

DELTA NATURAL GAS CO., INC.  
807 KAR 5:080 - Section 2

ANNUAL REPORTS RELATING TO A NON-REGULATED ACTIVITY OF AN AFFECTED  
UTILITY OR ITS AFFILIATE

CALENDAR YEAR 2018

(1) An affected utility shall file with the Commission, by March 31 of each calendar year, a report containing the following information:

(a) A description of each change in the affected utility's cost allocation manual during the preceding calendar year that has not been previously reported:

Section (2) (f) of the Cost Allocation Manual ("CAM") was updated with a revised chart of accounts included as Appendix I.

(b) A report on the utility's incidental non-regulated activity that describes the activity and provides justification for reporting the non-regulated activity as an incidental non-regulated activity, including:

1. Revenue per year or percentage of total revenue per year of the activity reported as an incidental non-regulated activity:

Merchandise sales, labor service and other revenue \$241,236 or 0.5%;

2. A calculation demonstrating the manner in which the affected utility has determined the percentage of revenue set forth in subparagraph 1 of this paragraph:

Percentage based on \$49,585,515 Operating Revenues for the 12 Months ended December 31, 2018;

3. A full explanation as to why the activity reported as an incidental nonregulated activity is reasonably related to the affected utility's regulated services:

Delta's merchandise sales, labor service and other revenue is insignificant. The merchandise sold and labor service provided all relates to Delta's core natural gas business.

(c) A list of non-regulated affiliates and a brief description of the activities in which each affiliate is involved:

Delta Resources, LLC - buys gas and resells it to industrial or other large use customers on Delta's system.

Delgasco, LLC - buys gas and resells it to Delta Resources, Inc. and to customers not on Delta's system.

Enpro, LLC - owns and operates production properties and undeveloped acreage.

- (2) A copy of each service agreement existing on the effective date of KRS 278.2201 through 278.2219 and remaining in effect shall be filed as an attachment to the annual report required by this subsection.

See Appendix I attached.

## UTILITY SERVICES AGREEMENT

This Utility Services Agreement (this "Agreement") is entered into as of the 12<sup>th</sup> day of February, 2019 by and between Delta Natural Gas Company ("Delta"), a Kentucky public utility organized under Kentucky law; PNG Companies LLC ("PNG"), organized as a Delaware limited liability company; Peoples Gas KY LLC ("Peoples KY"), a Kentucky farm tap system organized as a Kentucky limited liability company; Delta Resources, LLC, a Kentucky limited liability company ("Delta Resources"); Delgasco, LLC, a Kentucky limited liability company ("Delgasco"); and Enpro, LLC, a Kentucky limited liability company ("Enpro") (collectively, the "Affiliates").

WHEREAS, Delta; Peoples KY; Delta Resources; Delgasco; and Enpro are direct, wholly owned subsidiaries of PNG;

WHEREAS, the Affiliates believe that it is in their interest to enter into an arrangement whereby Delta may agree to purchase, from time to time and at its option, certain goods and administrative, management, and other services from PNG and the other Affiliates;

WHEREAS, the procurement of such goods and services, at the sole election of Delta, may result in purchasing and operational efficiencies, or is otherwise administratively necessary, and is in the public interest and the interest of Delta;

WHEREAS, the Affiliates believe that it is in their interest to enter into an arrangement whereby PNG; Peoples KY; Delta Resources; Delgasco; and Enpro may agree to purchase, from time to time at their option, certain goods and administrative, management, and other services from Delta; and

NOW, THEREFORE, in consideration of the mutual covenants contain herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Affiliates hereto, intending to be legally bound, hereby agree as follows:

1. **GOODS AND SERVICES:** PNG; Peoples KY; Delta Resources; Delgasco; and Enpro will supply certain goods and administrative, management, or other services to Delta similar to those supplied by other subsidiaries or affiliates of PNG. Such goods and services are and will be provided to Delta only at their request or consent. PNG; Peoples KY; Delta Resources; Delgasco; and Enpro will procure certain goods and services needed by Delta from third-party vendors. Such third-party goods and services will be provided to Delta only at the request of Delta. PNG; Peoples KY; Delta Resources; Delgasco; and Enpro will invoice Delta, at its fully distributed cost. Costs directly incurred by PNG; Peoples KY; Delta Resources; Delgasco; and Enpro from third parties on behalf and for the benefit of Delta are invoiced to Delta at cost.

