

**DELTA NATURAL GAS COMPANY, INC.  
CASE NO. 2021-00185**

**FOURTH PSC DATA REQUEST  
DATED SEPTEMBER 23, 2021**

1. Refer to Tab 4 of the Application, page 10 of 50, regarding the change of ownership section under the Farm Tap Service rate schedule. Explain the circumstances in which the \$25 turn-on fee would apply.

Response:

The \$25.00 turn-on fee would apply if the change of ownership is requested to avoid the existing account balance from a related previous owner. This would ensure that the account is treated the same as a reconnection.

Sponsoring Witness: John B. Brown

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2. Refer to Tab 4 of the Application, page 23 of 50, Application for Service section.
  - a. Provide the personal information requested of each new potential customer, explain why each item is needed, and for each item, indicate whether the information is required in order for the customer to receive service or if it is optional for the customer to provide.
  - b. Indicate whether Delta has a standard Application for Service. If so, provide a copy.

Response:

- a. Please see the table below for a list of the personal information requested of each potential new customer, why each item is needed, and if it is required or optional. The information requested is used to establish the new account. The table below provides the reason why each item is needed, but the following are examples of how the information may be used to better serve the customer:

- If a customer contacts Delta and does not have their account number available, the information requested below can be used to confirm the person is the account holder and authorized to transact on the account.
- If a customer has an existing or past affiliation with Delta and had a good pay history, the need for a deposit may be waived. The information requested below would be used to determine that affiliation.
- The information is also used to confirm a new customer has no affiliation with a previous customer with a past due balance. This protects the new customer from being held responsible for the past due balance of an unaffiliated previous customer.

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<b>Information Requested</b>	<b>Why Item is Needed</b>	<b>Required / Optional</b>
Name	Identify Account Holder	Required
Service Address	Identify where gas service is to be provided	Required
Mailing Address	Customer's preference for billing purposes	Required
Phone Number	For contact and for account identification purposes	Required
Social Security (SSN) or Driver's License Number**	Identify Account Holder	Required to provide one of the following Complete SSN Last four digits of SSN Driver's License Number
Spouse or Co-Applicant**	To grant access to account information	Optional
Employer Name, Address, Phone Number**	Additional identification	Optional
Show Photo ID* **	Confirm account holder information	Required

\*At the time service is turned on, the service person will request a photo ID to confirm the customer information is correct. Delta does not maintain a copy of the customer's photo ID.

\*\*Peoples Kentucky does not request this information or require the customer to show photo ID.

b. Delta does not have a standard, or written, Application for Service. A customer requesting to establish service will contact Delta by phone or visit one of the local offices to establish service. The initial account set up is handled verbally which is why the service person will confirm the customer information is correct at the time service is turned on. Delta is currently evaluating the forms that Peoples Kentucky utilizes for its farm-tap customers.

Sponsoring Witness: Andrea Schroeder

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3. Refer to Tab 63 of the Application. Delta is forecasting and increase in equity from \$58,707,569 as of August 2021 to \$71,903,674 as of December 2022.

a. Provide the anticipated issuance dates and the expected impact on Delta's capital structure.

b. Explain why Delta is forecasting to increase the equity portion of its capital structure from 45.64 percent to 51.76 percent, or over 13 percent.

Response:

- a. Delta projects an equity issuance of \$9.3 million in November 2021. In the event that planned long-term debt for the same period is issued in more than one issuance, so too might the equity issuance such that capital ratios as projected in the filing remain essentially unchanged.

Equity issued in conjunction with long-term debt issuances will reset capital structure to a proper balance resulting in an optimum cost of overall funds for customers. Please see response to (b).

- b. The \$58,707,569 equity projected in the filing is 45.64% of total projected capital at 8/31/21, which includes \$26,593,400 of temporary financing / short-term debt. The \$58,707,569 is 57.5% of projected permanent capital.

Additional information regarding the planned refinancing of short-term debt is provided in Delta's September 24, 2021 Response to Item No. 2 of Commission Staff's First Request for Information in Case No. 2021-00326. The Company's projected 13-month average 2022 test year reflects \$0 short-term debt balance as permanent capital is planned to finance Delta's Utility Plant in Service and other long-term components of rate base.

