

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

**SECOND PSC DATA REQUEST**  
**DATED APRIL 6, 2018**

1. Refer to Delta's responses to Commission Staff First Request for Information, Item 9 and Item 10.
  - a. Explain if Delta agrees that the calculation(s) it provided is an appropriate method for calculating the impact of the decrease in the federal income tax rate from 35 percent to 21 percent on Delta's revenue requirements.
  - b. If Delta does not agree, explain why Delta does not believe the method is appropriate, any alternative method proposed by Delta, and Delta's full reasoning for use of an alternative method.
  - c. Explain if Delta agrees that the total reduction in revenue requirements Delta calculated in this response, as a result of the decrease in the federal income tax rate from 35 percent to 21 percent, should reduce Delta's rates to customers from January 1, 2018, forward.
  - d. If the response to Item 1.c. is no, explain whether there is any other calculation method that reflects a total reduction in revenue requirements for Delta, as a result of the decrease in the federal income tax rate from 35 percent to 21 percent, that Delta agrees should reduce Delta's rates to customers from January 1, 2018, forward, or explain why Delta believes the decrease in the federal income tax rate should not be reflected in Delta's rates.

Response:

- a. Delta agrees the methodology used in Item 9 and 10 of the Commission Staff's First Request for Information is a reasonable method for calculating the impact of the decrease in the federal income tax rate from 34 percent to 21 percent on Delta's revenue requirement.

Item 9 and Item 10 of the Commission Staff's First request for information illustrates the impact on Delta's revenue requirement under several scenarios. Of these scenarios, Delta believes the reduction in revenue requirement calculated in Item 9 Schedule I is the most reasonable to utilize. Rate base is an appropriate measure for calculating return, as the Commission has historically approved Delta's rates utilizing rate base, rather than capital structure. Additionally, an amortization period of 15 years is reasonable since the single largest unprotected difference relates to deferred taxes on Delta's pension plan which will not fully reverse until the last participant retires which is projected for 2054 (36 years).
- b. N/A

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- c. Delta agrees that reduction in the federal income tax rate from 34 percent to 21 reduces Delta's revenue requirement and that based on previously established Commission precedence, Delta should reduce its rates to customers as soon as practicable. Implementation of the new rates will require changes to Delta's billing system which could be completed in time to implement the attached rates for billings occurring on and after June 1, 2018.

The deferred taxes related to depreciation were estimated as of December 31, 2017 and actual amounts will be known no later than October, 2018. Delta respectfully requests the ability to file updated rates within thirty days of finalizing the actual amounts. Delta proposes to file updated tariff sheets through the Commission's Tariff Filing System with the following revised schedules:

- Item 8, Schedule I – Calculation of Excess Deferred Income Taxes
- Item 9, Schedule I – Revenue Impact – Rate Base and 15-year Amortization of Unprotected
- Item 11 – Impact on Customer Rates

Delta believes the proposed amortization of protected excess deferred income taxes 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.

- d. N/A

Sponsoring Witness:

Matthew D. Wesolosky

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**Item 1c**

Rate Reduction, 15-year amortization for Unprotected Differences

	<b>2017 Revenue</b>	<b>Class Allocation</b>	<b>Allocated Tax Adjustment</b>	<b># of Customers bills for the 12 months ended December 31, 2017</b>	<b>Monthly per Customer Tax Reduction Rate</b>
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)
	<b>\$ 43,340,653</b>	<b>100.0%</b>	<b>\$ (1,374,927)</b>	<b>417,869</b>	

**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 13<sup>th</sup> day of April 2018.

  
Notary Public



My Commission Expires:

6/20/20