

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

THIRD PSC DATA REQUEST
DATED AUGUST 24, 2021

29. Provide a lead/lag study which excludes non-cash items. Using this study, provide the cash working capital amount that would be included in rate base for the base and forecasted test periods.

September 8, 2021 Original Response:

Responding to this request for information requires extensive original work product which has not been completed by Delta or its consultant. The work necessary to respond to this request is underway. Delta will supplement this response when the analysis is completed, and has also filed a Motion for Extension of time to respond to this request due to the amount of original work required.

September 13, 2021 Supplemental Response:

Attached are: (i) a lead/lag study for Delta Natural Gas Company based on transaction detail for the 12 months ended December 31, 2020, (see DELTA_R_PSCDR_NUM020_091321_LEAD-LAG.XLSX); and (ii) a calculation of cash working capital based on the results of the lead/lag study (DELTA_R_PSCDR_NUM020_091321_CWC.XLSX).

The attached lead/lag study used historical payment activity to calculate revenue lag days and expense lead days. *Revenue lag days* represent the difference between the date when services are rendered by Delta and the date when revenues for those services are collected from customers. *Expense lead days* represent the date when expenses are incurred to provide service and the date when those expenses are paid. The lead days and lag days are multiplied by the respective average daily expenses and pass-through items (*viz.*, sales taxes, school taxes, and franchise fees) to determine cash working capital.

The lead/lag analysis was performed using revenue and expense data for the calendar year 2020. The revenue lag measures the number of days from the date service was rendered by Delta until the date payment was received from customers and the funds deposited and available to the company. In the calculation, the revenue lag consists of four time spans: (1) meter reading lag, which is the time period from the midpoint of the service period to the meter read date; (2) billing lag, which is the period from when the meter is read to the date when the bill is invoiced; (3) collection lag, which is the period from when the bill is invoiced to when the customer payment is received; and (4) bank lag, which is the period from when the customer payment is received to when the Companies have access to the funds.

The collection lag was determined using the turnover approach, which calculates the collection lag days by dividing the average daily accounts receivable balance by the average daily revenues and pass-through items (*viz.*, sales taxes, gross receipt taxes, and franchise fees).

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The following table shows the revenue leads and expense lags for each revenue, expense and passthrough component:

Lead/Lag Days Summary	
Revenue	
Meter Reading.....	15.21
Billing.....	7.00
Collection.....	10.72
Bank.....	1.00
Total.....	33.93
	Lead Days
O&M Expense	
Purchased Gas and Transportation.....	45.57
Payroll Expense.....	9.90
Annual Performance Incentives.....	230.04
401k Match Expense.....	9.90
Uncollectible Expense.....	19.56
Charges from Affiliates.....	33.37
Other O&M.....	14.00
Income Tax Expense	
Current: Federal and State.....	38.00
Deferred: Federal and State (Including ITC).....	-
Taxes Other Than Income	
Property Tax Expense.....	301.21
Payroll Tax Expense.....	9.90
Other Taxes.....	(186.44)
Interest Expense.....	35.43
Sales Taxes.....	35.97
School Taxes.....	36.47
Franchise Fees.....	55.62

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Applying the above lead/lag days to daily revenues and expenses from Delta's forecasted test-year revenue requirements results in an amount of \$(213,233).

It is Mr. Seelye's recommendation that the 1/8th methodology that has traditionally been used in Delta's past rate cases for the determination of Cash Working Capital should be approved in this proceeding. The negative amount shown above has been driven by the effectiveness of Delta's cash management practices and processes. Reducing rate base for Cash Working Capital below the 1/8th methodology creates a disincentive for Delta to manage its cash effectively and would thereby discourage efficiency and effective cost management. In no event should the Cash Working Capital included in rate base be less than zero.

Sponsoring Witness: William Steven Seelye