As Delta's rate of return witness Moul notes in his testimony, the historical equity ratio for his selected Gas Group is 53.3%. Mr. Moul thus finds the projected 51.76% equity ratio to be reasonable.

Sponsoring Witness: William C. Packer

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4. Refer to the Testimony of Jonathan Morpew (Morpew Testimony), page 10, line 22 through page 11, line 2. Explain how Delta estimated the cost of the proposed transmission line. Provide any work papers in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

Response:

The engineering group at Delta routinely prepares estimates on significant capital projects. These estimates are based on information compiled from previous projects similar in nature, estimates from necessary vendors, and historical material costs. The attached estimate represents the most recent estimate for the project and is provided pursuant to a petition for confidential protection. The attached estimate was created by the following processes:

- Purchase Station Design Cost: One component of the project is construction of a purchase station. Delta will seek contract engineering services to perform this part of the project. The design of a purchase station of this nature was recently performed and the actual cost of that design was utilized in this estimate. Delta expects little, if any, variance in the estimate for the station design.
- Contractor Cost: Delta has estimated the contractor cost based upon a recent contract price for a similar eight-inch steel pipeline in Lincoln County, Kentucky, with necessary modifications to account for differences in the projects. Contractor costs for the Nicholasville project include two waterway crossings on this project that will require a directional boring process. The larger of these two waterways is the Kentucky River and the smaller is the Silver Creek crossing. A previous estimate for crossing the Kentucky River was conducted approximately three years ago.

[REDACTED]

It is important to note that the actual bidding process for the Nicholasville pipeline contractor cost will not be performed until early 2023. The actual bid price may vary.

- Labor Cost: Labor cost estimates consist primarily of Delta personnel that will be required to be on the project until completion. The expertise of in-house corrosion knowledge is needed, as well as various other functions needed by construction personnel, not included in the general contractor performance. Some of these functions may include fabrication of above ground piping facilities, final tie-in procedures, etc.

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- Materials Cost: The design of the precise alignment and length of the pipeline is not finalized at this time. The proposed alignment and pipeline length are estimated by utilization of aerial photography, resulting in the project being approximately 17 miles in length. The majority of the material cost consists of the eight-inch steel pipe. This cost is based on current pricing of the pipe and costs may vary at the time of purchase. The remaining facilities have been estimated using current prices and recent historical costs of similar projects.
- Accounts Payable: The majority of the Accounts Payable costs are based on the costs Delta is currently experiencing in its capital projects. The purchase station lot and the Enbridge tap fee are estimated from actual costs on the Lincoln County Pipeline project. The pipeline easement cost was provided from a contract engineering vendor.

Sponsoring Witness: Jonathan Morphew

**ATTACHMENT TO DELTA\_R\_PSCDR4\_NUM004\_100821  
FILED UNDER SEAL PURSUANT TO THE PETITION FOR  
CONFIDENTIAL TREATMENT FILED ON  
OCTOBER 8, 2021**

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5. Refer to the Morpew Testimony, pages 13-14. Confirm that no costs associated with phase one of the economic development project are included in Delta's test-year. If this cannot be confirmed, provide the amount and location of any such costs.

Response:

Confirmed. There are no costs associated with Phase I of the economic development project included in Delta's test year.

Sponsoring Witness: Jonathan Morpew



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6. Refer to Delta's response to Commission Staff's Second Request for Information, Item 4. Provide support for the \$15 listed in the "Other charges – bank fees, etc." row of the Bad Check cost justification.

Response:

Delta's Bad Check Charge increased from \$10 to \$15 effective October 20, 2007 with the Final Order in Case 2007-00089. In that case, Exhibit JB-1 from the Brown Direct Testimony put forth a Special Charge Cost Study amount of \$17.75 for each bad check, compared with the \$22.22 calculated based on cost data from 2020 that was filed in response to Commission Staff's Second Request for Information, Item 4 in the instant case. Delta utilizes several banks across its service territory for deposits and each one structures fees differently. Some charge direct charges per bad check presented, ranging from \$0 to \$12 per item, and others build the cost of bad checks into their monthly account analysis charge, and others employ a hybrid approach. Most customer payments are currently being processed through Delta's lock box, which charges the Company \$11.40 per each NSF item the first time presented and an additional \$7 in the event the item is presented a second time, which would total a minimum \$18.40 fee to Delta for those items presented more than once. Delta believes that these various fee structures support an average estimate of \$15 for "Other charges—bank fees, etc." for bad checks and overall, a \$15 Bad Check Charge.

