COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY	**)))))**	**CASE NO. 2021-00185**

REBUTTAL TESTIMONY OF JOHN B. BROWN PRESIDENT DELTA NATURAL GAS COMPANY, INC.

Filed: November 5, 2021

Background

Q. Please state your name, position, and business address.

A. My name is John B. Brown. My business address is 3617 Lexington Road, Winchester, Kentucky 40391. I am employed by Delta Natural Gas Company, Inc. ("Delta") as President.

Q. Please summarize your testimony.

A. My testimony responds to certain arguments made by Bion Ostrander, who is testifying on behalf of the Kentucky Office of the Attorney General. Specifically, I will respond to Mr. Ostrander's adjustments regarding: (1) affiliate charges; (2) Delta's capital budget; (3) payroll expense; and (4) medical benefit costs. I will also comment on adjustments proposed by Mr. Ostrander that Delta is not contesting.

Q. Has Delta provided information in accordance with the procedural schedule?

A. Yes, Delta has provided the information requested by the Commission and the Attorney General pursuant to the procedural schedule established by the Commission. In two limited instances, Delta requested an extension of time from the Commission to respond to a small number of data requests. In the first, the Commission granted the request and modified the procedural schedule.[1] The second motion remains pending, but the information was provided to all parties within three business days. Mr. Ostrander's Direct Testimony repeatedly mentions that Delta's Base Period Update was filed after his direct testimony and suggests that Delta has not timely provided updated information. This is incorrect, as the time period for filing for the Base Period Update is established by KRS 278.192(2)(b). In addition, the adjustments set forth in the Base Period Update were largely disclosed in

[1] See Delta's July 27, 2021 Motion for Extension and the PSC's August 6, 2021 Order. Delta's second Motion for Extension was filed September 7, 2021.

data responses and many of those adjustments were proposed or acknowledged in Mr. Ostrander's testimony. Delta has provided comprehensive information in support of its Application.

Q. Please summarize Delta's Base Period Update.

A. Delta filed its Base Period Update on October 14, 2021. The Update provided actual information for the estimated months of the base period ending August 31, 2021 and included a limited number of adjustments and corrections that were largely disclosed during the discovery process. When Delta filed its rate case, it requested an annual increase of $9,135,170 based on a revenue requirement of $58,449,471. After incorporating the corrections and adjustments in the Base Period Update, Delta's revised requested annual increase is $7,424,071 based upon a revenue requirement of $56,738,372. This $1,711,099 reduction in the requested annual increase is made up of $2,008,603 in reductions partially offset by $297,504 of increases. The increases were caused by correcting a formula error in the original model as filed, increasing the gross-up factor to include bad debt and PSC expenses, and increasing the estimate of rate case expense. Rate case expense is discussed in Ms. Schroeder's rebuttal testimony.

Affiliate Expense

Q. Can you please summarize Mr. Ostrander's proposed adjustment to Delta's affiliate expense?

A. Yes. Mr. Ostrander has proposed disallowing nearly 50% of the costs that Delta incurs to receive services from its parent affiliates, PNG Companies LLC and Essential Utilities, Inc. Specifically, Mr. Ostrander has proposed disallowing 50% of the affiliate expense allocated to Delta for Essential goods and services, which is roughly $468,000[2] and (2) the erroneous characterization of approximately $400,000 of expenses allocated from PNG as non-recurring. Cumulatively, Mr. Ostrander seeks to disallow nearly $900,000 of affiliate expense, which comprises over 10% of Delta's overall requested relief in this proceeding. Mr. Ostrander proposes this adjustment while conceding that the expense is flat from the base period to forecast period, which shows that the forecasted affiliate expense is based on known, recently experienced expense levels.

Q. As Delta's President, are the services provided by the affiliates critical to Delta's operation?

A. Yes. I have been with Delta for over twenty-five years. I have thus been with the company as it evolved from a standalone, publicly traded company, to being acquired by PNG and later Essential. Given my longevity with Delta, I have a unique perspective on the services that are being provided by affiliates within the Essential family of utilities, as well as how those services directly benefit our customers.

Q. Please describe how Delta's expenses have changed since 2010, which is when it last sought a rate increase.

A. As demonstrated in Exhibit JB-1, Delta's operating expenses have remained remarkably flat over the last thirteen years, and I am proud of that fact. It would stand to reason that if affiliate charges are unreasonable as Mr. Ostrander alleges, then overall operating expenses would likewise be unreasonable. As shown in Delta's Base Period Update filed on October 14, 2021, Delta's operating expenses (exclusive of gas costs) for the test year are

[2] Mr. Ostrander's Direct Testimony initially proposed disallowing $553,881 but Mr. Ostrander reduced the proposed adjustment to $467,971 in his October 27, 2021 Response to the Commission's First Request for Information to the Attorney General.

$15,144,431. The 2022 test year includes PKY. If you remove the amount of operating expense attributable to PKY, which is $1,715,459, Delta's comparable expected operating expenses are $13,428,972. The operation and maintenance expenses filed by Delta in 2010-0016, based on a historical test year of 2009, were $13,553,749. This means that Delta's currently requested operating expenses, including the new affiliate charges, is a ***decrease*** of $124,777 from the amount sought in 2010 based on 2009 history. That represents a ***0.9% decrease*** over a span of ***thirteen years***.

Q. Please describe, at a high level, how Delta's employee census has changed in the last decade.

A. In Case No. 2010-00116, Delta provided data showing that it averaged roughly 180 employees in the years preceding the application.[3] In this case, Delta has budgeted for 162 employees, including the 9 employees inherited with the PNG acquisition. Despite the growing regulatory requirements associated with operating a growing natural gas utility, Delta's employee census has materially decreased by nearly 10%. Delta had 35,912 customers in 2009[4] compared to the 38,824 customers today.[5] This data is proof of Delta's efficient operations, as we are truly doing more with less.

The material decreases are largely attributable to retirements and other voluntary separations. The work performed by these employees, however, did not go away. As an example, Delta's Human Resources Coordinator retired in January 2021. Obviously, Delta still has need for human resources services. Rather than fill this position, Delta is now obtaining these services from Essential, which has an experienced team that provides these

[3] (Case No. 2010-00116) Delta's Response to Item No. 36 of the Commission Staff's First Request for Information.
[4] (Case No. 2010-00116) Exhibit JB-1 to the Direct Testimony of John B. Brown.
[5] See Tab 35 of the Application.

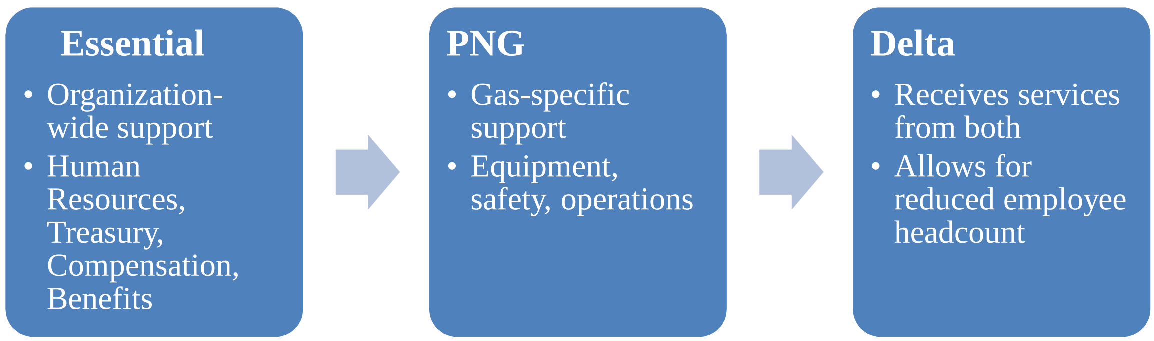
services throughout the organization. Mr. Ostrander, however, is asking the Commission to disallow 50% of this vital work.

As another example, in October 2020, Delta's Director of Treasury retired. In addition to performing treasury functions, this employee also administered Delta's low-income assistance programs. Like with human resources, Delta was able to transition this work to Essential employees. Mr. Packer's rebuttal testimony describes the successes of Delta's low-income assistance program following this transition. Again, Mr. Ostrander's adjustment would eliminate recovery for 50% of these services.

Delta does not have employees in place to perform the work that is being performed by its affiliates. If Mr. Ostrander's unreasonable adjustment is accepted, Delta will be denied recovery for expenses that are critical to its daily operations.

Q. Mr. Ostrander characterizes Essential's support as merely corporate overhead allocations. Is this a fair characterization?

A. No, it is not. As I testified in the preceding questions, Essential provides necessary support to Delta that is not duplicative of the support received from PNG. PNG is the natural gas division within Essential. The services performed by PNG for Delta are largely gas-specific. For example, PNG assists with field equipment and safety assistance, legal advice related to natural gas matters, and other comparable types of industry-related support. Essential, however, as the parent for both the gas operations and water operations outside of Kentucky, performs business functions that are largely non-industry specific. These include the human resources and treasury functions I discussed earlier, as well as compensation and benefits. The services provided by Essential are thus primarily for business functions that are consistent across the family of utilities. The relationship between the affiliates is summarized below:



Q. Can you please describe the changes in Delta's corporate governance and how it impacts affiliate expense?

A. Certainly. While Mr. Ostrander refers to the $1.1 million of charges from Essential as an "additional layer of corporate overhead allocation costs," I must emphasize that the level of corporate governance required by a well-run utility has an associated cost. Corporate governance starts with the Company's executive officers and Board. The Board constantly monitors corporate governance through its internal and external audit functions. When Delta was a stand-alone company, Delta bore these costs alone. Now, Essential provides these corporate governance services and the costs associated with those services are part of the $1.1 million in affiliate charges.

Q. What were the costs of corporate governance services when Delta was a stand-alone utility?

A. See Exhibit JB-2 for a comparison of Delta's pre-acquisition corporate governance costs with the current level of direct charges for these items.

When Delta was a stand-alone public utility, it required a larger, more specialized executive team and Board. In 2017 when Delta was first acquired, its 5 highest-earning employees earned a total base salary of $1,319,000,[6] compared to the current salaries of the 5 highest-earning employees of $962,000, over four years later. This $357,000 in annual savings in salaries among the leadership of the company is reflective of the fact that much of the corporate governance is being handled at the corporate level.

Similarly, in 2017, Delta incurred $366,000 in board compensation, compared to the current $39,000 a year. This $327,000 of savings again points to corporate governance taking place at the Essential level. Likewise, Delta disclosed $408,700 in audit fees from 2016, compared to $0 being directly billed to Delta now, a $408,700 decrease. Delta's full-time internal auditor's salary was $71,000 in 2017. That position has been eliminated.

In total, there were $1,163,700 of annual costs being incurred at Delta in 2017 for services now being provided by Essential for the $1.1 million in the test year for corporate governance services, not to mention the human resources and treasury services that are also being provided. This demonstrates not only the reasonableness of Essential's affiliate expense to Delta, but also that Delta's ratepayers are receiving a good value for those services.

Q. Mr. Ostrander has proposed to disallow all of the capital cost allocations from PNG. Is this reasonable?

[6] This expense was calculated based on the five employment agreements filed with the PSC in Case No. 2017-00125 on October 19, 2017.

A. No. Because Delta is serving more customers and putting more pipe in the ground with fewer employees and lower operating expenses under Essential and PNG than it was in 2009, I would be hard pressed to agree that any further reduction in expenses in the proposed test year is reasonable. To address Mr. Ostrander's conclusion that capital allocations are being double counted, that is not the case. While it is true that the gross allocation appears on the income statement, the portion being capitalized appears in a contra-account resulting in the net income statement impact of zero for capital amounts, both in the Base Period and the Test Year. As such, Mr. Ostrander's adjustment is simply incorrect. Mr. Packer's rebuttal testimony further discusses the reasonableness of Delta's affiliate charges.

