Rate
Residential	\$ 22,577,547	52.1%	\$ (784,011)	355,470	\$ (2.21)
Small Non-Residential	6,811,830	15.7%	\$ (236,256)	50,246	(4.70)
Large Non-Residential	12,290,412	28.4%	\$ (427,368)	11,780	(36.28)
Interruptible	1,660,864	3.8%	\$ (57,183)	373	(153.31)
	\$ 43,340,653	100.0%	\$ (1,504,818)	417,869	

Item 9

Delta Natural Gas Company, Inc.
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12. Explain whether any of Delta's affiliates have resolved or are in the process of resolving the impact of the TCJA on rates in other states. If so, provide the amortization period(s) established for the unprotected excess ADIT.

Response:

Both Pennsylvania and West Virginia have opened proceedings into the impacts of the TCJA on Delta's regulated affiliates. Both proceedings are ongoing and no period(s) have been established for the amortization of unprotected excess ADIT.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
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13. Provide schedules reflecting both a 5-year and 15-year amortization period for Delta's unprotected excess ADIT and the impact each amortization period would have on Delta's revenue requirement.

Response:

Please refer to the response for Items 9 and 10.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
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14. Explain whether any of the expenses charged to Delta by its affiliates in the test year contain any FIT implications. If so, state whether Delta addressed the impacts on its revenue requirements. If not, provide the impact of the FIT implications on Delta's test-year expense and revenue requirement.

Response:

No expenses charged to Delta by its affiliates contain any federal income tax implications.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
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15. State whether Delta has received any letter or written opinion from the Internal Revenue Service since January 1, 2010 regarding the treatment of Delta's excess ADIT and, if so, provide a copy of the letter or written opinion.

Response:

Delta has not received any letters or written opinions from the Internal Revenue Service regarding the treatment of Delta's excess ADIT.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
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16. Provide any letters or written opinions prepared by the Internal Revenue Service and relied on by Delta or its agents to calculate Delta's excess ADIT or to determine how the excess ADIT may be reimbursed to ratepayers under federal tax law, regardless of whether those letters or written opinions were prepared for or at the request of Delta.

Response:

Please refer to the response in Item 15.

Sponsoring Witness:

Matthew D. Wesolosky

Delta Natural Gas Company, Inc.
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17. Provide Delta's fiscal year if different from the calendar year ending December 31, 2017, and identify and describe any effect that a non-calendar fiscal year has on the calculation of excess ADIT.

Response:

Delta's fiscal year end is the calendar year ending December 31, 2017.

Sponsoring Witness:

Mathew D. Wesolosky

Delta Natural Gas Company, Inc.
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18. Provide copies of all schedules provided in the responses, supporting calculations, and documentation in Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible.

Response:

The Excel spreadsheets supporting the schedules in this data request have been filed electronically in response to this data request.

Sponsoring Witness:

Matthew D. Wesolosky