Sponsoring Witness: John B. Brown

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7. Refer to Delta's response to Commission Staff's Third Request for Information (Staff's Third Request), Item 4. State whether Delta included an increase in locate requests in the forecasted test-year. If so, explain how the increase was calculated. If not, explain why not.

Response:

Delta did not include an increase in locate requests in the forecasted test-year, even though an increase would have been warranted based on the trend of an increasing number of locates performed. As noted in the Brown Direct Testimony, Delta has exercised significant restraint in proposing adjustments to the forecasted period.

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8. Refer to Delta's response to Staff's Third Request, Item 9.
  - a. Explain whether Delta routinely plans its system to provide multiple sources of supply.
  - b. State whether Delta preforms any study of likelihood of failure of its transmission lines. If so, explain whether this particular transmission line has a high probability of failure.
  - c. Explain whether Delta is aware of any actual expected growth in natural gas demand for the north side of this system.
  - d. Explain in detail how the proposed route was determined, including any engineering studies that were performed or alternative routes evaluated.
  - e. Confirm that Delta's proposed route also includes a river crossing.
  - f. Explain whether Delta's current transmission line could supply the Nicholasville area in the event the proposed transmission line experiences a failure.
  - g. Provide the maximum load growth that could be safely supported by the current transmission line.

**Response:**

a. The Engineering group at Delta does routinely design its system for multiple sources of supply when practical to do so. There are individual systems with such a small number of customers that could be affected by an outage, that additional supply to the system is not needed. Conversely, Delta does have numerous systems where the customer quantity is substantial with more than a single supply into the system.

b. There has been no official study of likelihood of failure of this pipeline. Engineering and Operations personnel continually observe the growth of the Nicholasville system and its increasing demand for natural gas supply. Delta closely monitors the pipeline and overall system usage in order to prevent a potential occurrence of inability to meet supply demands. With the Nicholasville system containing approximately 25% of Delta's total customer base and served

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by a single feed, this growing concern has prompted Delta to pursue the construction of a secondary supply to the Nicholasville system. At this time, Delta does not assess the Nicholasville Transmission Line as having a high probability of failure under normal operating conditions. However, with the continual economic growth and construction activity in Nicholasville area, it renders this pipeline very vulnerable to failure at any time, especially due to third party damage.

c. The north side of the Nicholasville system abuts the south side of Fayette County. This area along Highway 27 has recently experienced most of the Nicholasville system growth. This growth includes residential areas, as well as commercial, especially in the vicinities of Brannon Crossing Road and Ashgrove Road. With no foreseeable decrease in economic activity in the south Fayette County and north Jessamine County areas, we anticipate more growth in the near and distant future.

d. The proposed route of the Nicholasville pipeline was established by use of aerial photography. The route was selected based on contour and complexity of the landscape, most appropriate distance, and least impact to private and public lands. At this time, Engineering studies consist of preliminary route selection and approximate distances for the purpose of material and contractor costs. As in all pipeline design projects, there will be revisions in the routing design upon actual field verification. The estimated contractor cost utilizes historical cost of similar pipeline construction projects and therefore, is subject to revisions as well.

An alternate route was considered in the original design process. First, consideration was given to paralleling the existing Nicholasville pipeline the entire route to the south side of Nicholasville. It was determined that this route was not as desirable. Any pipeline failure of either line could and most likely would, impact the parallel line. Additionally, this would provide redundant supply to the south side of Nicholasville, which would not alleviate the concern regarding the supply needed on the north side. As currently proposed, the purchase station site will supply natural gas from the southeast and to the north end of the Nicholasville system. This supply will be provided from a separate transmission line provider. Receiving supply from a secondary provider will provide greater security in the event that either purchase station loses supply from its source. The proposed route also establishes natural gas supply in the proximity of the proposed East Nicholasville By-pass. Delta anticipates future development and economic growth along the proposed by-pass. Where there is no way of quantifying precisely how much economic growth will be incurred at this time, there is also no guarantee that the existing gas infrastructure can maintain the future load demand as it increases.