<u>Capital Budget</u>

Q. Please summarize Mr. Ostrander's proposed adjustments regarding Delta's forecasted capital expenditures.

A. Mr. Ostrander has proposed removing approximately $5.8 million of Delta's forecasted plant additions, and "the entire balance of Delta's 2022 forecasted plant additions of $7,783,091," as well as corresponding adjustments to depreciation and ADIT.[7] Mr. Ostrander alleges that "it will be a challenge, but not impossible, for Delta" to spend the forecasted amounts in 2021 and 2022.

Q. Do you share Mr. Ostrander's concern that Delta will not spend budgeted amounts in 2021 and 2022?

A. No, as Mr. Ostrander's opinion regarding Delta's capital spending is refuted by the facts. Attached as Exhibit JB-3 is a report comparing budgeted and actual capital expenditures

[7] Ostrander Direct at 60-66.

for 2021, as of September 30. This exhibit shows that Delta's year-to-date capital expenditures are $13,841,565, compared with budgeted year-to-date spend of $13,983,790. Construction work for the final week of September of $150,679 did not get accrued in the September 30 close, and with inclusion of those costs, Delta is actually slightly ***ahead*** of its projected capital budget spending through September 30, 2021 by $8,454. This directly refutes Mr. Ostrander's opinion that Delta has not "provided any testimony or substantive supporting documentation to prove they will actually spend their proposed CapEx during the 2021 and 2022 periods."[8]

Q. With Delta being ahead of its capital expenditures budget as of September 31, 2021, what is the outlook for meeting budget in the last quarter of 2021 and during 2022?

A. Delta expects to meet or exceed its 2021 capital budget because of the significant work scheduled to occur this quarter, which includes PRP projects, an extension to a new industrial park, an extension to new subdivisions, and additional subdivisions ready to be piped. In addition, the Commission's recent Order requiring detailed plans and drawings for the Nicholasville CPCN will require an estimated $20,000 to be spent in 2021 which was not budgeted. While there are some supply chain issues with receiving computer equipment, vehicles, and equipment that have been on order for several months, the Company is projecting that the increased construction and engineering needs will largely utilize any shortfall remaining due to supply chain issues at December 31, 2021. To the extent the supply chain issue persists, it will cause 2022 spending to be higher than projected. It is important to consider that 2022 capital spending is projected in the case to be ***less*** than 2021 capital spending. Delta has shown that it can meet or exceed its capital

[8] Ostrander Direct at 67.

budget. Not only is Delta slightly ahead of its capital budget in 2022, its response to PSC 1-25 shows that Delta has achieved, on average, 109.482% of its capital budget over the last 5 years. This evidence demonstrates the reasonableness of Delta' accuracy in projecting capital additions.

Payroll Expense

Q. Please summarize Mr. Ostrander's adjustment to payroll costs.

A. Mr. Ostrander incorrectly alleges that Delta's payroll expense is overstated. He proposes reducing payroll expense by $359,396, along with corresponding adjustments to payroll taxes and incentive compensation.[9] Mr. Ostrander claims he is "primarily concerned with the increase in the straight time payroll expense," along with the projected increase in payroll expense ratio.[10]

Q. Do you agree that the payroll expense projected in the test year is overstated?

A. No. To address Mr. Ostrander's various concerns about the method of computing the adjustment for labor expense, I am setting forth a straight-forward detailed calculation of 2022 labor expense, using the most recent actual information available (Exhibit JB-4). In summary, the attached list of salaries by position reflect the current salary (as of October 2021) for active employees and the median salary for any vacancies. Assuming these pay rates through March 2022 and a 3% increase at April 2022, the total for 2022 is $9,590,985 for straight time, compared to $9,259,764 in the test year, showing that the test year assumption is actually $331,221 ***lower*** than the updated projection. The updated overtime assumption is similarly calculated and is $40,557 higher than the test year, for a total of

[9] Ostrander Direct at 21-23.
[10] Ostrander Direct at 21-23.

$371,778 of ***higher expenses*** calculated using up to date actual data compared to the test year.

Mr. Ostrander points out that the percent of labor capitalized has risen since the original calculation of the test year. Using the most recent actual capitalization rate of 23.6% as filed on September 22, 2021 with the update of actual labor data through August 31, 2021, capitalized labor in 2022 will be $2,348,949, compared to $2,107,907 in the test year, or an increase of $241,042, which lowers the labor expense estimate in 2022.

In summary, the updated calculation yields labor expense for 2022 will be $130,736 higher than included in the Test Year ($371,778 less $241,042). Therefore, the Company suggests that the original labor, payroll expense, and incentive compensation amounts included in the test year be accepted as filed, given that all actual information and updated projections would support a higher amount than initially requested.

<u>Benefit Expense</u>

Q. Are Delta's benefit expenses supported by the record?

A. Yes. On an overall basis, on Tab 57 – Schedule D-2.5, Delta proposed a $106,983 increase in benefit expense for the Test Year compared to the Base Period. In its October 14, 2021 update, the Company decreased Test Year benefit expense by an additional $377,671 due to updated actuarial information for the now frozen defined benefit plan, resulting in a net decrease in benefit expense for the Test Year of $270,688. This net decrease in expense for the Test Year indicates that the Company has been diligent in managing its over benefit expense level and has already reflected the resulting savings into the Test Year.

To address Mr. Ostrander's suggestion, despite the lower overall benefit expense level, that medical expenses are overstated in the Test Year, we commissioned Mercer to project Delta's Medical, Dental, and Vision expenses for 2022 with the most up-to-date data available. We have attached that study as Exhibit JB-5. Tab 57 – Schedule D-2.5 details 2022 Test Year Medical/Vision expense as $2,097,388 and Dental expense as $211,169 for a total of $2,308,557. The attached study shows the estimated employer share for 2022 to be $2,344,400, which is $35,843 higher than the amount provided for in the Test Year. The Company requests that the medical benefits expense levels be accepted as filed, given that all actual information and updated projections would support a slightly higher amount than initially requested.

Q. Are there adjustments proposed by Mr. Ostrander that you do not contest?

A. Yes, as Mr. Ostrander's testimony recognizes several adjustments that Delta identified during the discovery. Uncontested adjustments include (1) removing SERP expense, (2) reflecting updates to pension expense, (3) removing accounts payable from prepaids and CWIP, and (4) Delta's corrections to tax expense pertaining to the Tax Cuts and Jobs Act.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF CLARK)

The undersigned, **John B. Brown**, being duly sworn, deposes and says he is President of Delta Natural Gas Company, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.

JOHN B. BROWN

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 4th day of November, 2021.

Emily P. Bennett (SEAL)
Notary Public

My Commission Expires:
6/20/24

Test Year Operating Expenses (exclusive of gas cost)		Source
Total 2022 Test Year	15,144,431	Delta's Base Period Updated filed on October 14, 2021 Tab 54 - Financial Summary
PKY 2022 Test Year	1,715,459	PKY Forecasted Income Statement (Exhibit JB 1.1)
Delta Only 2022 Test Year	13,428,972	
2009 Test Year	13,553,749	Case 2010-00116 FR 10(6)(h) Tab 27 Schedule I
Decrease	(124,777)	
	-0.9%	

Company Code	Account Number	Text for B/S P&L Item	Total of Reporting Period	5 Months BUDGET	12 Month Total 7+5	Operating Expense Exclusive of Gas Cost	
		PKY FERC BASIS					
		INCOME STATEMENT	7 Mos 3/31/21	Apr-Aug			
		INCOME BEFORE EXTRAORDINARY INCOME					
		UTILITY OPERATING INCOME					
		Operating Revenues (400)					
1300	9480000	9480000 Residential Sales	(1,126,495)	(262,224)	(1,388,719)		
		Sales of Gas (480-484)	(1,126,495)	(262,224)	(1,388,719)		
1300	9487000	9487000 Forfeited Discounts	(35)	(1)	(36)		
1300	9488000	9488000 Miscellaneous Service Revenues	(5,867)	(2,500)	(8,367)		
		Other Operating Revenues (485-496)	(5,902)	(2,501)	(8,403)		
		Total Operating Revenues (400)	(1,132,397)	(264,725)	(1,397,122)		
		Operating Expenses:					
		Operation Expenses (401)					
		Gas Production Operating Expense:					
1300	9803000	9803000 Oth Gas Supply Op - Nat Gas Transm Line Pur	447,611	71,066	518,677		
1300	9805100	9805100 Oth Gas Supply Op - Pur Gas Cost Adjustments	(38,683)	57,340	18,657		
1300	9813000	9813000 Oth Gas Supply Op - Other Gas Suppl	636	450	1,086		
		Other Gas Supply Operation Expenses	409,563	128,856	538,419		
		Total Gas Production Operating Exp	409,563	128,856	538,419		(538,419)
1300	9858000	9858000 Gas Transmission Op - Transm/Compres Gas by Others	200,709	89,535	290,244		
		Gas Transmission Operations Exp	200,709	89,535	290,244	290,244	
1300	9874000	9874000 Gas Distribution Op - Mains and Services Exps	599	96	695		
1300	9878000	9878000 Gas Distribution Op - Meter/House Reg Exps	93,623	77,226	170,849		
1300	9879000	9879000 Gas Distribution Op - Customer Installations Exps	94,195	32,226	126,421		
1300	9880000	9880000 Gas Distribution Op - Other Expenses	11,035	5,125	16,160		
	9889000	9889000 Gas Distribution Maint - Main Meas/Reg Eq-Gen	-	5	5		
	9893000	9893000 Gas Distribution Maint - Meters/House Regulators	-	229	229		
		Gas Distribution Operations Exp	199,452	114,907	314,359	314,359	
1300	9902000	9902000 Customer Accounts - Meter Reading Expenses	249,760	160,332	410,092		
1300	9903000	9903000 Customer Accounts - Customer Records & Collections	57,812	32,757	90,569		
1300	9904000	9904000 Customer Accounts - Uncollectible Accounts	17,536	7,474	25,010		
		Customer Accounts Expense	325,108	200,563	525,671	525,671	
1300	9909000	9909000 Customer Service/Info - Info & Instructional Adver	394	198	592		
		Customer Service and Informational Expen	394	198	592	592	
1300	9912000	9912000 Sales Expense - Demonstrating & Selling	329	224	553		
		Sales Expense	329	224	553	553	
1300	9920000	9920000 Admin & General - Salaries	40,442	40,429	80,871		
1300	9921000	9921000 Admin & General - Office Supplies & Expenses	43,434	26,939	70,373		
1300	9922000	9922000 Admin & General - Admin Exp Transferred - Credit	(9,769)	(7,307)	(17,076)		
1300	9923000	9923000 Admin & General - Outside Services Employed	45,581	31,439	77,020		
1300	9924000	9924000 Admin & General - Property Insurance	2,105	702	2,807		
1300	9925000	9925000 Admin & General - Injuries & Damages	24,677	9,746	34,423		
1300	9926000	9926000 Admin & General - Employee Benefits	126,163	119,558	245,721		
1300	9930200	9930200 Admin & General - Miscellaneous Expenses	69	137	206		
1300	9931000	9931000 Admin & General - Rents	3,689	4,139	7,828		
		Administrative & General Operations Exp	276,391	225,782	502,173	502,173	
		Total Operation Expenses (401)	1,411,946	760,065	2,172,011		2,172,011
		Maintenance Expenses (402)					
1300	9886000	9886000 Gas Distribution Maint - Structures/Improvements	21,701	11,377	33,078		
1300	9887000	9887000 Gas Distribution Maint - Mains	833	592	1,425		
1300	9892000	9892000 Gas Distribution Maint - Services	24,802	14,572	39,374		
1300	9894000	9894000 Gas Distribution Maint - Other Equipment	4,571	3,023	7,594		
		Gas Distribution Maintenance Expense	51,908	29,564	81,472		
1300	9932000	9932000 Admin & General Maint -Other General Plant -Gas	71	324	395		
		Administrative & General Maintenance Exp	71	324	395		
		Total Maintenance Expenses (402)	51,979	29,888	81,867	81,867	81,867
1300	9403000	9403000 Depreciation Expense - Utility Plant	56,402	45,341	101,743		
		Depreciation Expense (403)	56,402	45,341	101,743		
1300	9404000	9404000 Amortization Expense - Utility Plant	20,045	13,246	33,291		
		Amort & Depletion of Util Plnt (404-405)	20,045	13,246	33,291		
1300	9408100	9408100 Taxes Other than Income Taxes - Utility Operating	50,176	44,242	94,418		
		Taxes Other than Income Taxes (408.1)	50,176	44,242	94,418		
1300	9409100	9409100 Income Taxes - Utility Operating Income	(190,105)	-	(190,105)		
		Income Taxes (409.1)	(190,105)	-	(190,105)		
1300	9410100	9410100 Provision for Deferred Income Taxes - Utility Op I	42,330	(137,150)	(94,820)		
		Prov for Deferred Income Taxes (410.1)	42,330	(137,150)	(94,820)		
		Total Operating Expenses	1,442,773	755,632	2,198,405		
		NET UTILITY OPERATING INCOME	310,376	490,907	801,283		
		OTHER INCOME & DEDUCTIONS					
		Other Income:					
1300	9415000	9415000 Revenues from Merchandising,Jobbing & Contract Wor	(11,911)	(3,632)	(15,543)		
		Rev - Mrchndsng/Jobbng/Contrct Wrk (415)	(11,911)	(3,632)	(15,543)		
1300	9421000	9421000 Miscellaneous Nonoperating Income	-	2,530	2,530		
		Miscellaneous Nonoperating Income (421)	-	2,530	2,530		

