

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

**SECOND ATTORNEY GENERAL DATA REQUEST**  
**DATED AUGUST 25, 2021**

35. **Affiliate Cost – OAG 1-46.** Please address the following regarding Delta’s response to OAG 1-46(a), Attachment “Attachment to AG 1-46 – OAG \_Attachment\_3\_-\_Expensed\_and\_Capitalized\_Amounts\_Allocated\_to\_Delta\_and\_PKY”, that shows allocated expenses and capital costs from PNG and Essential to Delta and PKY for periods 2017 through Base Period and Forecasted Period.

- a. OAG 1-46 requested all information at this data request for the calendar years 2017 to 2020, plus the Base Period and Forecasted Period. However, Delta’s workpapers “Attachment to AG 1-46 – 1300 Essential Allocations.xls” to PKY and “Attachment to AG 1-46 – 1600 Essential Allocations.xls” to Delta only provide monthly data for the period April 2020 to March 2021. Provide this same information for the calendar years 2017 to 2020, plus the Base Period and Forecasted Period.
- b. Explain why expenses allocated from PNG to Delta decreased from \$62,323 in 2019 to \$50,790 in 2020, but then increased to \$86,622 for the Base and Forecasted Periods, provide supporting documents and calculations (identify significant changes in costs by account number and a description of the service and why the cost changed). In all cases, identify other offsetting savings or reductions in other expenses that offset the increases in allocated expenses (if applicable). Explain why these changes in expenses are reasonable and recurring, and identify all nonrecurring or one-time costs in the 2020 and Base Period expense amounts by account and description of cost.
- c. Explain why expenses allocated from PNG to PKY decreased from \$272,238 in 2017 to \$227,739 in 2018, but then increased to \$240,423 in 2019, and then decreased to \$207,854 in 2020, and then decreased to \$186,038 for the Base and Forecasted periods, provide supporting documents and calculations (identify significant changes in costs by account number and a description of the service and why the cost changed). In all cases, identify other offsetting savings or reductions in other expenses that offset the increases in allocated expenses (if applicable). Explain why these changes in expenses are reasonable and recurring, and identify all nonrecurring or one-time costs in the 2020 and Base Period expense amounts by account and description of cost.
- d. Explain why expenses allocated from Essential to Delta increased from \$489,244 in 2020 to \$1,107,763 in the Base and Forecasted Periods, provide supporting documents and calculations (identify significant changes in costs by account number and a description of the service and why the cost changed). In all cases, identify other offsetting savings or reductions in other expenses that offset the increases in allocated expenses (if applicable). Explain why these changes in

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

**SECOND ATTORNEY GENERAL DATA REQUEST**  
**DATED AUGUST 25, 2021**

expenses are reasonable and recurring, and identify all nonrecurring or one-time costs in the 2020 and Base Period expense amounts by account and description of cost.

- e. Expenses allocated from Essential to PKY occurred for the first time in 2020 with amounts of \$34,295, which is also used as the expenses level in the Base and Forecasted Periods, Identify all nonrecurring or one-time costs in the 2020 and Base Period expense amounts by account and description of cost.
- f. Regarding (b) and (c) above, explain all changes in expenses allocated from PNG and Essential to Delta and PKY from 2018 to 2019, 2019 to 2020, and 2020 to the Base Period that are related to changes in the types of services (changes in existing services and providing new services) provided by PNG and Essential to Delta and PKY. Identify these specific services and their costs, and explain why it is important to provide these services to Delta and PKY (especially if they were not provided in the past). Provide all supporting documentation and calculations.
- g. Regarding (b) and (c) above, explain all changes in expenses allocated from PNG and Essential to Delta and PKY from 2018 to 2019, 2019 to 2020, and 2020 to the Base Period that are related to changes in the allocation formulas or type of costs that are pooled and provided by PNG and Essential to Delta and PKY. Provide a calculation of the allocation of costs under the prior allocation formula compared to the current allocation formula, and explain why this change in allocation formula is reasonable. Provide all supporting documentation and calculations.
- h. Regarding (g) above, provide the same information if the change in expenses is due to increases or significant changes to the inputs to formulas, and explain the reasons for the significant changes in the inputs to the formulas.
- i. Per OAG 1-46(a) discussion of the G&A Surcharge, provide the amount of the Essential G&A surcharge allocations to Delta and PNG for all capital costs included in the Base Period and Forecasted Period of this rate case (the amount of the G&A surcharge identified can be limited to each of the major projects at Tab 19).
- j. Please clarify if the Essential G&A surcharge amount is included in expenses allocated by Essential to Delta and PKY, or if it just applies to capitalized amounts of Delta and PKY. For example, clarify if the Essential G&A surcharge amounts at “Attachment to AG 1-46 – 1300 Essential Allocations.xls” to PKY and “Attachment to AG 1-46 – 1600 Essential Allocations.xls” to Delta for April 2020 to March 2021, are included in the expense amounts allocated from Essential to Delta and PKY, or explain if these G&A surcharge amounts are included in only