e. The proposed route includes a river crossing.

f. Delta's existing transmission line currently supplies the Nicholasville area and could supply the Nicholasville area in the event of a failure of the proposed line. The proposed line will provide needed redundancy to the Nicholasville system, which will benefit the entire

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system. In the event of a failure of the existing line or the proposed line, the other line will provide redundancy so that a large number of customers do not lose service.

g. Delta is uncertain that the transmission line can safely support *any* additional load growth in a peak day situation for the following reasons. Delta's system experienced a peak day load requirement in January of 2014. This situation created great concern on the northern portion of Delta's system with regard to volume and pressure. Later in 2014, Delta performed an upgrade to a portion of its system allowing more pressure and volume for operational needs. Since the upgrade, Delta has not experienced a peak day load equivalent to that of 2014. Delta has continually monitored pressures in the same areas during the coldest temperatures. With recent warmer winter temperatures, the operating pressures has been acceptable with the existing load demand. But this system has experienced a 10% growth in load requirement since 2014. Delta's engineering group has performed gas modeling calculations in order to try to determine the risk involved, given the current load requirements, which includes the aforementioned 10% load increase. The calculations show that Delta's Nicholasville system will not support the ability to safely increase load growth above the current demands under a peak day scenario. Furthermore, there is a substantial amount of undeveloped real estate remaining in Delta's system in the northern Jessamine County area, that in all likelihood will bring on additional load requirements as well.

Sponsoring Witness: Jonathan Morpew

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9. Refer to Delta's response to Staff's Third Request, Item 15. Also refer to Delta's response to Commission Staff's Second Request for Information, Item 3.

a. Provide a narrative of Delta's standard protocol to determine affiliation with the previous owner when there is a requested change in farm tap account ownership.

b. Confirm that the new owner would only be responsible for the existing account balance of the previous owner if the new owner resided at the address with the previous owner when their past due account balance was incurred and the previous owner remains at the address. If not confirmed, provide an explanation.

c. Explain whether the new owner would be responsible for the existing account balance of the previous owner if the new owner resided at the address with the previous owner when their past due account balance was incurred but the previous owner ceased residing at the address.

Response:

a. Delta's standard protocol to determine affiliation with the previous owner is to compare the information provided by the customer requesting the change with the previous owner's account information for consistencies that would clearly show an affiliation between the previous and new owner. As noted in the response to PSC 2-3, the proposed tariff language is designed to prevent a customer from simply changing the name on the account to avoid a delinquent balance. Also noted in the response to PSC 3-15, Delta's general policy is that an existing account balance remains with the account rather than with the premise. Therefore, a new

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owner is never responsible for the existing balance of the previous owner if the new owner has no affiliation with the previous owner.

b. The new owner would only be responsible for the existing account balance in the event of a transfer of ownership with a request for the continuance of service or if an affiliation with the previous owner was determined based on the information provided by the new owner at the time the new service was requested. Residency of the new and/or previous owner at the service address is only relevant if both are listed on the account at the time the existing account balance was incurred.

c. See part b.

Sponsoring Witness: John B. Brown

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10. Refer to Delta's response to Staff's Third Request, Item 21(a).
- a. Provide support for the \$35 per hour charge for relighting gas appliances when not in conjunction with a turn-on, meter rotation, or restoration of service.
  - b. Explain the rationale for setting a minimum charge of one hour.

Response:

- a. The \$35 per hour charge was set several years ago. As shown in response to Item No. 4(a) of Commission Staff's Second Request for Information, field expense labor averaged \$36.02 per hour in 2020, exclusive of transportation or administrative costs. Therefore, actual costs being incurred currently would justify a somewhat higher charge.
- b. By setting a minimum charge, Delta recovers the fixed charges (administrative and a portion of the transportation expenses) of performing the service, even if the time expended on the specific relight was less than one hour.

Sponsoring Witness: John B. Brown



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11. Refer to Delta's response to Commission Staff's Third Request for Information, Item 21(g).

a. Explain the difference between the \$150 meter install charge and the \$50 meter install charge and indicate the tariff provision that allows for the \$50 meter install charge.

b. Confirm that other than the \$25 reconnection charge, none of the other charges listed in the response are currently in Delta's tariff.