		Total Other Income	(11,911)	(1,102)	(13,013)		
		Other Income Deductions:					
1300	9426300	9426300 Other Income Deductions - Penalties	24	-	24		
		Penalties (426.3)	24	-	24		
	9426100	9426100 Other Income Deductions - Donations		175	175		
			-	175	175		
1300	9426400	9426400 Other Income Deductions - Civic/Political Activity	3	2	5		
		Exp Certain Civic, Pol & Rel Activ(426.4)	3	2	5		
		Total Other Income Deductions	27	177	204		
		NET OTHER INCOME & DEDUCTIONS	(11,885)	(925)	(12,810)		
		INTEREST CHARGES					
1300	9430000	9430000 Interest on Debt to Associated Companies	37,330	19,565	56,895		
		Interest on Debt to Assoc. Companies (430)	37,330	19,565	56,895		
1300	9431000	9431000 Other Interest Expense	(3)	3,130	3,127		
		Other Interest Expense (431)	(3)	3,130	3,127		
1300	9432000	9432000 Allowance Borrowed Funds Used During Construction	(659)	(310)	(969)		
		Allow-Brrwed Fnds Usd Durng Const-Cr (432)	(659)	(310)	(969)		
		NET INTEREST CHARGES	36,667	22,385	59,052		
		TOTAL INC. BEFORE EXTRAORDINARY INC.	335,158	512,367	847,525		
		NET INCOME	335,158	512,367	847,525	1,715,459	1,715,459

Income Taxes	(147,775)	(137,150)	(284,925)
Pretax	482,933	649,517	1,132,450
Delta Pretax	(7,692,555)	2,149,531	(5,543,024)
Check figure	(7,209,622)	2,799,048	(4,410,574)
Combined Pretax	(7,209,624)	2,799,052	(4,410,572)
Difference	2	(4)	(2)

Comparison of Corporate Governance Expenses

	Current Direct Costs	Prior to Acquistion	Decrease
Base Salary, 5 highest-earning employees	962,000	1,319,000	(357,000)
Board Compensation	39,000	366,000	(327,000)
Audit Fees	-	408,700	(408,700)
Internal Auditor Salary	-	71,000	(71,000)
	1,001,000	2,164,700	(1,163,700)

Budget ID	Preparer	Mark Number	Description	CM CY Actual 09/2021	CM CY Budget 09/2021	CM Variance	CYTD Actual 2021	CYTD Budget 2021	YTD Variance	Annual Budget 2021	% Expended	Amount Remaining
DCC	CARTWRIGHT	3950	Laboratory Equipment		$0	$0	$7,293	$5,000	($2,293)	$10,000	72.9%	$2,707.20
DCC					**$0**	**$0**	**$7,293**	**$5,000**	**($2,293)**	**$10,000**		**$2,707**

Budget ID	Preparer	Mark Number	Description	CM CY Actual 09/2021	CM CY Budget 09/2021	CM Variance	CYTD Actual 2021	CYTD Budget 2021	YTD Variance	Annual Budget 2021	% Expended	Amount Remaining
JBB	STEELE	3900	General Structures and Improvements	$7,200	$40,000	$32,800	$31,052	$290,000	$258,948	$400,000	7.8%	$368,948.00
	STEELE	3910	Office Furniture and Equipment		$5,000	$5,000	$24,509	$47,000	$22,491	$64,000	38.3%	$39,490.68
	STEELE	3920	Transportation Equipment	$25,791	$40,000	$14,209	$69,752	$276,000	$206,248	$650,000	10.7%	$580,248.20
	STEELE	3920	Transportation Equipment		$6,982	$6,982		$129,489	$129,489	$175,001		$175,001.00
	STEELE	3970	Communication Equipment		$0	$0		$4,000	$4,000	$6,000		$6,000.00
	STEELE	3980	Miscellaneous Equipment		$500	$500	$27,478	$3,500	($23,978)	$5,000	549.6%	-$22,478.15
	TURPIN	3030	Computer Software		$1,000	$1,000	$1,730	$8,600	$6,870	$11,600	14.9%	$9,870.32
	TURPIN	3030	Computer Software	$589	$680	$91	$1,466	$6,000	$4,534	$8,000	18.3%	$6,534.45
	TURPIN	3030	Computer Software	$563	$715	$152	$3,579	$8,249	$4,670	$9,974	35.9%	$6,395.37
	TURPIN	3030	Computer Software	$1,014	$340	($674)	$8,279	$3,000	($5,279)	$4,000	207.0%	-$4,278.77
	TURPIN	3030	Computer Software	$75,105	$51,900	($23,205)	$1,622,428	$476,600	($1,145,828)	$632,300	256.6%	-$990,127.94
	TURPIN	3030	Computer Software	$5,455	$700	($4,755)	$32,946	$10,050	($22,896)	$11,950		-$20,996.02
	TURPIN	3912	Computer Hardware	$346,384	$13,300	($333,084)	$352,744	$140,900	($211,844)	$182,300	193.5%	-$170,443.76
	TURPIN	3912	Computer Hardware	$195	$2,845	$2,650	$2,208	$26,353	$24,145	$34,877		$32,669.35
	BROWN	3999	Contingency	($5,006)	$63,700	$68,706	$146,099	$560,400	$414,301	$735,600	19.9%	$589,501.40
JBB				**$457,290**	**$227,662**	**($229,628)**	**$2,324,268**	**$1,990,141**	**($334,127)**	**$2,930,602**		**$606,334**

Budget ID	Preparer	Mark Number	Description	CM CY Actual 09/2021	CM CY Budget 09/2021	CM Variance	CYTD Actual 2021	CYTD Budget 2021	YTD Variance	Annual Budget 2021	% Expended	Amount Remaining
JWM	BEE	3710	Transmission Other Equipment (Telemetering)		$0	$0		$4,600	$4,600	$9,200		$9,200.00
	BEE	3780	Distribution General Regulator Stations		$6,000	$6,000	$21,460	$54,000	$32,540	$72,000	29.8%	$50,540.49
	BEE	3790	Distribution City Gate Regulator Stations		$2,000	$2,000		$18,000	$18,000	$25,000		$25,000.00
	BEE	3810	Distribution Meters	$10,022	$0	($10,022)	$45,280	$55,000	$9,720	$75,000	60.4%	$29,720.05
	BEE	3810	Distribution Meters	$5,233	$9,100	$3,867	$460,221	$450,800	($9,421)	$477,400	96.4%	$17,179.49
	BEE	3810	Distribution Meters				$18,371		($18,371)			-$18,370.80
	BEE	3820	Distribution Meter and Regulator Installations	$3,015	$8,333	$5,318	$10,994	$74,999	$64,005	$100,000	11.0%	$89,005.87
	BEE	3820	Distribution Meter and Regulator Installations	$121,584	$17,000	($104,584)	$184,881	$153,000	($31,881)	$204,000	90.6%	$19,118.98
	BEE	3820	Distribution Meter and Regulator Installations	$10,803	$2,500	($8,303)	$69,447	$19,750	($49,697)	$25,000	277.8%	-$44,446.96
	BEE	3830	Distribution Regulators	$66,359	$12,600	($53,759)	$175,109	$113,400	($61,709)	$150,800	116.1%	-$24,309.45
	BEE	3850	Distribution Industrial Meter Set	$2,857	$4,300	$1,443	$10,205	$38,700	$28,495	$52,000	19.6%	$41,795.24
	NELLIPOWITZ	3650	Transmission Rights of Way		$32,000	$32,000		$288,000	$288,000	$384,600		$384,600.00
	NELLIPOWITZ	3740	Distribution Land and Right of Way		$500	$500		$4,500	$4,500	$6,000		$6,000.00
	MILLER	3760	Distribution Mains	$752,038	$900,000	$147,962	$4,459,860	$6,000,000	$1,540,140	$8,100,000	55.1%	$3,640,140.28
	MILLER	3800	Distribution Services	$132,103	$150,000	$17,897	$1,588,161	$1,000,000	($588,161)	$1,400,000	113.4%	-$188,160.98
	MILLER	3940	Tools	$55,693	$2,500	($53,193)	$85,803	$43,700	($42,103)	$51,200	167.6%	-$34,603.06
	MILLER	3960	Power Operated Equipment	$236,110	$4,600	($231,510)	$1,362,643	$133,400	($1,229,243)	$252,200	540.3%	-$1,110,443.47
	SWAFFORD	3750	Distribution Structures and Improvements		$0	$0		$3,600	$3,600	$5,000		$5,000.00

Budget ID	Preparer	Mark Number	Description	CM CY Actual 09/2021	CM CY Budget 09/2021	CM Variance	CYTD Actual 2021	CYTD Budget 2021	YTD Variance	Annual Budget 2021	% Expended	Amount Remaining
	SHELLEY	3320	Gathering Lines		$0	$0		$31,500	$31,500	$42,000		$42,000.00
	SHELLEY	3330	Gathering Compressor Station Equipment	$7,867	$3,200	($4,667)	$13,971	$22,800	$8,829	$28,100	49.7%	$14,128.61
	SHELLEY	3340	Gathering Measuring and Regulating Station Equipment		$6,000	$6,000	$2,648	$18,000	$15,352	$18,000	14.7%	$15,352.06
	SHELLEY	3520	Storage Wells		$0	$0	$8,763	$10,800	$2,037	$10,800	81.1%	$2,036.96
	SHELLEY	3530	Storage Lines		$5,200	$5,200		$10,500	$10,500	$10,500		$10,500.00
	SHELLEY	3540	Storage Compressor Station Equipment		$0	$0	$68,256	$78,600	$10,344	$82,500	82.7%	$14,244.22
	SHELLEY	3550	Storage Measuring and Regulating Equipment		$0	$0	$11,235	$7,900	($3,335)	$7,900	142.2%	-$3,334.62
	SHELLEY	3560	Purification Equipment		$0	$0	$14,875	$101,600	$86,726	$107,500	13.8%	$92,625.50
	SHELLEY	3660	Transmission Structures and Improvements	$329,760		($329,760)	$329,760		($329,760)			-$329,760.00
	SHELLEY	3670	Transmission Mains	$78,474	$350,000	$271,526	$776,204	$2,622,400	$1,846,196	$3,691,000	21.0%	$2,914,795.93
	SHELLEY	3680	Transmission Compressor Station Equipment	$2,502	$12,100	$9,598	$2,502	$22,600	$20,098	$22,600	11.1%	$20,097.70
	SHELLEY	3690	Transmission Measuring and Regulating Equipment	$1,490,860	$3,500	($1,487,360)	$1,789,356	$606,500	($1,182,856)	$616,200	290.4%	-$1,173,156.28
JWM				**$3,305,282**	**$1,531,433**	**($1,773,849)**	**$11,510,004**	**$11,988,649**	**$478,645**	**$16,026,500**		**$4,516,496**
			Sum:	**$3,762,572**	**$1,759,095**	**($2,003,477)**	**$13,841,565**	**$13,983,790**	**$142,225**	**$18,967,102**		**$5,125,537**
			Martin Contracting Invoice (Sept 19-Sept 30) not accrued	150,679	-	(150,679)	150,679	-	(150,679)			(150,679)
				3,913,251	1,759,095	(2,154,156)	13,992,244	13,983,790	(8,454)			4,974,858

EXHIBIT JB-4
FILED UNDER SEAL PURSUANT TO THE PETITION FOR CONFIDENTIAL TREATMENT FILED ON NOVEMBER 5, 2021

MERCER

Essential Utilities:

Delta and PNG Kentucky Medical, Dental, and Vision Budget Analysis: 2021 and 2022

October 2021

welcome to brighter

Medical/Rx Budget and Contributions

1

MERCER

Delta and PNG Kentucky Medical/Rx Budget– 2021 Gross Cost and Contributions

- The 2021 gross medical/rx cost across all plans is expected to be $2,514,000. Employees contribute 13.6% towards the gross cost while the employer subsidizes 86.4% of the cost.
- The amount that employees contribute is based on plan selection, coverage tier and salary band.