**DELTA NATURAL GAS COMPANY, INC.****CASE NO. 2021-00185****SECOND ATTORNEY GENERAL DATA REQUEST****DATED AUGUST 25, 2021**

capitalized amounts allocated from Essential to Delta and PKY (for amounts only reflected in capital balances on the books of Delta and PKY for projects).

- k. Regarding (j) above, if the Essential G&A surcharge is included in expenses allocated by Essential to Delta and PKY, provide the amount of G&A charges included in expenses allocated to each of Delta and PKY for the period ending December 31, 2019, December 31, 2020, and Base Period, and reconcile to the allocated expenses at OAG 1-46(a), Attachment “Attachment to AG 1-46 – OAG Attachment\_3\_Expensed\_and\_Capitalized\_Amounts\_Allocated\_to\_Delta\_and\_PKY”.
- l. Regarding (k) above, if the Essential G&A surcharge is included in only capitalized amounts allocated by Essential to Delta and PKY, reconcile and provide the amount of G&A surcharge included in Capital Costs allocated to Delta and PKY by Essential (and PNG if applicable) for 2019, 2020, and the Base Period at OAG 1-46(a), Attachment “Attachment to AG 1-46 – OAG Attachment\_3\_Expensed\_and\_Capitalized\_Amounts\_Allocated\_to\_Delta\_and\_PKY”. Given that the above Excel Spreadsheet does not show any Capital Costs allocated from Essential to Delta and PNG, then explain how the Essential G&A surcharge is applied to capital projects for Delta and PNG.
- m. Regarding (j) above, provide detailed calculations for the Essential G&A surcharge amount allocated to Delta and PKY for the April 2020 to March 2021 amount of \$8.9 m for General Accounting, \$10.9 m for Executive, \$5.6 m for Human Resources, and \$8.1 m for Budgets and Financial Strategy (for 1300 PKY) and the same services for 1600 Delta (and including the additional services of Community Relations, and Legal). Explain and show the G&A surcharge formula components, all inputs, and the related calculation of these G&A surcharge amounts.
- n. Regarding (j) and (l) above, show how this amount of \$46 m for April 2020 to March 2021 (for the Essential G&A surcharge) are included in each of the Base Period and Forecasted capital projects for Delta and PKY. In addition, provide all other projected and actual Essential G&A amounts that have been included in Base Period and Forecasted capital projects (capex) in this rate case. Explain and show the G&A surcharge formula components, all inputs, and the related calculation of these G&A surcharge amounts.
- o. Regarding “Attachment to AG-1-46 - 1600 Essential Allocations, explain why there are no allocated costs for many of the months April 2020 to September 2020, and then a significant increase in December 2020 amount, and then a significant reduction in monthly amounts from January to March 2021, provide supporting documentation and calculations.

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

**SECOND ATTORNEY GENERAL DATA REQUEST**  
**DATED AUGUST 25, 2021**

- p. Explain and provide all precedent for the G&A surcharge being applied to capital projects of Delta and PKY, and identify other utility companies that have a similar surcharge (and provide documentation comparing the Essential surcharge to that used by other utility companies).
- q. Explain and show how the G&A surcharge is a reasonable proxy for actual services provided by Essential that are directly related to costs that are necessary and reasonable to include in specific capital projects of Delta and PKY.