Delta may supply certain goods and administrative, management, or other services to PNG; Peoples KY; Delta Resources; Delgasco; and Enpro. Such goods and services are and will be provided to PNG; Peoples KY; Delta Resources; Delgasco; and Enpro only at their request. Delta may procure certain goods and services needed by PNG; Peoples KY; Delta Resources; Delgasco; and Enpro from third-party vendors. Such third-party goods and services will be provided to PNG; Peoples KY; Delta Resources; Delgasco; and Enpro only at the request of PNG; Peoples KY; Delta Resources; Delgasco; and Enpro. Delta will invoice to PNG; Peoples KY; Delta Resources;

Delgasco; and Enpro, at its fully distributed cost, for PNG's; Peoples KY's; Delta Resources'; Delgasco's; and Enpro's portion of the costs of purchases of goods and services.

2. **PERSONNEL:** The Affiliates will provide such goods and services by utilizing the services of their executives, accountants, financial advisors, technical advisors, attorneys, and other persons with the necessary qualifications. If necessary, the Affiliates, after consultation with and consent by the receiving party, may also arrange for the services of nonaffiliated experts, consultants, and attorneys in connection with the performance of any of the services supplied under this Agreement.

3. **COMPENSATION AND ALLOCATION:** As and to the extent required by law, PNG; Peoples KY; Delta Resources; Delgasco; and Enpro will provide such goods and services at fully distributed cost in accordance with the requirements of Kentucky Revised Statute 278.2207 and Delta's Cost Allocation Manual on file with the Kentucky Public Service Commission. Delta will provide services to PNG; Peoples KY; Delta Resources; Delgasco; and Enpro at fully distributed cost.

4. **TERMINATION:** This Agreement shall be in full force and effect as to the date of execution, subject to any necessary approval of governmental agencies having jurisdiction over this matter, and shall continue until terminated by any Affiliate hereto by giving the other Affiliates one year written notice of termination; provided, however, this Agreement shall terminate immediately with regard to any Affiliate as of the date such Affiliate ceases to be affiliated with the other Affiliates. This Agreement shall also be subject to termination, without notice, if and to the extent performance under this Agreement may conflict with any state or federal statute, or any regulation, decision, or order of any state or federal regulatory agency having jurisdiction over one or more of the Affiliates.

5. **BILLING AND PAYMENT:** As soon as practical after the last day of each month, a bill shall be rendered for all amounts due for services and expenses for such period, computed pursuant to this Agreement. All amounts so billed shall be paid within 30 days. Payment for services provided shall be made by remittance of the amount billed or by making appropriate accounting entries on the books of the Affiliate performing the service and the Affiliate receiving the service. Any amount remaining unpaid after 30 days following receipt of the bill shall bear interest thereon from the due date of the bill until payment at a rate equal to the prime rate on the due date. The Affiliates shall keep their books and records available at all reasonable times for inspection by representatives of the other Affiliate or by regulatory bodies having jurisdiction over them and, upon request, shall furnish any and all information required with respect to the services rendered, the costs thereof, and the allocation of costs among all Affiliates to the Agreement.

6. **NOTICE.** All notices, requests, and other communications shall be deemed to have been duly given or delivered if transmitted by personal service or, if mailed, postage prepaid, return receipt requested, to the following addresses:

If to Delta:

President  
Delta Natural Gas Company, Inc.  
3617 Lexington Rd.  
Winchester, KY 40391

If to PNG:

President  
PNG Companies LLC  
375 North Shore Drive  
Pittsburgh, PA 15212

If to Peoples KY:

President  
Peoples Gas KY LLC  
375 North Shore Drive  
Pittsburgh, PA 15212

If to Delta Resources:

President  
Delta Resources, LLC  
3617 Lexington Rd.  
Winchester, KY 40391

If to Delgasco:

President  
Delgasco, LLC  
3617 Lexington Rd.  
Winchester, KY 40391

If to Enpro:

President  
Enpro, LLC  
3617 Lexington Rd.  
Winchester, KY 40391

7. **GOVERNING LAW.** The construction and interpretation of the terms and provisions of this Agreement shall be in accordance with and governed by the laws of the Commonwealth of Kentucky.