Delta Natural Gas Company, Inc. / People's Natural Gas (KY Employees) 2021 Budget Rates and Contributions										
2021 Plan Year										
Monthly	2021 Enrollment			Med/Rx Premium	Employee Contributions			Employer Subsidy		
PPO 1 (Delta)	Band 1	Band 2	Band 3		Band 1	Band 2	Band 3	Band 1	Band 2	Band 3
Adult	5	0	0	$664	$95	$112	$140	$569	$552	$524
Two Adults	0	0	0	$1,471	$210	$247	$309	$1,261	$1,224	$1,162
Adult Child	1	0	0	$1,045	$150	$177	$221	$895	$869	$824
Adult Children	1	0	0	$1,525	$218	$256	$320	$1,307	$1,268	$1,204
Family	1	1	0	$2,040	$229	$269	$337	$1,811	$1,771	$1,704
Plan Annual	**8**	**1**	**0**	**$119,600**	**$16,100**			**$103,500**		
Cost Share %					**13.5%**			**86.5%**		
PPO 2 (Delta)	Band 1	Band 2	Band 3		Band 1	Band 2	Band 3	Band 1	Band 2	Band 3
Adult	32	8	0	$719	$111	$130	$163	$608	$589	$556
Two Adults	21	9	0	$1,611	$234	$276	$344	$1,377	$1,336	$1,267
Adult Child	10	1	0	$1,141	$175	$206	$258	$966	$935	$883
Adult Children	0	0	0	$1,670	$241	$283	$354	$1,429	$1,387	$1,316
Family	35	7	1	$2,240	$251	$295	$369	$1,989	$1,945	$1,871
Plan Annual	**98**	**25**	**1**	**$2,231,800**	**$302,000**			**$1,929,800**		
Cost Share %					**13.5%**			**86.5%**		
CDHP (Delta)	Band 1	Band 2	Band 3		Band 1	Band 2	Band 3	Band 1	Band 2	Band 3
Adult	0	0	0	$549	$87	$104	$133	$463	$445	$416
Two Adults	0	0	0	$1,167	$185	$222	$283	$983	$946	$884
Adult Child	1	0	0	$855	$135	$162	$208	$720	$693	$648
Adult Children	0	0	0	$1,206	$191	$229	$293	$1,015	$977	$913
Family	1	0	0	$1,581	$212	$257	$384	$1,368	$1,323	$1,197
Plan Annual	**2**	**0**	**0**	**$29,200**	**$4,200**			**$25,100**		
Cost Share %					**14.4%**			**85.6%**		
$1,500 HDHP Salary (Non-Union) PNG										
Adult		2		$495	$74			$421		
Two Adults		3		$1,334	$199			$1,135		
Adult Child(ren)		0		$1,191	$177			$1,014		
Family		4		$1,532	$229			$1,303		
Plan Annual		**9**		**$133,400**	**$19,900**			**$113,500**		
Cost Share %					**14.9%**			**85.1%**		
All Plans										
Total Annual		**144**		**$2,514,000**	**$342,200**			**$2,171,800**		
Cost Share %					**13.6%**			**86.4%**		

Delta and PNG Kentucky Medical/Rx Budget– 2022 Gross Cost and Contributions

- The 2022 gross medical/rx cost across all plans is expected to be $2,626,000. Employees contribute 14.8% towards the gross cost while the employer subsidizes 85.2% of the cost.
- The projected gross cost increase for 2022 is $112,000 (4.5%). Approximately 42% of this increase is passed along to employees resulting in a slight increase in employee cost share (13.6% to 14.8%)

Delta Natural Gas Company, Inc. / People's Natural Gas (KY Employees) 2022 Budget Rates and Contributions										
2022 Plan Year										
Monthly	**Estimated 2022 Enrollment**			**Med/Rx Premium**	**Employee Contributions**			**Employer Subsidy**		
PPO 1 (Delta)	**Band 1**	**Band 2**	**Band 3**		**Band 1**	**Band 2**	**Band 3**	**Band 1**	**Band 2**	**Band 3**
Adult	5	0	0	$694	$105	$124	$155	$588	$570	$539
Two Adults	0	0	0	$1,537	$233	$274	$343	$1,304	$1,263	$1,194
Adult Child	1	0	0	$1,092	$166	$196	$245	$926	$896	$847
Adult Children	1	0	0	$1,593	$242	$284	$356	$1,351	$1,308	$1,237
Family	1	1	0	$2,132	$277	$325	$407	$1,855	$1,806	$1,725
Plan Annual Cost Share %	**8**	**1**	**0**	**$125,000**	**$18,400 14.7%**			**$106,600 85.3%**		
PPO 2 (Delta)	**Band 1**	**Band 2**	**Band 3**		**Band 1**	**Band 2**	**Band 3**	**Band 1**	**Band 2**	**Band 3**
Adult	32	8	0	$751	$120	$141	$177	$631	$610	$575
Two Adults	21	9	0	$1,683	$258	$304	$380	$1,425	$1,379	$1,303
Adult Child	10	1	0	$1,192	$190	$224	$279	$1,002	$969	$913
Adult Children	0	0	0	$1,745	$266	$313	$392	$1,479	$1,432	$1,353
Family	35	7	1	$2,341	$303	$357	$446	$2,037	$1,984	$1,894
Plan Annual Cost Share %	**98**	**25**	**1**	**$2,331,900**	**$345,900 14.8%**			**$1,985,900 85.2%**		
CDHP (Delta)	**Band 1**	**Band 2**	**Band 3**		**Band 1**	**Band 2**	**Band 3**	**Band 1**	**Band 2**	**Band 3**
Adult	0	0	0	$574	$90	$108	$138	$484	$466	$436
Two Adults	0	0	0	$1,220	$191	$230	$294	$1,028	$990	$926
Adult Child	1	0	0	$894	$140	$168	$215	$753	$725	$678
Adult Children	0	0	0	$1,260	$198	$237	$303	$1,062	$1,023	$957
Family	1	0	0	$1,651	$231	$279	$398	$1,421	$1,372	$1,254
Plan Annual Cost Share %	**2**	**0**	**0**	**$30,500**	**$4,500 14.8%**			**$26,100 85.2%**		
$1,500 HDHP Salary (Non-Union) PNG										
Adult	1			$540	$80			$460		
Two Adults	3			$1,454	$217			$1,237		
Adult Child(ren)	0			$1,299	$193			$1,106		
Family	4			$1,670	$249			$1,421		
Plan Annual Cost Share %	**8**			**$139,000**	**$20,700 14.9%**			**$118,300 85.1%**		
All Plans										
Total Annual Cost Share %	**143**			**$2,626,000**	**$389,500 14.8%**			**$2,236,500 85.2%**		

Plan Designs Transition to Aqua America Benefit Plans
Medical/Rx

- Moving to the existing medical plans under Aqua, Delta employees received richer benefits with more choice and transition from the Humana network to Independence Blue Cross Blue Shield.

Compared to Delta Benefit:

	Aqua: IBC			PNG: Highmark	Delta: Humana
	Less Rich	Richer	Less Rich	Richer	
	PPO 1	PPO 2	HDHP $1,500	$1500 Non-Union HDHP	PPO $500
AVG. ACTUARIAL VALUE	84.4%	90.6%	76.5%	88.1%	86.2%
IND/FAM DEDUCTIBLE	$1,000/$3,000	$500/$1,500	$1,500/$4,500 HSA Seed: $350/$700	$1,500/$3,000 HSA Seed: $1,250/$1,750	$500/$1,000
INDIVIDUAL/FAMILY OOPM	$3,000/$9,000	$1,000/$3,000	$3,000/$9,000	$3,000/$6,000	$2,500/$5,000
COINSURANCE	20% after deductible	0% after deductible	20% after deductible	20% after deductible	20% after deductible
PCP VISIT	$35 copay	$20 copay	20% after deductible	20% after deductible	20% after deductible
SPECIALIST VISIT	$50 copay	0% after deductible	20% after deductible	20% after deductible	20% after deductible
INPATIENT HOSPITAL STAY	$200 copay/day, max of $1,000/ admission	0% after deductible	20% after deductible	20% after deductible	20% after deductible
EMERGENCY ROOM	20% after deductible	0% after deductible	20% after deductible	20% after deductible	20% after deductible
PRESCRIPTION DRUGS (Generic/Brand Form/Brand Non Form/Specialty)	Retail: $10/$25/80% ($50 min, $100 max) Mail: $20/$50/80% ($100 min, $200 max)	Retail: $5/$25/$50 Mail: $10/$50/$100	20% after deductible	20% after deductible	Retail: $10/$20 Mail: $10/$30

Dental Budget and Contributions

2

Delta Dental Budget– 2021 Gross Cost and Contributions

- The 2021 gross dental cost across all plans is expected to be $133,000. Employees contribute 30% towards the gross cost while Delta subsidizes 70% of the cost.
- The amount that employees contribute is based on plan selection, coverage tier and officer status.

Delta Natural Gas Company, Inc. / People's Natural Gas (KY Employees) 2021 Budget Rates and Contributions				
2021 Plan Year				
Tier	**2021 Enrollment**	**Dental Premium**	**Employee Contribution**	**Employer Subsidy**
Delta Dental Base				
Adult	27	$31.10	$8.55	$22.55
Two Adults	23	$62.95	$17.31	$45.64
Adult Child	7	$77.85	$21.41	$56.44
Adult Children	1	$77.85	$21.41	$56.44
Family	36	$119.83	$32.95	$86.88
Plan Annual	**94**	**$86,700**	**$23,800**	**$62,900**
Cost Share %			**27.5%**	**72.5%**
Delta Dental Base - Officer Plan				
Adult	14	$35.37	$12.82	$22.55
Two Adults	15	$71.57	$25.93	$45.64
Adult Child	4	$84.43	$27.99	$56.44
Adult Children	0	$84.43	$27.99	$56.44
Family	14	$131.24	$44.36	$86.88
Plan Annual	**47**	**$44,900**	**$15,600**	**$29,300**
Cost Share %			**34.7%**	**65.3%**
Delta Dental Buy Up				
Adult	14	$35.37	$12.82	$22.55
Two Adults	14	$71.57	$25.93	$45.64
Adult Child	4	$84.43	$27.99	$56.44
Adult Children	0	$84.43	$27.99	$56.44
Family	13	$131.24	$44.36	$86.88
Plan Annual	**45**	**$42,500**	**$14,800**	**$27,700**
Cost Share %			**34.8%**	**65.2%**
Delta Dental Buy Up - Officer Plan				
Adult	0	$35.37	$14.38	$20.99
Two Adults	0	$71.57	$29.08	$42.49
Adult Child	0	$84.43	$31.88	$52.55
Adult Children	0	$84.43	$31.88	$52.55
Family	1	$131.24	$50.35	$80.89
Plan Annual	**1**	**$1,600**	**$600**	**$1,000**
Cost Share %			**37.5%**	**62.5%**
All Plans				
Total Annual	**142**	**$133,000**	**$40,000**	**$93,000**
Cost Share %			**30.0%**	**70.0%**

Delta Dental Budget– 2022 Gross Cost and Contributions

- There was no premium or employee contribution increase for dental benefits in the 2022 plan year. Employer and employee cost remain the same as 2021 (after accounting for one employee who retired in October of 2021).