Response:

A:

There is no data to provide for Essential Allocations for the years 2017, 2018, 2019, and the months of January – March 2020 as Essential Utilities did not acquire PNG and Delta until March 2020. As such, allocations from Essential did not begin until April 2020. See files “Attachment to AG 2-35 - 1300 Essential Allocations Updated.xlsx” and “Attachment to AG 2-35 - 1600 Essential Allocations Updated.xlsx” which now include the totals for 2020, Base Period, and Forecasted Period for all Essential Allocations.

B:

The expenses allocated from PNG to Delta decreased from \$62,323 in 2019 to \$50,790 in 2020, but the total costs allocated (expense and capitalized) increased from 2019 to 2020 from \$113,472 to \$435,725. This overall increase was mainly driven by increased IT project costs, including the Delta Customer Billing & Receivables SAP module implementation and other software implementations that were directly charged to Delta and capitalized. See further detail in part F regarding the capital charges. For the expense that decreased from \$62,323 in 2019 to \$50,790 in 2020, this is in line with overall allocations from PNG to affiliates decreasing from \$55.7 Million in 2019 to \$51.6 Million in 2020 (7% decrease). See file “Attachment to AG 2-35 - PNG Allocations by Service by Company by Month and Year.xlsx” showing the overall decrease.

The expenses allocated from PNG to Delta increased \$86,622 for the Base and Forecasted periods due to receiving allocated amounts for the following new services: Billing Services, Customer Relations Services, and Executive Services in 2021. These allocated amounts in January – March 2021 of the Base Period are then projected into the months April – August 2021 (September 2020 – March 2021 / 7 \*5). These services were not provided to Delta in 2019 or 2020. See file “Attachment to AG 2-35 - 1600 PNG Allocations.xlsx” for calculations. The changes in expenses are reasonable and recurring.

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

**SECOND ATTORNEY GENERAL DATA REQUEST**  
**DATED AUGUST 25, 2021**

The amounts allocated in 2021 are more generally reflective of the allocations to be received in 2022 than the historical 2020 data. To achieve operational efficiencies, PNG is providing increased services related to Delta's SAP Customer Relationship and Billing System, implemented in January 2021. With the continued harmonization of human resources policy, benefits, and compensation of Delta with the Essential organization, increased services in those areas will be provided by Essential in 2021 compared to 2020. In addition, due to Delta's Director-Treasury (Denisa King) retirement in October 2020, PNG/Essential completed the transition of handling Delta's customer assistance programs, insurance, and most treasury functions by January 2021.

The average monthly allocation from PNG/Essential year-to-date July 2021 has been \$117,674, or \$1,412,090 annualized. This recent experience indicates that the Test Period estimate of \$1,107,763 for 2022 corporate allocations is understated by \$304,326.

C:

Expenses allocated from PNG to PKY decreased from \$272,238 in 2017 to \$227,739 in 2018 due to service company structural changes from 2017 to 2018. In 2017, Peoples Service Company allocations to PKY were 1.3% of the total allocations to all PNG affiliates. In 2018, PNG Cos LLC (restructured service company with greater number of employees and costs being allocated) allocations to PKY were 0.42% of the total allocations to all PNG affiliates. This change in the percentage of allocated costs is not materially different considering the total costs allocated among all PNG subsidiaries.

In 2019, total costs allocated from PNG to all subsidiaries was \$55.7 Million, with PKY receiving \$242,878 expense and capital (0.44% of the total). This change in the percentage of allocated costs from 2018 is not materially different considering the total costs allocated among all PNG subsidiaries.

In 2020, total costs allocated from PNG to all subsidiaries were \$51.6 Million, with PKY receiving \$210,062 expense and capital (0.41% of the total). This change in the percentage of allocated costs from 2019 is not materially different considering the total costs allocated among all PNG subsidiaries.

For the Base Period and Forecasted Period, total amounts expected to be allocated from PNG to all subsidiaries were \$51.4 Million, with PKY receiving \$188,099 (0.36% of the total). This change in the percentage of allocated costs from 2020 is not materially different considering the total costs allocated among all PNG subsidiaries.

D:

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

**SECOND ATTORNEY GENERAL DATA REQUEST**  
**DATED AUGUST 25, 2021**

Please see the response to subpart b. The increase is primarily due to Essential allocations not starting until April 2020 as Essential did not acquire PNG and Delta until March 2020.