Response:

- a. Delta misinterpreted the query of special charges supporting its response to PSC3-21(g). The "9 \$50 meter install charges (\$450)" were actually "18 \$25 meter install charges (\$450)."
- b. Although not expressly set forth in Delta's current tariff, 807 KAR 5:026, Section 9 states that each "gas company may charge \$150 for each service tap, including saddle and first shutoff valve." Peoples KY has historically referred to this \$150 charge as a "meter install charge" or a "turn on charge" interchangeably. Likewise, Peoples KY has historically referred to the \$25 "meter install charge," "turn on charge" and "reconnection charge" interchangeably. Both the \$150 charge and the \$25 charge are disclosed to each customer as they obtain service by signing a "Limited Service Agreement." As part of its integration into Delta, Delta has proposed revised tariffs and conditions that expressly identify each special charge that is specific to customers taking service pursuant to KRS 278.485, as well as which special charges apply to all customers, of which farm tap customers are a subset. Delta is committed to providing clear communication regarding fees that apply to the former Peoples KY's customers.

Sponsoring Witness: John B. Brown

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12. Refer to Delta's supplemental response to Staff's Third Request, Item 29.
- a. Confirm that the results of Delta's lead/lag study suggest that ratepayers are financing Delta's cash needs in the amount of \$213,233.
  - b. Explain why Delta's shareholders should earn a return on \$213,233 financed by ratepayers.

Response:

a. For clarity, cash needs are not the same as cash working capital. Cash working capital is not a cash reserve that can be utilized by the utility. A lead-lag study measures the difference between time lags of collections from customers and payments of expenses. This difference in the expense leads and revenue lags will vary over time and is simply an estimate of the cash working capital of a utility. The Commission has traditionally allowed Delta to estimate cash working capital using the 1/8th rule. To the extent that cash working capital is zero or negative, then Delta's investors are not required to provide a cash working capital investment to operate the utility. A theoretical argument could perhaps be made that with a negative cash working capital ratepayers are supplying the working capital, but this does not suggest that the cost savings related to such customer-supplied capital should correspond to Delta's weighted cost of capital. Including negative cash working capital in rate base effectively compensates ratepayers at Delta's full weighted cost of capital, grossed up for income taxes, which is a much higher annual rate than other types of investor-supplied capital, such as customer deposits. For example, the rate of return provided on customer deposits is currently 0.12%.

b. A lead-lag study is one of several methodologies for estimating cash working capital, with the 1/8th rule being the other prominent methodology, which has been used by Delta for decades. Like the 1/8th rule, a lead-lag study is simply a methodology for estimating cash working capital. Delta is unaware of the Commission ever requiring a utility to include negative cash working capital in rate base. Including negative cash working capital would penalize a utility for taking steps to improve its cash management processes. Furthermore, including a negative cash working capital amount in rate base effectively compensates customers at a rate equal to the utility's weighted cost of capital, grossed up for income taxes. As explained in response to subpart (a), above, a more appropriate rate of return on any such ratepayer supplied capital would be 0.12%, which is the interest rate provided on customer deposits.

Sponsoring Witness: William Steven Seelye

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13. Risk associated with the recovery of costs and capital in Delta's Pipe Replacement Program (PRP) would appear to be much less than the utility as a whole.

a. Explain whether the risks associated with the PRP and similar programs are alike or different from the risks associated with the distribution utility.

b. For Delta, compare and contrast the risks specifically associated with its PRP and the utility and explain whether the ROE associated with the PRP should be lower than the authorized for base rate calculation.

Response:

a. The only difference in risks associated with costs recovered through the PRP and costs recovered through a general rate case is the possible frequency of cost recovery and the inclusion of an over/recovery provisions in the PRP. The alternative to rate recovery provided by the PRP is the filing of annual general rate case filings for the recovery of such costs.

b. See response to sub-part (a). Delta does not believe that the slightly lower risk associated with timely recovery of costs through the PRP justifies a materially lower ROE on PRP assets. However, Delta is aware that a 20-basis point reduction has been utilized for other rate mechanisms for other utilities. Given that Delta could file more frequent rate cases in lieu of recovery of pipeline replacement costs through the PRP, a 20-basis point reduction appears high and somewhat arbitrary.

Sponsoring Witness: William Steven Seelye / Paul Moul