Delta Natural Gas Company, Inc. / People's Natural Gas (KY Employees) 2022 Budget Rates and Contributions				
2022 Plan Year				
Tier	**Estimated 2022 Enrollment**	**Dental Premium**	**Employee Contribution**	**Employer Subsidy**
Delta Dental Base				
Adult	27	$31.10	$8.55	$22.55
Two Adults	22	$62.95	$17.31	$45.64
Adult Child	7	$77.85	$21.41	$56.44
Adult Children	1	$77.85	$21.41	$56.44
Family	36	$119.83	$32.95	$86.88
Plan Annual	**93**	**$85,900**	**$23,600**	**$62,300**
Cost Share %			**27.5%**	**72.5%**
Delta Dental Base - Officer Plan				
Adult	0	$31.10	$10.11	$20.99
Two Adults	0	$62.95	$20.46	$42.49
Adult Child	0	$77.85	$25.30	$52.55
Adult Children	0	$77.85	$25.30	$52.55
Family	0	$119.83	$38.94	$80.89
Plan Annual	**0**	**$0**	**$0**	**$0**
Cost Share %				
Delta Dental Buy Up				
Adult	14	$35.37	$12.82	$22.55
Two Adults	15	$71.57	$25.93	$45.64
Adult Child	4	$84.43	$27.99	$56.44
Adult Children	0	$84.43	$27.99	$56.44
Family	14	$131.24	$44.36	$86.88
Plan Annual	**47**	**$44,900**	**$15,600**	**$29,300**
Cost Share %			**34.7%**	**65.3%**
Delta Dental Buy Up - Officer Plan				
Adult	0	$35.37	$14.38	$20.99
Two Adults	0	$71.57	$29.08	$42.49
Adult Child	0	$84.43	$31.88	$52.55
Adult Children	0	$84.43	$31.88	$52.55
Family	1	$131.24	$50.35	$80.89
Plan Annual	**1**	**$1,600**	**$600**	**$1,000**
Cost Share %			**37.5%**	**62.5%**
All Plans				
Total Annual	**141**	**$132,000**	**$39,800**	**$92,200**
Cost Share %			**30.2%**	**69.8%**

Plan Designs Transition to Aqua America Benefit Plans
Dental

- Moving to the existing dental plans under Aqua, Delta employees received richer benefits with more choice while keeping the same network under Delta Dental.

Compared to Delta Benefit: Richer | Richer

	Aqua/PNG: Delta Dental		Delta: Delta Dental
	Base Plan	Buy-Up Plan	Dental Plan
INDIVIDUAL/FAMILY DEDUCTIBLE	None	None	$0/$0
ANNUAL BENEFIT MAXIMUM	$2,000	$2,000	$500
PREVENTIVE (Type A Expenses)	100%	100%	80%
BASIC RESTORATIVE (Type B Expenses)	85%	90%	80%
MAJOR RESTORATIVE (Type C Expenses)	70%	70%	50%
ORTHODONTIA	Yes, 50% coinsurance (age 26 and under)	Yes, 50% coinsurance (adults & children)	Not Covered
ORTHODONTIA LIFETIME MAX.	$1,500	$1,500	Not Covered

Vision Budget and Contributions

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Delta Vision Budget– 2021 Gross Cost and Contributions

- The 2021 gross vision cost across all plans is expected to be $23,400. Employees contribute 32.5% towards the gross cost while Delta subsidizes 67.5% of the cost.
- The amount that employees contribute is based on plan selection, coverage tier and officer status.

Delta Natural Gas Company, Inc. / People's Natural Gas (KY Employees) 2021 Budget Rates and Contributions				
2021 Plan Year				
Tier	2021 Enrollment	Vision Premium	Employee Contribution	Employer Subsidy
VSP Base				
Adult	24	$5.51	$1.10	$4.41
Two Adults	16	$11.03	$2.21	$8.82
Adult Child	7	$11.80	$2.36	$9.44
Adult Children	1	$11.80	$2.36	$9.44
Family	30	$18.86	$3.77	$15.09
Plan Annual	**78**	**$11,600**	**$2,300**	**$9,300**
Cost Share %			**19.8%**	**80.2%**
VSP Base - Officer Plan				
Adult	0	$5.51	$1.38	$4.13
Two Adults	0	$11.03	$2.76	$8.27
Adult Child	0	$11.80	$2.95	$8.85
Adult Children	0	$11.80	$2.95	$8.85
Family	0	$18.86	$4.72	$14.14
Plan Annual	**0**	**$0**	**$0**	**$0**
Cost Share %				
VSP Buy Up				
Adult	17	$8.06	$3.65	$4.41
Two Adults	19	$16.13	$7.31	$8.82
Adult Child	3	$17.25	$7.81	$9.44
Adult Children	0	$17.25	$7.81	$9.44
Family	17	$27.58	$12.49	$15.09
Plan Annual	**56**	**$11,600**	**$5,200**	**$6,300**
Cost Share %			**44.8%**	**54.3%**
VSP Buy Up - Officer Plan				
Adult	0	$8.06	$3.93	$4.13
Two Adults	0	$16.13	$7.86	$8.27
Adult Child	1	$17.25	$8.40	$8.85
Adult Children	0	$17.25	$8.40	$8.85
Family	0	$27.58	$13.44	$14.14
Plan Annual	**1**	**$200**	**$100**	**$100**
Cost Share %			**50.0%**	**50.0%**
All Plans				
Total Annual	**135**	**$23,400**	**$7,600**	**$15,800**
Cost Share %			**32.5%**	**67.5%**

Delta Vision Budget– 2022 Gross Cost and Contributions

- There was no premium or employee contribution increase for vision benefits in the 2022 plan year. Employer and employee cost remain the same as 2021 (after accounting for one employee who retired in October of 2021).

Delta Natural Gas Company, Inc. / People's Natural Gas (KY Employees) 2022 Budget Rates and Contributions				
2022 Plan Year				
Tier	**Estimated 2022 Enrollment**	**Vision Premium**	**Employee Contribution**	**Employer Subsidy**
VSP Base				
Adult	24	$5.51	$1.10	$4.41
Two Adults	15	$11.03	$2.21	$8.82
Adult Child	7	$11.80	$2.36	$9.44
Adult Children	1	$11.80	$2.36	$9.44
Family	30	$18.86	$3.77	$15.09
Plan Annual Cost Share %	**77**	**$11,500**	**$2,300 20.0%**	**$9,200 80.0%**
VSP Base - Officer Plan				
Adult	0	$5.51	$1.38	$4.13
Two Adults	0	$11.03	$2.76	$8.27
Adult Child	0	$11.80	$2.95	$8.85
Adult Children	0	$11.80	$2.95	$8.85
Family	0	$18.86	$4.72	$14.14
Plan Annual Cost Share %	**0**	**$0**	**$0**	**$0**
VSP Buy Up				
Adult	17	$8.06	$3.65	$4.41
Two Adults	19	$16.13	$7.31	$8.82
Adult Child	3	$17.25	$7.81	$9.44
Adult Children	0	$17.25	$7.81	$9.44
Family	17	$27.58	$12.49	$15.09
Plan Annual Cost Share %	**56**	**$11,600**	**$5,200 44.8%**	**$6,300 54.3%**
VSP Buy Up - Officer Plan				
Adult	0	$8.06	$3.93	$4.13
Two Adults	0	$16.13	$7.86	$8.27
Adult Child	1	$17.25	$8.40	$8.85
Adult Children	0	$17.25	$8.40	$8.85
Family	0	$27.58	$13.44	$14.14
Plan Annual Cost Share %	**1**	**$200**	**$100 50.0%**	**$100 50.0%**
All Plans				
Total Annual Cost Share %	**134**	**$23,300**	**$7,600 32.6%**	**$15,700 67.4%**

Plan Designs Transition to Aqua America Benefit Plans

Vision

- Moving to the existing vision plans under Aqua, Delta employees received benefits in line with historical vision benefits. They also transition from the EyeMed network to VSP.

Compared to Delta Benefit: In Line | Richer

	Aqua/PNG: VSP		Delta: EyeMed
	Base Plan	Buy-Up Plan	Vision Plan
EXAM Once every 12 Months	Covered 100%	Covered 100%	Covered 100% after $10 copay
LENSES Once every 12 Months	Standard Options: Covered 100% Progressive Options: $95 - $175	Standard Options: Covered 100% Progressive Options: $95 - $175	Covered 100% after $10 copay
FRAMES Once every 24 Months	Costco: $100 allowance* Wide Selection: $175 allowance* Featured: $195 allowance*	Costco: $100 allowance* Wide Selection: $175 allowance* Featured: $195 allowance*	$100 allowance**
CONTACT LENSES Once every 12 Months	Up to $50 copay; $150 allowance	Up to $50 copay; $150 allowance	$110 allowance**
Easy Options		Each covered family member can pick one of the following options: $250 Frame Allowance **OR** $200 ECL **OR** Progressive Lenses **OR** Photochromic **OR** Ant-Reflective Coating	

*20% savings on amount over allowance

**20% savings on amount over frames allowance; 15% savings on amount over contact lens allowance

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY	**)))))**	**CASE NO. 2021-00185**

REBUTTAL TESTIMONY OF
JONATHAN MORPHEW
DIRECTOR OF OPERATIONS
DELTA NATURAL GAS COMPANY, INC.

Filed: November 5, 2021

Background

Q. Please state your name, position, and business address.

A. My name is Jonathan Morphew. My business address is 3617 Lexington Road, Winchester, Kentucky 40391. I am employed by Delta Natural Gas Company, Inc. ("Delta") as its Director of Operations.

Q. What is the purpose of your testimony?

A. My testimony responds to Attorney General witness Bion Ostrander's proposal to remove a significant portion of forecasted plant and provides an update on Delta's Certificate of Public Convenience and Necessity ("CPCN") request for construction of a pipeline that will provide the Nicholasville portion of Delta's system with necessary redundancy and capacity.

Delta's Forecasted Plant

Q. Please summarize the forecasted plant Mr. Ostrander recommends the Commission remove.

A. Mr. Ostrander proposes to remove $5,827,055 of Delta's 2021 forecasted plant additions and the entire balance of Delta's 2022 forecasted plant additions of $7,783,901. He also proposes corresponding adjustments to reduce accumulated depreciation and accumulated deferred income taxes. In recognition that the Commission may not adopt his recommendation, Mr. Ostrander recommends that at a minimum, the Commission remove only the $1,750,299 of 2022 forecasted costs for the Nicholasville pipeline. I discuss the Nicholasville pipeline further below.

Q. Why does Mr. Ostrander believe the Commission should remove forecasted plant additions?

A. Mr. Ostrander's testimony appears to primarily base this recommendation on two facts: (1) Delta's forecasted level of spend is greater than Delta's level of spend in recent years, and (2) Delta has not spent a significant portion of the 2021 forecasted spend in the period of January to June 2021. Neither is persuasive. He also alleges that Delta has not provided sufficient information to support the forecasted level of spend, with which I disagree.

Q. Does Delta's spending shown in its base period update refute Mr. Ostrander's claim that Delta cannot achieve its 2021 forecasted spend?

A. Yes. As shown in Exhibit JB-3 to Mr. Brown's rebuttal testimony, Delta's year-to-date capital expenditures are \$13,841,565, compared with budgeted year-to-date spend of \$13,983,790. As Mr. Brown details in his rebuttal testimony, construction work for the final week of September of \$150,679 did not get accrued in the September 30 close, and with inclusion of those costs, Delta is actually slightly ***ahead*** of its projected capital budget spending through September 30, 2021. In the last quarter of 2021, Delta expects to meet its 2021 capital budget because of the significant work scheduled to occur this quarter, which includes PRP work, an extension to a new industrial park, an extension to new subdivisions, and additional subdivisions ready to be piped. Mr. Brown further describes the capital budget and forecasted spend in his rebuttal testimony.