Expenses allocated from Essential to Delta increased from \$489,244 in 2020 to \$1,107,763 in the Base and Forecasted Periods due to 2020 only including 8 months of allocations from Essential as well as due to the nature of how the Base Period and Forecasted Period were calculated.

2020 only included allocations from April through December (8 months actual) compared to a full 12 months projected for the Base Period and Forecasted Period. The Base Period and Forecasted Period was projected using 7 months of actual allocations (September 2020-March 2021) and adding 5 months of projected allocations (the sum of September 2020 – March 2021 divided by 7 multiplied by 5).

When annualizing April – December 2020 actual allocations (sum of April – December 2020 divided by 8 multiplied by 12, the result is \$733,866, which is more comparable to the Base Period and Forecasted Period. Also, Delta began receiving allocations for most services in October 2020, which increases the Base Period and Forecasted Period compared to 2020 due to projecting April – August 2021 based on the 7 months of actuals. See file “Attachment to AG 2-35 - 1600 Essential Allocations Updated.xlsx” for calculations.

E:

There were no non-recurring or one-time costs in 2020 or in the projected base period for PKY.

F:

As described in the responses to B and C, allocations from PNG to PKY did not materially fluctuate from 2018 to 2019 to 2020 and to the Base Period as the amounts allocated were approximately 1% or less each year of the total amounts allocated by PNG to its affiliates. Regarding Essential allocations to PKY, approximately \$34 thousand actual in 2020 and the Base Period and Forecasted Period projected amounts of \$34 thousand projected are comparable.

Allocations from PNG to Delta increased from \$113,472 in 2019 to \$435,725 in 2020 mainly due to increased IT project costs, which were allocated directly to Delta and capitalized (no other PNG affiliate received an allocation for these projects as they were Delta specific projects). The main project which was directly allocated to Delta and accounted for the majority of the capitalized costs was the Customer Billing & Receivables SAP module implementation (project SW.DELTA.CRB.2) in addition to other software implementations. See file “Attachment to AG 2-35 - PNG Allocations to Delta Capital Items.xlsx” showing the capital projects by year and amount. The allocated expense amounts on Delta (not considering the capital items) are consistent from month to month demonstrating this. See file “Attachment to AG 2-35 - 1600 PNG

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

**SECOND ATTORNEY GENERAL DATA REQUEST**  
**DATED AUGUST 25, 2021**

Allocations Updated.xlsx.” These services are important to provide to Delta in order to enhance the enterprise resource systems and bring efficiencies from software applications.

Allocations in the Base Period increased due to new services being provided to Delta in 2021 including Billing Services, Customer Relations Services, and Executive Services. These services are important to provide to Delta to increase customer support and administer the low income customer assistance program and provide executive support services. The Executive Services increases was due to the acquisition by Essential and all companies under PNG received these services/allocations in order to support the additional requirements under a publicly traded company. Regarding Essential allocations to Delta, as described in D, expenses allocated from Essential to Delta increased from \$489,244 in 2020 to \$1,107,763 in the Base and Forecasted Periods due to 2020 only including 8 months of allocations from Essential as well as due to the nature of how the Base Period and Forecasted Period were calculated. (Essential acquired PNG/Delta in March 2020, and allocations began in April 2020). Additionally, Delta began receiving allocations for most services in October 2020, which increases the Base Period and Forecasted Period compared to 2020 due to projecting April – August 2021 based on the 7 months of actuals.

G:

As described in the responses above, the expenses allocated to PKY by both PNG and Essential did not materially change from year to year. There were no materially significant change in services, allocation formulas, or types of costs.

The expenses allocated to Delta from PNG changed as a result of increased support services for IT projects (mostly capitalized), Customer Billing and Relations, and Executive Support to improve the overall business operations as described above.

The allocation methodologies for all services (from PNG and Essential) did not change from year to year. Each year, the various statistics that drive the allocation of service costs for PNG affiliates are updated based on the various allocation basis for each service.

H:

As described in Response F, increased IT project costs, which were allocated directly to Delta and capitalized accounted for the increased allocations in 2020.