8. **COMPLIANCE WITH LAWS AND REGULATIONS.** Unless specifically exempted, this Agreement will be performed in full conformance with all applicable federal, state, and local labor and employment laws and regulations.

9. **MODIFICATION.** No amendment, change, or modification to this Agreement shall be valid, unless made in writing and signed by all Affiliates hereto; provided however that all amendments, changes, and modifications must be approved as necessary by any governmental agencies having jurisdiction.

10. **ENTIRE AGREEMENT.** This Agreement, together with Delta's Cost Allocation Manual, constitutes the entire understanding and agreement of the Affiliates with respect to its subject matter, and effective upon the execution of the Agreement by the respective Affiliates hereof, and any and all prior agreements, understandings or representations with respect to this subject matter are hereby terminated and canceled in their entirety and are of no further force and effect, except to the extent transactions thereunder have taken place prior to such effective date in which case such agreements will govern the terms of such transactions.

11. **WAIVER.** No waiver by any Affiliate hereto of a breach of a provision of this Agreement shall constitute a waiver of any preceding or succeeding breach of the same or any other provision hereof.

12. **FORCE MAJEURE.** It is agreed that, in the event a force majeure renders any Affiliate wholly or partially unable to carry out its obligations under this Agreement, other than its obligations to make payments on money due incident to performance hereunder, the obligation of the Affiliate so affected shall be suspended during the continuance of any such liability. The Affiliate claiming a *force majeure* shall remedy the condition and resume performance with all reasonable dispatch. "*Force Majeure*" shall mean acts of God, strikes, lockouts or other industrial disturbances; acts of the public enemy, wars, blockages, boycotts, insurrections, riots, epidemics, landslides, lightening, earthquakes, fires, storms, floods, washouts, arrest and restraints (either economic or physical) of government, rulers and people, civil disturbances, explosions, governmental regulations, curtailment or other inability to obtain required governmental permits and other causes, whether of the kind herein enumerated or otherwise, not within the reasonable control of an Affiliate, and which by the exercise of reasonable diligence such Affiliate is unable to prevent or overcome; provided that the settlement of strikes or lockouts by an Affiliate to this Agreement shall be entirely within the discretion of the Affiliate to the Agreement having the difficulty, and the above requirements that any event of *force majeure* shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by an Affiliate to this Agreement when such course is deemed inadvisable in the discretion of the Affiliate to the Agreement having the difficulty.

13. **ASSIGNMENT.** This Agreement shall inure to the benefit of and shall be binding upon the Affiliates and their respective successors and assigns.



14. **SEVERABILITY.** If any provision or provisions of this Agreement shall be held by a court of competent jurisdiction to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

15. **REPRESENTATIONS.** By their execution hereof, the Affiliates represent and warrant that they are authorized to enter into this Agreement, that it does not conflict with any contract, lease, instrument, or other obligation, that it represents their valid and binding obligation, enforceable in accordance with its terms, and that each Affiliate has all legal power and authority to own and use its properties and to transact the business in which it engages or proposes to engage, and has all governmental authorizations necessary and required therefor.

16. **CONFIDENTIALITY.** An Affiliate shall hold in confidence any information concerning the affairs of any other Affiliate that it has reason to believe is reasonably considered by the other Affiliate, to be confidential and shall not (except as required by law or regulatory authority, subject to available confidentiality protections) disclose, publish, or make use of such information without the consent of the other Affiliate.

IN WITNESS WHEREOF, the Affiliates have caused this Agreement to be executed by their duly authorized representatives, effective as of the 14<sup>th</sup> of December, 2018.

Delta Natural Gas Company, Inc.