Q. Why is it inappropriate for Mr. Ostrander to assume Delta's forecasted spend is inflated simply because it is higher than Delta's spend in past years?

A. There are a number of reasons this is an inappropriate assumption. Upon the closing of the Essential acquisition in March 2020, Delta has significantly more access to capital and at lower costs. Thus, Delta is now more able to complete needed capital projects. And as Delta explained in response to Attorney General 2-9(c), Delta schedules major capital spending in conjunction with rate applications. This allows rate-setting to cover Delta's capital needs without requiring Delta to file rate applications on a more frequent basis.

Q. Does Delta's history of accurate budgeting also provide strong support for the forecasted spend?

A. Yes. Delta has a proven history of accurate budgeting, which Mr. Ostrander ignores. As Delta provided in response to Commission Staff 1-25, Delta calculated a five-year average slippage factor of 109.482 percent. This shows Delta's accuracy in budgeting and its tendency to, if anything, slightly underestimate spend. Delta's slippage factor is strong support for the accuracy of Delta's budgeting process and is far more persuasive than the simple fact that Delta has spent less—and budgeted less—in prior years.

Q. Has Delta provided sufficient information to support the forecasted spend?

A. Absolutely. Delta responded to significant discovery on this issue. In response to Attorney General 2-9, Delta produced nearly 200 pages of contracts, invoices, and purchase orders representing spend from 6/30/2021 to 12/31/2022. For instance, these include contracts with Delta's outside construction vendor, Martin Contracting, Inc. ("Martin"). The original purchase order for Martin at the beginning of 2021 was $4,200,000. Delta is on budget to spend in excess of $4,200,000 with Martin in 2021. Delta projects to spend $4,200,000 with Martin in 2022. As Delta explained in response to Attorney General 2-9, this is a conservative estimate as it does not factor in expected price increases. Delta also provided contracts with two engineering firms with which Delta contracts for engineering design. Additionally, Delta explained and provided support for significant software, computer hardware, vehicle fleet, and power operated equipment purchases.

The contracts, invoices, and purchase orders Delta has provided total more than $17 million. As the Attorney General pointed out in Attorney General 2-9, Delta must undertake capital expenditures of $21,975,731 for the 18-month window of 6/30/2021 to 12/31/2022 to achieve Delta's forecasted period plant and service. Given that Delta has provided contracts, invoices, and purchase orders to support nearly 80 percent of Delta's forecasted spend for the 6/30/2021 to 12/31/2022 time period, I disagree with Mr. Ostrander's assertion that Delta has not provided sufficient information to support the forecasted level of spend. Furthermore, these contracts, invoices, and purchase orders do not represent all that will be executed through the end of 2022; Delta expects to execute additional contracts, invoices, and purchase orders through the end of 2022 and continues to expect to spend the entire $21,975,731 for the 18-month window of 6/30/2021 to 12/31/2022. These supporting documents show that Delta is on track to achieve its forecasted capital spend.

CPCN Request for Nicholasville Project

Q. Please describe the CPCN Delta requested in its Application.

A. Delta requested a CPCN to construct an 8-inch steel transmission pipeline that is approximately 17 miles in length. The pipeline will serve the Nicholasville distribution area, which serves approximately 9,100 customers and is the largest and most concentrated area of service in Delta's system.

Q. Please summarize the need for the proposed Nicholasville line.

A. The proposed pipeline is critical for both reliability and capacity. Regarding reliability, the Nicholasville system is currently dependent on a single transmission line. Should this line—which is located in predominantly rural areas and includes a river crossing—fail, gas deliveries for the Nicholasville system would be stopped completely. The more than 9,000

Delta customers in the Nicholasville area represent one-fourth of Delta's entire customer base. There is no other area in Delta's system where so many customers are served from a single line and so vulnerable to a catastrophic outage. And further, regarding capacity, the north portion of Delta's Nicholasville system has experienced tremendous growth in the Brannon Crossing area near the Fayette County line. Given the amount of undeveloped real estate in the area, Delta anticipates the area will continue to grow. Without the proposed line, Delta is nearing its capacity limits to serve the Nicholasville area.

Q. What is Mr. Ostrander's position about the proposed pipeline?

A. Mr. Ostrander disputes both the costs of the proposed pipeline included in the forecasted test period and Delta's CPCN request. He argues: "the Commission should remove 2022 forecasted costs of $1,750,299 for [sic] the Nicholasville pipeline, related to the right-of-way acquisition" because "the pipeline construction will not begin until 2023, and it might not be completed until 2024."[1] Further, he states "it can be argued" that "there is not sufficient information available yet for the Commission to review and consider a CPCN."[2]

Q. Did the Commission recently issue an order regarding Delta's CPCN request?

A. Yes. When Delta filed its application requesting a CPCN for the Nicholasville pipeline, it asked for a deviation from filing requirements that require engineering plans and drawings because those documents had not yet been prepared. Delta considered it financially prudent to wait to engineer the line until a CPCN is granted. On October 18, 2021, five months after Delta requested a deviation from the filing requirements, the Commission issued an order denying Delta's request for a deviation from the CPCN filing requirements.

Q. Will Delta seek a CPCN for the Nicholasville pipeline in a separate proceeding?

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[1] Ostrander Testimony at 71.

[2] *Id.*

A. Yes. The Commission's order has not lessened the serious reliability and capacity concerns in the Nicholasville system. Delta plans to seek a CPCN in a separate proceeding and expects to begin construction as it originally planned in 2023. Delta has already taken steps to obtain engineering plans and drawings sufficient to seek a CPCN. On October 19, 2021, the day after the Commission issued the order denying Delta's deviation request, Delta sent out invitations to bid to engineering firms for plans and drawings for the Nicholasville pipeline. On November 2, 2021, Delta awarded the project to EnSite USA. EnSite USA has advised Delta that it can develop a set of plans and drawings to submit to the Commission by December 1, 2021. After it reviews the plans and drawings, Delta will forthwith file a CPCN request in a separate proceeding, as it has already developed a strong record of evidence regarding the need for the pipeline.

Q. Delta budgeted $1,750,299 for obtaining right of way for the Nicholasville project in 2022. Is it still appropriate for these budgeted costs to be included in Delta's forecasted test period rate base?

A. Yes. These costs are appropriate for inclusion in Delta's forecasted test period rate base because Delta has demonstrable evidence that the costs will be incurred, as it has, in hand, the expected costs to acquire the right of way and perform the engineering work required by the Commission's order. Attached as Exhibit JM-1 is the EnSite USA bid for the Nicholasville project, which supports the cost and timeline for acquiring right of way in 2022. The right of way acquisition cost is made up of two components: (1) contractor costs associated with acquiring right of way and (2) payments to landowners to acquire easement rights. First, the EnSite USA bid details the contractor costs associated with right of way acquisition. The costs associated with land and right of way acquisition is [redacted]

Second, Delta has provided support for its easement acquisition cost in response to Commission Staff 4-4. Delta expects to spend approximately [redacted] per foot to purchase pipeline easements for a total cost of [redacted] Together with the contractor costs, Delta expects to spend approximately $1.8 million in right of way acquisition costs in 2022. Delta's timeline for acquiring right of way in 2022 is reasonable; as shown in the proposed project schedule on page 7 of Exhibit JM-1, EnSite USA anticipates completing the voluntary right of way acquisitions by April 14, 2022.

Beyond the right of way acquisition cost, Delta will have significant ***additional*** spend in 2021 and 2022 associated with engineering the line. Ensite USA's engineering costs are expected to be approximately [redacted] Delta did not initially budget for these costs in 2021 or 2022, so these will be in addition to the $1,750,299 forecasted spend for right of way acquisition. Delta's capital spend on the Nicholasville line in 2022 will far exceed the $1,750,299 included in rate base in the forecasted test period. It would be inappropriate to remove these expenses from rate base given this evidence. Delta's commitment to proceeding with this project has not changed as a result of the Commission's order, and Delta is taking all steps to procure a CPCN in a separate case as soon as practicable after receiving the plans and drawings in early December 2021. As additional support of the reasonableness of Delta's forecasted spend, I have also attached the other bids Delta received as Exhibits JM-2 and JM-3.

Q. Would test year capital expenditures be overstated in the event the Commission denies the CPCN for the Nicholasville project?

A. No. Delta has committed to Essential through the 2022 capital budget process that it will spend $17.6 million in 2022. Essential will hold Kentucky accountable for achieving that spend level. In the event a portion of the $1.7 million budgeted for the Nicholasville pipeline right of way acquisition does not get spent through 2022 for any reason, Essential will work with Delta to accelerate planned projects from 2023 into 2022 in order for the total budget amount to be hit. Essential makes its overall financing plan based on the capital plans of each state and counts on each state to utilize the requested capital each year.

Q. Does Mr. Ostrander provide any compelling reason why the costs associated with the Nicholasville pipeline should be removed?

A. No. Mr. Ostrander provides no support for his assertion that right-of-way acquisition costs that will be incurred in 2022 should not be included in the rate case other than the fact that the entire project will not be complete within the forecasted test period. He cites no statute, regulation, or Commission precedent that supports the denial of recovery of known and measurable costs in a forecasted test period simply because the costs represent a portion of a project that will not be complete in its entirety in the test period. To my knowledge, no such precedent exists. Even in Delta's previous cases based on a historical test year, the Construction Work in Progress ("CWIP") balance has been included in rate base. By definition, CWIP includes amounts expended on incomplete projects, so by including CWIP in rate base, the Commission has routinely granted recovery on amounts spent towards projects not complete in their entirety by the end of the test year.

I agree that it would be inappropriate for Delta to recover construction costs for the pipeline that will be incurred outside of the forecasted test period, but this is not what Delta has proposed. Instead, Delta proposes to recover in this case only the $1,750,299 of right-of-way acquisition costs that Delta will incur in 2022. The remainder of the more than $15 million project is not included in this rate case. The $1,750,299 right-of-way acquisition costs to be incurred in 2022 are known and measurable and should be recovered in this rate case.

The Commission's order denying Delta's deviation from CPCN filing requirements does not change Delta's request for recovery of costs in the forecasted test year. These costs are still known and measurable. In fact, due to the Commission's denial of the deviation request, Delta will likely have more expenses related to the Nicholasville pipeline in the forecasted test period as it will incur costs to engineer the line. Delta must incur engineering costs to comply with the Commission's order regarding the evidence it will require to grant a CPCN, and there is no reason that such costs should not be included in the forecasted rate base, as those costs are being prudently incurred to respond to the Commission's guidance.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF CLARK)

The undersigned, **Jonathan W. Morphew**, being duly sworn, deposes and says he is Director of Operations of Delta Natural Gas Company, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.

JONATHAN W. MORPHEW

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 4th day of November, 2021.

Emily P. Bennett (SEAL)
Notary Public

My Commission Expires:

6/20/24

EXHIBITS JM-1, JM-2, JM-3
FILED UNDER SEAL PURSUANT TO THE PETITION FOR CONFIDENTIAL TREATMENT FILED ON NOVEMBER 5, 2021

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY	**)))))**	**CASE NO. 2021-00185**

REBUTTAL TESTIMONY OF
PAUL R. MOUL
MANAGING CONSULTANT
P. MOUL & ASSOCIATES

Filed: November 5, 2021

Q. Please state your name, occupation and business address.

A. My name is Paul Ronald Moul. My business address is 251 Hopkins Road, Haddonfield, New Jersey 08033-3062. I am Managing Consultant at the firm P. Moul & Associates, an independent financial and regulatory consulting firm.

Q. Did you file Direct Prepared Testimony in this proceeding?

A. Yes, I did. On May 28, 2021, I filed direct testimony concerning the rate of return for Delta Natural Gas Company, Inc. ("Delta" or the "Company")

Q. What is the purpose of your Rebuttal Testimony in this proceeding?

A. My testimony responds to the direct testimony submitted by Richard A. Baudino, a witness appearing on behalf of the Attorney General. If I fail to address each and every issue in the testimony of Mr. Baudino, it does not imply agreement with those issues.