New services provided in 2021 such as Billing Services, Customer Relations Services, and Executive Services, accounted for the increased allocations in 2021. The majority of the Billing Services allocations were capitalized as part of the Customer Billing & Receivables SAP module

**DELTA NATURAL GAS COMPANY, INC.****CASE NO. 2021-00185****SECOND ATTORNEY GENERAL DATA REQUEST****DATED AUGUST 25, 2021**

implementation (project SW.DELTA.CRB.2). See file “Attachment to AG 2-35 - PNG Allocations to Delta Capital Items.xlsx” showing the capital projects by year and amount.

For the new allocations for Billing Services, Customer Relations Services, and Executive Services, the underlying inputs that changed were that Delta portion of the statistics that drive to allocation of the total PNG costs of these services were now being included in the allocation methods they were not previously.

For example, in January 2021, Delta began receiving a 12.54% share of the Billing Services allocation due to newly being included in the overall PNG allocation. See file “Attachment to AG 2-35 - BILL.ALLOC2 PERCENTAGE ALLOCATION.xlsx” for the calculation of the percentage.

Also, in January 2021, Delta began receiving a 1.25% share of the Customer Relations Services allocation due to their Residential customer count being included in the overall PNG allocation. See file “Attachment to AG 2-35 - CUSTRELAT.ALLOC2 PERCENTAGE ALLOCATION” for the calculation of the percentage. The increase was due to two employees providing customer support and administering the low-income customer assistance program.

Finally, in January 2021, Delta began receiving a roughly 1.33% share of the Executive Services allocation due to their O&M less purchased gas expense; capex being included in the overall PNG allocation. See file “Attachment to AG 2-35 - EXECUTIVE.ALLOC1 PERCENTAGE ALLOCATION” for the calculation of the percentage. The increases were due to the acquisition by Essential and all companies under PNG received these services in order to support the additional requirements under a publicly traded company.

I:

There are no G&A Surcharge amounts allocated from Essential/PNG to Delta or PKY. The allocated expenses from Essential/PNG to Delta and PKY along with Delta’s and PKY’s regular expenses (non-allocated expenses) incurred are subject to G&A Surcharges calculated and capitalized on the Delta and PKY legal entities.

There are no G&A Surcharge amounts allocated from Essential/PNG to Delta and PKY in “Attachment to AG 1-46 – 1300 Essential Allocations.xls” to PKY and “Attachment to AG 1-46 – 1600 Essential Allocations.xls” for April 2020 to March 2021.

J:

See answer in I.

K:



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

**SECOND ATTORNEY GENERAL DATA REQUEST  
DATED AUGUST 25, 2021**

See answer in I.

L:

See answer in I.

M:

See answer in I.

N:

See answer in I.

O:

Please see the response to subpart b. Regarding “Attachment \_to\_AG-1-46\_-\_1600 Essential Allocations,” there are no allocated costs for many of the months April 2020 to September 2020 and then a significant increase in December 2020 amount, and then a significant reduction in monthly amounts from January to March 2021 because from April through September 2020, Delta was not receiving the accurate amount of allocations based on the services being received, so a one-time true up was done in December 2020. January through March 2021 reflect the accurate amount of allocations based on the services being received and are in line with October-November 2020.

See file “Attachment to AG 2-35 - 1600 Essential Allocations Updated.xlsx” showing the one-time true up booked in December and analysis showing Delta’s monthly allocations are consistently 5-6% of total Essential allocations for all PNG affiliates.

P:

See answer in I.

Q:

See answer in I.

Sponsoring Witness: William C. Packer

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

**SECOND ATTORNEY GENERAL DATA REQUEST  
DATED AUGUST 25, 2021**

**September 21, 2021 Supplemental Response:**

As requested in AG 1-49 and AG 1-52, attached are the updated attachments for the PNG and Essential allocations for the forecasted months of April through August 2021 included in the Base Period. Since the attachments were updated in response to AG 2-35, the requested updates are being provided here to ensure version consistency with the information.

The updated attachments provided are:

- Attachment to AG 2-35 – 1300 Essential Allocation Updated with YTD August 2021.xlsx
- Attachment to AG 2-35 – 1300 PNG Allocation Updated with YTD August 2021.xlsx
- Attachment to AG 2-35 – 1600 Essential Allocation Updated with YTD August 2021.xlsx
- Attachment to AG 2-35 – 1600 PNG Allocation Updated with YTD August 2021.xlsx