PNG Companies LLC

By: John Brown  
Title: President, Treasurer & Secretary

By: Mayer K. OB  
Title: PRESIDENT

Peoples Gas KY LLC

Delta Resources, LLC

By: Mayer K. OB  
Title: PRESIDENT

By: John Brown  
Title: President, Treasurer & Secretary

Delgasco, LLC

Enpro, LLC

By: John Brown  
Title: President, Treasurer & Secretary

By: John Brown  
Title: President, Treasurer & Secretary

(2) (a) A list of regulated and nonregulated divisions within the utility

Delta Natural Gas Co., Inc. ("Delta" or "the Company") is a regulated utility and has no divisions.

(2) (b) A list of all regulated and nonregulated affiliates of the utility to which the utility provides services or products and where the affiliates provide nonregulated activities as defined in KRS 278.010(21).

Delta and its affiliates Delta Resources, LLC, Delgasco, LLC, Enpro, LLC and Peoples Gas KY LLC, are wholly-owned by PNG Companies LLC and meet the definition in KRS 278.010 (21).

(2) (c) A list of services and products provided by the utility, an identification of each as regulated or nonregulated, and the cost allocation method generally applicable to each category

<u>Services and Products</u>	<u>Activity Type</u>	<u>Cost Allocation Method</u>
Natural gas distribution	Regulated	Not allocated
Natural gas transportation	Regulated	Not allocated
Natural gas liquids	Non-regulated	Fully distributed cost allocation methodology consistent with Delta's cost of service study.

(2) (d) A list of incidental, nonregulated activities that are subject to the provisions of KRS 278.2203(4)

Merchandise sales, labor service and other revenue.

(2) (e) A description of the nature of transactions between the utility and the affiliates.

Delta provides natural gas transportation to its affiliates, Delta Resources, LLC, Delgasco, LLC and Enpro, LLC.



(2) (f) For each USoA account and subaccount, a report that identifies whether the account contains costs attributable to regulated operations and nonregulated operations. The report shall also identify whether the costs are joint costs that cannot be directly identified. A description of the methodology used to apportion each of these costs shall be included and the allocation methodology shall be consistent with the provisions of KRS 278.2203.

See Appendix I (attached) for Delta's chart of accounts. The accounts for Delta Resources, Inc., Delgasco, Inc., and Enpro, Inc. have been deleted as these companies are no longer owned by Delta but were changed to LLC's and transferred to be wholly owned by PNG Companies LLC. The chart of account structure is based on USoA guidelines. The utility incurs certain costs which are shared with the non-regulated affiliates such as labor, administrative costs, storage, natural gas liquids processing and interest. Such joint costs are allocated to the nonregulated affiliates using a fully distributed cost allocation methodology.

Additionally, PNG Companies LLC provides administrative management and other services under a Utility Service Agreement with Delta. Such costs are allocated to Delta using a fully distributed cost allocation methodology.

Costs directly incurred from third parties on behalf and for the benefit of Delta are invoiced to Delta, at cost.