Q. What are the key rate of return issues that the Commission should consider when deciding this case?

A. Mr. Baudino has challenged the Company's forecast capital structure ratios and has proposed an alternative hypothetical capital structure. Mr. Baudino has also disputed the Company's rate of return on common equity and has proposed an even lower return on equity for the Company's Pipeline Replacement Program ("PRP"). Aside from technical issues that I will discuss later in my rebuttal testimony, the Commission should take into consideration the following:

1) A rate of return that will be reflective of prospective capital cost rates in the context of an expected increase in interest rates.

2) A rate of return that will reflect and be supportive of the Company's financial

and risk profile.

As I explain below, the recommendation of Mr. Baudino fails to adequately consider these two points and thereby understates the cost of common equity in this proceeding for Delta.

Q. Based on your analysis of Mr. Baudino's testimony, have you revised your cost of equity proposal in this case?

A. No. In conjunction with my analysis of Mr. Baudino's direct testimony, I have concluded that my originally proposed 10.95% cost of equity for Delta continues to be an appropriate recommendation. If anything, later market data could support an upward revision in my proposal. But I am not advocating an upward revision here.

Q. What explains the substantial disparity between Mr. Baudino recommendation and your proposed 10.95% equity return?

A. Mr. Baudino has understated the cost of equity for Delta, which if adopted by the Commission, would be of serious concern to investors in the financial community. The difference between Delta's cost of equity and the proposal by Mr. Baudino is attributable to a number of factors, including: (i) the determination of a reasonable Discounted Cash Flow (DCF) return; (ii) whether a leverage adjustment to the DCF is warranted; and (iii) the extent to which other methods of determining the cost of equity provide a reasonable measure of the appropriate cost of common equity

Q. Should the Commission consider the future trend in capital cost rates when deciding the return on equity issue in this case?

A. Yes. Unlike Mr. Baudino's approach that takes a backward view of interest rates, i.e. six months covering March through August 2021, a transition in Federal Open Market

Committee ("FOMC") policy will prospectively produce higher interest rates that should be incorporated into the cost of equity in this case. A forward-looking assessment of the capital markets is especially relevant here because the Company's rates will be based on a fully forecasted test year. Higher inflation expectations are a contributing factor that points to higher interest rates. Indeed, higher inflation today is revealed by a 5.9% increase in social security payments announced on October 13, 2021, the largest one-year increase in nearly four decades. FOMC has signaled that it plans to taper its bond buying program (i.e., quantitative easing) in November 2021 and to end it completely by mid-2022. The Fed Funds rate is also likely to increase from very low levels that existed during the pandemic. Higher interest rates clearly point to higher capital costs prospectively. I will describe the forecasts of interest rates and the continuation of this trend below.

Q. Should the Commission consider the future trend in capital cost rates when deciding the return on equity issue in this case?

A. Yes. Unlike Mr. Baudino who takes a backward view of interest rates, accommodative FOMC policy is nearing an end and prospectively higher interest rates will increase capital costs for utilities. To gain a consensus view of future interest rates, I tabulated the forecasts of yields on 10-year Treasury notes published by a variety of well recognized and investor-influencing sources. I chose the 10-year Treasury note because it is available on a consistent basis across all sources. The comparisons are:

	2021	2022	2023	2024	2025	2026	Change in Basis Points
Blue Chip	1.50%	1.30%	1.70%	2.00%	2.40%	2.60%	110
Value Line	1.30%	1.60%	2.00%	2.30%	2.50%		120
EIA	0.76%	1.09%	1.36%	1.57%	1.80%	2.03%	127
CBO	1.61%	1.90%	2.03%	2.29%	2.57%	2.79%	118

The universal consensus is that interest rates will increase in the future. The FOMC policy is in the process of moving from an extremely accommodative to more normal monetary policy. All recognized forecasts indicate a future rise in interest rates. The rising the level of interest rates represents one key factor that adds to the risk of common equity. It is apparent that the trough in interest rates has passed and the forecasts show interest rates will rise in the future. The Commission should take the forecast trend toward higher interest rates into account when it sets the cost of equity for Delta. Mr. Baudino's testimony considers only a six-month historical average of Treasury bond yields. As such, his cost of equity analysis is defective because he has not taken into account the general consensus that interest rates will increase in the future from current levels. It is therefore, indicated that a higher authorized return is warranted in the face of higher expected interest rates.

Q. How would investors react to a decision by the Commission if it were to adopt the recommendation of Mr. Baudino?

A. The investment community would be concerned if the Commission were to adopt Mr. Baudino's proposal. The return on equity used by the Commission to set rates embodies in a single numerical value a clear signal of the degree of regulatory support for the financial strength of the utilities that it regulates. Although cost allocations, rate design issues, and regulatory policies relative to the cost of service are important considerations, the opportunity to achieve a reasonable return on equity represents a direct signal to the investment community of regulatory support for the utility's financial strength (or lack thereof). In a single figure, the return on equity utilized to set rates provides a common and widely understood benchmark that can be compared from one company to another and is the basis by which returns on all financial assets (stocks – both utility and non-regulated, bonds, money market instruments, and so forth) can be measured. So, while varying degrees of sophistication are required to interpret the meaning of specific Commission policies on technical matters, the return on equity figure is universally understood and communicates to investors the types of returns that they can reasonably expect from an investment in utilities operating in Kentucky.

Q. Why should the Commission care what investors think?

A. For a utility to obtain new capital and retain existing capital at reasonable cost and on reasonable terms, the authorized rate of return on common equity must be high enough to satisfy investors with returns that are commensurate with the risk of their investments. The cost of equity proposed by Mr. Baudino, if adopted by the Commission, would provide a signal to the investment community of unsupportive regulation. That is to say, if the Commission were to adopt the proposal by Mr. Baudino, it would discourage commitments by investors to Delta because more attractive risk-adjusted returns are available in other states. Investors are aware of the actions by regulators and those regulatory actions can have an impact on assessments by the credit rating agencies.

Q. In his analysis, Mr. Baudino considers the Volatility Index (i.e., "VIX") and concludes from it that stock market volatility is comparable to pre-pandemic level. Please respond.

A. I agree with Mr. Baudino that the VIX is a valid measure of expected stock market volatility and one which I follow routinely. This index is provided by the CBOE Global Markets (formerly Chicago Board Options Exchange) and is a gauge of volatility in the equity market and, hence, provides a measure of risk. It is well-established that greater volatility indicates higher risk, which, all else equal, translates into a higher cost of equity. It is widely accepted that high readings for the VIX are often accompanied by bearish sentiment and a low VIX is associated with bullish sentiment. The trading pattern of the VIX is typically inverse to the level of stock prices. That is to say, the VIX increases when stock prices are falling and the VIX declines when stock prices rise. This situation is sometimes associated with increases in the cost of equity when the VIX increases and vis-a-versa. The overall range of the index since 1990 has been 8.56 to 89.53. The peak in the index occurred on October 1, 2008 during the Financial Crisis. The lowest VIX occurred on November 1, 2017 during the previous bull market. The recent VIX history has been:

Year	Average VIX
2017	12.12
2018	18.46
2019	16.33
2020	32.21
2021 YTD	22.41

We can see that the VIX has spiked upward with the COVID-19 pandemic and the onset of the recession. While volatility in the stock market has subsided since the very beginning of the pandemic and recession, it continues to significantly exceed levels prior thereto as measured by the VIX. The current level of risk associated with common stocks, is revealed by the higher VIX in 2021, and warrants a higher equity return at this time because the higher stock market volatility signifies higher risk that requires higher returns in compensation for the higher risk. Hence, the risk for common equity, which translates into the cost of equity, does not support a low equity return suggested by Mr. Baudino.

Q. How is the remainder of your testimony organized?

A. I will cover the issues of (i) capital structure, (ii) the composition of the proxy group, (iii) the weight to be given to the DCF method, (iv) the DCF growth rate, (v) the leverage adjustment to the DCF and CAPM methods, (vi) the CAPM method, (vii) the Risk Premium analysis, (viii) Comparable Earnings, and (ix) the equity return component of the PRP.

CAPITAL STRUCTURE

Q. Mr. Baudino has essentially proposed a hypothetical capital structure rather than the Company's forecast capital structure. Is his proposal reasonable for Delta?

A. No. The Company's forecast structure ratios in this case consist of 48.24% debt and 51.76% common equity. These ratios are entirely consistent with the capital structure ratios for the natural gas industry. There is nothing unusual about the Company's forecast structure that would require any adjustments to it. However, Mr. Baudino proposes to take 1.76% of the common equity ratio and assign a 1.00% cost to it. What this proposal has done is to lower the effective return on equity to 8.83% ((0.02% + 4.55%) ÷ 51.76%). The actual penalty that Mr. Baudino proposes to the Company's common equity is even greater because he creates an income tax deduction that does not actually exist.

Q. Is the Company's proposed capital structure reasonable by reference to the Gas Group?

A. The Company's forecast structure ratios are within the ratios that investors expect for a natural gas distribution company. As shown below, I have presented the capital structure ratios for the Gas Group based upon <u>Value Line</u>'s forecasts for the companies that I employed in my direct testimony.

Company	2024-26
Amos Energy Corp.	60.0%
Chesapeake Utilities	60.0%
New Jersey Resources	47.0%
Northwest Natural Holding Co.	57.0%
ONEGas, Inc.	53.0%
South Jersey Industries, Inc.	38.5%
Southwest Gas Holdings Inc.	51.0%
Spire Inc.	55.0%
Average	52.7%

It is revealed from the data presented above that the common equity ratio of the companies in the Gas Group average 52.4% for the period 2024-2026. Even with the removal of Chesapeake, the Gas Group average common equity ratio is 51.6%. Individually, the common equity ratios extend up to 60%. This shows that there is nothing unreasonable about the Company's proposed 51.76% common equity ratio for this case. There is just no reason to adjust it.

Q. Would there be consequences for the Company if a hypothetical 50% common equity ratio were imposed on it in this case?

A. Yes. With a 50% hypothetical common equity ratio, the Company would be denied an equity return on $2.445 million of its actual common equity. So with Mr. Baudino's proposed 9.10% equity return, the Company could only hope to experience an 8.83% equity return as I demonstrated above. All investors, both debt and equity, would react unfavorably to such an outcome. Rather, the Commission should support the Company's financial integrity by endorsing its forecast structure.

PROXY GROUP

Q. Are there differences in the proxy groups utilized in this case?

A. Yes. Mr. Baudino makes an erroneous deletion to my proxy group. Mr. Baudino drops Chesapeake Utilities from the proxy group without adequate justification. He says that Chesapeake has only 30% of its net income derived from the gas distribution business that disqualifies it for proxy group membership. However, this misses the fundamentals of the businesses of Chesapeake. Chesapeake has 76% of its income and 80% of its assets devoted to businesses that use cost of service regulation. When combining these Delaware and Florida gas distribution businesses with Eastern Shore Natural Gas Company, a FERC regulated transmission company employing the same cost of services principals as the gas distribution business, the profile of Chesapeake fully qualifies it for membership in the Gas Group.

COST OF EQUITY

Q. Mr. Baudino asserts that the natural gas industry continues to be a safe, solid choice for investors. Do you agree?

A. Only in part. The natural gas utility industry is in a period of increased capital expenditures that will heighten its risk profile. Significant amounts of capital will be required by the industry to meet increasingly stringent environmental standards and to address aging infrastructure needs. The large amounts of new capital required by the industry will pressure its financial profile. To be successful in attracting the capital that it needs, the industry will need to provide investors with competitive returns. All of this is occurring during the prospect of changes in the energy industry associated with the possibility of decarbonization as a national energy policy.

Q. As to the DCF growth component, what financial variables should be given greatest weight when assessing investor expectations?