**Delta Natural Gas Company, Inc.**  
**Cost Allocation Manual**  
**KRS 278.2205**

**Appendix I**

G/L Account	Description	
9403000	Depreciation Expense - Utility Plant	Joint
9404000	Amortization Expense - Utility Plant	Joint
9404100	Amort & Depl of Prod Nat Gas Land & Land Rights	Regulated
9404200	Amort & Depl of UG Storage Land & Land Rights	Regulated
9404300	Amortization Expense - Utility Plant - Gas	Joint
9408100	Taxes Other than Income Taxes - Utility Operating	Joint
9408200	Taxes Other than Income Taxes - Other Income & Ded	Joint
9409100	Income Taxes - Utility Operating Income	Regulated
9409200	Income Taxes - Other Income & Deductions	Regulated
9409300	Income Taxes - Extraordinary Items	Regulated
9410100	Provision for Deferred Income Taxes - Utility Op I	Regulated
9410200	Provision for Deferred Income Taxes - Other Inc/De	Regulated
9411100	Prov for Deferred Income Taxes-Credit, Utility Op	Regulated
9411109	Accretion Expense - Asset Retirement Obligation	Regulated
9411200	Prov for Deferred Income Taxes-Credit, Oth Inc/Ded	Regulated
9411600	Gains from Disposition of Utility Plant	Regulated
9415000	Revenues from Merchandising, Jobbing & Contract Work	Non-Regulated
9416000	Costs & Expenses of Merchandising, Jobbing & Contr	Non-Regulated
9418000	Nonoperating Rental Income	Non-Regulated
9419000	Interest & Dividend Income	Non-Regulated
9419100	Allowance for Other Funds Used During Construction	Non-Regulated
9421000	Miscellaneous Nonoperating Income	Non-Regulated
9421100	Gain on Disposition of Property	Non-Regulated
9421200	Loss on Disposition of Property	Non-Regulated
9426100	Other Income Deductions - Donations	Non-Regulated
9426200	Other Income Deductions - Life Insurance	Non-Regulated
9426300	Other Income Deductions - Penalties	Non-Regulated
9426400	Other Income Deductions - Civic/Political Activity	Non-Regulated
9426500	Other Income Deductions	Non-Regulated
9427000	Interest Expense - Long Term Debt	Regulated
9428000	Amortization of Debt Discount & Exp	Regulated
9430000	Interest on Debt to Associated Companies	Non-Regulated
9431000	Other Interest Expense	Joint
9432000	Allowance Borrowed Funds Used During Construction	Regulated
9434000	Extraordinary Income	Non-Regulated
9435000	Extraordinary Deductions	Non-Regulated
9787000	Products Extraction Maint - Pipe Lines	Regulated
9800100	Oth Gas Supply Op - Nat Gas Well-Head Purch Interc	Regulated
9801000	Oth Gas Supply Op - Nat Gas Field Line Pur	Regulated
9803000	Oth Gas Supply Op - Nat Gas Transm Line Pur	Regulated
9804000	Oth Gas Supply Op - Nat Gas City Gate Pur	Regulated
9805000	Oth Gas Supply Op - Other Gas Purchases	Regulated
9805100	Oth Gas Supply Op - Pur Gas Cost Adjustments	Regulated

9806000	Oth Gas Supply Op - Exchange Gas	Regulated
9807000	Oth Gas Supply Op - Purchased Gas Expenses	Regulated
9807100	Oth Gas Supply Op - Well Exps - Pur Gas	Regulated
9807500	Oth Gas Supply Op - Other Pur Gas Exps	Regulated
9808100	Oth Gas Supply Op - Gas Withdr from Storage-Debit	Regulated
9808200	Oth Gas Supply Op - Gas Deliv to Storage-Credit	Regulated
9810000	Oth Gas Supply Op - Gas Used Compr Sta Fuel-Credit	Regulated
9812000	Oth Gas Supply Op - Gas Used Other Util Ops-Credit	Regulated
9813000	Oth Gas Supply Op - Other Gas Suppl	Regulated
9814000	UG Storage Op - Supervision and Engineering	Regulated
9815000	UG Storage Op - Maps and Records	Regulated
9816000	UG Storage Op - Well Expenses	Regulated
9817000	UG Storage Op - Lines Expenses	Regulated
9818000	UG Storage Op - Compressor Station Expenses	Regulated
9819000	UG Storage Op - Compressor Station Fuel/Power	Regulated
9820000	UG Storage Op - Meas/Reg Station Expenses	Regulated
9821000	UG Storage Op - Purification Expenses	Regulated
9823000	UG Storage Op - Gas Losses	Regulated
9824000	UG Storage Op - Other Expenses	Regulated
9825000	UG Storage Op - Storage Well Royalties	Regulated
9826000	UG Storage Op - Rents	Regulated
9830000	UG Storage Maint - Supervision/Engineering	Regulated
9831000	UG Storage Maint - Structures/Improvements	Regulated
9832000	UG Storage Maint - Reservoirs and Wells	Regulated
9833000	UG Storage Maint - Lines	Regulated
9834000	UG Storage Maint - Compressor Station Equipment	Regulated
9835000	UG Storage Maint - Meas/Reg Station Equip	Regulated
9837000	UG Storage Maint - Other Equipment	Regulated
9843300	Other Storage Maint - Gas Holders	Regulated
9850000	Gas Transmission Op - Supervision/Engineering	Regulated
9851000	Gas Transmission Op - Sys Control & Load Dispatch	Regulated
9852000	Gas Transmission Op - Communication Sys Exps	Regulated
9853000	Gas Transmission Op - Compressor Sta Labor & Exps	Regulated
9856000	Gas Transmission Op - Mains Expenses	Regulated
9857000	Gas Transmission Op - Meas/Reg Sta Exps	Regulated
9858000	Gas Transmission Op - Transm/Compres Gas by Others	Regulated
9859000	Gas Transmission Op - Other Expenses	Regulated
9860000	Gas Transmission Op - Rents	Regulated
9861000	Gas Transmission Maint - Supervision & Engineerng	Regulated
9862000	Gas Transmission Maint - Structures/Improvements	Regulated
9863000	Gas Transmission Maint - Mains	Regulated
9864000	Gas Transmission Maint - Compressor Sta Equip	Regulated
9865000	Gas Transmission Maint - Meas/Reg Sta Equip	Regulated
9866000	Gas Transmission Maint - Communication Equip	Regulated
9867000	Gas Transmission Maint - Other Equipment	Regulated
9870000	Gas Distribution Op - Supervision and Engineering	Regulated
9871000	Gas Distribution Op - Distrib Load Dispatching	Regulated

9872000	Gas Distribution Op - Compr Sta Labor & Expense	Regulated
9874000	Gas Distribution Op - Mains and Services Exps	Regulated
9875000	Gas Distribution Op - Meas/Reg Sta Exps-General	Regulated
9876000	Gas Distribution Op - Meas/Reg Sta Exps-Industrial	Regulated
9877000	Gas Distribution Op - Meas/Reg Sta Exps - CityGate	Regulated
9878000	Gas Distribution Op - Meter/House Reg Exps	Regulated
9879000	Gas Distribution Op - Customer Installations Exps	Regulated
9880000	Gas Distribution Op - Other Expenses	Joint
9881000	Gas Distribution Op - Rents	Regulated
9885000	Gas Distribution Maint - Supervision & Engineering	Regulated
9886000	Gas Distribution Maint - Structures/Improvements	Regulated
9887000	Gas Distribution Maint - Mains	Regulated
9888000	Gas Distribution Maint - Compressor Station Eq	Regulated
9889000	Gas Distribution Maint - Meas/Reg Sta Equip-Genl	Regulated
9890000	Gas Distribution Maint - Meas/Reg Sta Equip-Indus	Regulated
9891000	Gas Distribution Maint - Meas/Reg Sta Equip-CityGt	Regulated
9892000	Gas Distribution Maint - Services	Regulated
9893000	Gas Distribution Maint - Meters/House Regulators	Regulated
9894000	Gas Distribution Maint - Other Equipment	Regulated
9901000	Customer Accounts - Supervision	Regulated
9902000	Customer Accounts - Meter Reading Expenses	Regulated
9903000	Customer Accounts - Customer Records & Collections	Regulated
9904000	Customer Accounts - Uncollectible Accounts	Regulated
9907000	Customer Service/Info - Supervision	Regulated
9908000	Customer Service/Info - Customer Assistance	Regulated
9909000	Customer Service/Info - Info & Instructional Adver	Regulated
9910000	Customer Service/Info - Miscellaneous Expenses	Regulated
9911000	Sales Expense - Supervision	Regulated
9912000	Sales Expense - Demonstrating & Selling	Regulated
9913000	Sales Expense - Advertising Expense	Regulated
9916000	Sales Expense - Miscellaneous	Regulated
9920000	Admin & General - Salaries	Joint
9921000	Admin & General - Office Supplies & Expenses	Joint
9922000	Admin & General - Admin Exp Transferred - Credit	Joint
9923000	Admin & General - Outside Services Employed	Joint
9924000	Admin & General - Property Insurance	Joint
9925000	Admin & General - Injuries & Damages	Joint
9926000	Admin & General - Employee Benefits	Joint
9928000	Admin & General - Regulatory Commission Expenses	Joint
9930100	Admin & General - General Advertising Expenses	Joint
9930200	Admin & General - Miscellaneous Expenses	Joint
9931000	Admin & General - Rents	Joint
9932000	Admin & General Maint -Other General Plant -Gas	Joint
9999010	Balance Sheet Offset - FERC	Joint
9999020	Profit & Loss Offset - FERC	Joint