A. As noted above, to properly reflect investor expectations within the limitations of the DCF model, earnings per share growth, which is the basis for the capital gains yield and the source of dividend payments, must be given greatest weight. The reason that earnings per share growth is the primary determinant of investor expectations rests with the fact that the capital gains yield (i.e., price appreciation) will track earnings growth with a constant price earnings multiple (a key assumption of the DCF model). It is also important to recognize that analysts' forecasts significantly influence investor growth expectations. Moreover, it is instructive to note that Professor Myron Gordon, the foremost proponent of the DCF model in public utility rate cases, has established that the best measure of growth for use in the DCF model are forecasts of earnings per share growth.[1]

Q. Among the variables that Mr. Baudino considered in his growth rate analysis for DCF purposes was the dividends per share forecast by Value Line. Is that a valid measure for DCF purposes?

A. No. As I describe in my prefiled direct testimony and above, forecast earnings growth is the only valid measure of growth for DCF purposes. The theory of DCF indicates that the value of a firm's equity (i.e., share price) will grow at the same rate as earnings per share and dividend growth will equal earnings growth with a constant payout ratio. Therefore, to reflect investor expectations within the limitations of the DCF model, earnings per share growth, which is the basis for the capital gains yield and the source of dividend payments, must be given primary emphasis. We can clearly see from page 2 of Exhibit RAB-3 that dividend growth provides a DCF return that is an outlier. There are no other DCF returns shown on that exhibit that are near 8.42%. Indeed, the average of the DCF returns for the remaining growth rates using earnings forecasts is 9.85% (10.81% + 9.41% + 9.34% = 29.56% ÷ 3). Other DCF returns proposed by Mr. Baudino are invalid.

Q. Mr. Baudino makes selective exclusions to his results as revealed by his conclusion that some of the Value Line growth rates are unsustainable. He also

[1] "Choice Among Methods of Estimating Share Yield," The Journal of Portfolio Management, Spring 1989 by Gordon, Gordon & Gould.

makes other omissions from his summary data. Does this introduce a bias to his final recommendation?

A. It does. He artificially lowers his DCF return of 10.81% to 9.06% (see page 29 of his testimony), which introduces a downward bias to his final recommendation. While Mr. Baudino seems to be offended by high results, he makes no effort to remove unduly low results. The Commission has made clear that expert witnesses should not remove what they believe to be outliers.[2] The means that there is a lack of symmetry to his recommendation.

Q. Mr. Baudino also used the CAPM as part of his analysis of the cost of equity. As to the risk-free rate of return component of the CAPM, he studied the yields over a 6-month period for 30-year Treasury bonds.

A. I agree with his use of the yields of 30-year Treasury bonds. However, his backward-looking analysis of those yield covering the months of March 2021 through August 2021 is not compatible with the forecast of rising interest rates that I described above., The data shown on Attachment 14 page 2 of 3 (Updated) shows that a risk-free rate of return must be much higher than the historical 2.16% that Mr., Baudino has employed. Indeed, Attachment 14 page 2 of 3 (Updated) clearly supports the 2.75% risk-free rate of return that I employed in my direct testimony, which exceeds even the "Duff and Phelps Normalized Risk-free Rate" that Mr. Baudino reported.

[2] *In the Matter of: Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates, a Certificate of Public Convenience and Necessity to Deploy Advanced Metering Infrastructure, Approval of Certain Regulatory and Accounting Treatments, and Establishment of a One-year Surcredit* (Case No. 2020-00350) (Ky. PSC June 30, 2021) (The Commission cautions all parties that ROE analyses that exclude results as merely being "too high" or "too low," without adequate support, will be provided less weight in the Commission's determination of an appropriate return.).

Q. As to the market premium (Rm-Rf) component of the CAPM, Mr. Baudino has submitted both historical data and forward-looking data. Is his approach valid in this regard?

A. Yes. Mr. Baudino has used an approach that is similar to the expectational and historical market premiums that I also employed. Unfortunately, even though his approach is similar to mine, he has employed invalid inputs. As shown Attachment 14 page 2 of 3 (Updated), the historical market premium is 9.21% which is associated with the level of interest rates that are expected prospectively. The 9.21% market premium is significantly higher than the 6.00% to 7.30% historical rate used by Mr. Baudino.

Q. Mr. Baudino also presents CAPM results using what he calls forward-looking estimates that provides premiums of 6.92% to 7.26% rates. Are these valid inputs for the CAPM?

A. No. They are much too low. Attachment PRM-14 page 2 (an updated attachment is being provided) shows that the forecast market premium is 10.35% (13.10% - 2.75%) using current average returns developed from the Value Line data and a DCF return for the S&P 500 market index.

Q. Mr. Baudino provides a critique of your direct testimony and highlights various areas where he believes that you have overstated the Company's cost of equity. Mr. Baudino also questions the propriety of your leverage adjustment. Please respond.

A. Mr. Baudino has not properly recognized that my leverage adjustment is not a market-to-book ratio adjustment. In response to his specific criticisms, my adjustment does not alter the use of book values of common equity and long-term debt in calculating the weighted average cost of capital. My adjustment does not address any of the factors that Mr. Baudino identifies would cause market prices to deviate from book value. And, my adjustment is not an attempt to "prop up high market-to-book ratios" (see page 41 of his testimony) because it does not provide a return that supports any particular M/B ratio, high or low. Further, my leverage adjustment does not address any distinction between investors' expected returns and their required returns. My adjustment deals only with risk differences attributed to changes in financial risk. As to the rating agencies, they are concerned primarily with a company's cash flow and the ability to adequately cover debt service. While the rating agencies have specific benchmarks for the proportion of debt to capitalization, they do not calculate market based measures of the cost of equity and link those results to a company's book value capital structure. Hence, they would not need to address this issue.

Q. Mr. Baudino asserts that your proposed DCF growth rate is near the high end of the range of your analysis. Please respond.

A. My DCF growth rate is entirely within investor growth expectations for the gas utilities and is fully supported by my data. Focusing on my Attachment PRM-9 shows the analysts' forecasts of average earnings growth for the gas utilities were 4.99% by First Call/IBES, 5.45% by Zacks, and 7.06% by Value Line. Updating these five forecasts of earnings per share growth are 5.41% by First Call/IBES, 5.88% by Zacks and 7.61% by Value Line. The 6.75% growth rate that I used in my DCF analysis is entirely within this range.

Q. Mr. Baudino seems to believe that using historical data for the Risk Premium approach creates a problem with using historical premiums that reflect current investor expectations. Please respond.

A. I share Mr. Baudino's concern in this regard. There are two ways to deal with this issue. First, an analyst can use all reliable data to establish the risk premium, thus avoiding a bias in selecting a particular period. This represents one of the approaches that Mr. Baudino employed to arrive at his market premium component of the CAPM. Second, an analyst can develop a risk premium from historical data that seeks to emulate investors' current expectations. I followed the later approach. The value of this approach is that it allows the risk premium to vary over time -- which is what my risk premium does.

Q. Mr. Baudino suggests that your CAPM results are overstated. Please respond.

A. I used sources and methodologies similar to those employed by Mr. Baudino. For example, I used the Value Line source. Second, I made a DCF calculation for the S&P 500 that employed analysts' estimates to calculate the DCF return. Finally, I tempered these forecasts with historical data. Updating these forecasts now provide a 9.78% market risk premium. This results in an 11.55% CAPM result using Mr. Baudino's betas and ignoring the size adjustment as shown below.

	Rf	+	*ß*	x (	*Rm-Rf*	) +	*size*	=	*k*
Gas Group	2.75%	+	0.90	x (	9.78%	) +		=	11.55%

As to my use of unlevered and levered betas, I employed the Hamada formula, which is merely an extension of the Modigliani & Miller formula that I used in the

DCF. As a consequence, the explanation that I provided previously for the leverage adjustment also applies to the levered betas. It is only because the regulatory process uses book values to calculate the weighted average cost of capital that we need to address this issue here.

Regarding Mr. Baudino's observations about the size adjustment, the SBBI Yearbook clearly shows that the size premiums were developed from all types of companies, including public utilities.

Q. Mr. Baudino opposes any recognition of flotation costs in the cost of equity determination in this case. Please respond.

A. There are two points that require clarification regarding my discussion of flotation costs in this case. First, while I did submit data concerning flotation costs applicable to the natural gas industry, there is no increment in my final recommendation for flotation costs. Hence, this is not an issue in this case for Delta. Second, Mr. Baudino makes the claim that flotation costs are likely already accounted for in the stock prices that are used in the DCF. Mr. Baudino provides no evidence of his assertion, and my Attachment PRM-11 demonstrates that flotation costs are distinct from stock prices which refutes Mr. Baudino's assertion.

Q. Mr. Baudino also finds fault with your Comparable Earnings. Please respond.

A. As noted previously, I did not factor the results of the Comparable Earnings method directly into my recommended cost of equity for Delta. Rather, the results of the Comparable Earnings approach were used to confirm the results of the market based models (i.e., DCF, Risk Premium, and CAPM) that I did use to arrive at my recommended cost of equity.

PRP EQUITY RETURN COMPONENT

Q. Mr. Baudino proposes a reduction of 10 to 20 basis points in the equity component on the Company's investments included in the PRP. Is this penalty in the return warranted?

A. No. First, Mr. Baudino bases his reduction on the one previously implemented for electric utilities in their Environmental Cost Recover ("ECR") rider. Such reductions have never been applied to natural gas distribution utilities. There is insufficient support to make a similar reduction for Delta. Second, nearly all of the natural gas distribution companies that comprise the Gas Group that is used to measure the cost of equity for Delta already have some form of infrastructure rehabilitation mechanism. Hence, whatever the benefit of such a rider is already reflected a market-determined the cost of equity and no further recognition is necessary here. In fact, Mr. Baudino's proposal essentially double-counts the benefit of the PRP rider, because it is already reflected in his DCF return and for him to adjust for it again results in double-counting. Third, there is no reason to lower the equity return in the PRP because it would defeat the purpose of the PRP, i.e., provide rate recovery between rate cases. To lower the PRP equity return would discourage natural gas utilities from making those investments until they could be included in base rates. This would encourage more frequent base rate cases, because natural gas utilities would delay PRP investments until a return could be realized without Mr. Baudino's proposed penalty. Finally, changing the framework to the PRP midstream would be unfair to the natural gas utilities who have the expectation of a full return on those investments through the program term until 2033.

Q. Does this complete your Prepared Rebuttal Testimony?

A. Yes, it does.

Verification - Moul Rebuttal .pdf

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E-Signature Summary

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November 05, 2021 06:58:22 -8:00 [92F8ABA4E287] [108.24.151.215]
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November 05, 2021 06:58:22 -8:00 [9D4D58713465] [217.180.202.63]
jennifer.wakefield@skofirm.com
I, Jennifer C. Wakefield, did witness the participants named above electronically sign this document.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF FAYETTE)

The undersigned, **Paul R. Moul**, being duly sworn, deposes and says he is Managing Consultant for P. Moul & Associates, that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.

Paul Moul
Signed on 2021/11/05 06:58:22 -8:00

PAUL R. MOUL

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 5th day of November, 2021.

JENNIFER C. WAKEFIELD
ONLINE NOTARY PUBLIC
STATE AT LARGE KENTUCKY
Commission # KYNP8355
My Commission Expires Jun 30, 2024
Notary Stamp 2021/11/05 06:58:22 PST 9D4D58713465

Jennifer C. Wakefield
Signed on 2021/11/05 06:58:22 -8:00

(SEAL)
Notary Public

Notarial act performed by audio-visual communication

My Commission Expires:

June 30, 2024

Measures of the Risk-Free Rate & Corporate Bond Yields

The forecast of Treasury and Corporate yields
per the consensus of nearly 50 economists
reported in the Blue Chip Financial Forecasts dated June 1, 2021 and October 1, 2021

		Treasury					Corporate	
Year	Quarter	1-Year Bill	2-Year Note	5-Year Note	10-Year Note	30-Year Bond	Aaa Bond	Baa Bond
2021	Fourth	0.1%	0.3%	1.0%	1.5%	2.2%	2.9%	3.6%
2022	First	0.2%	0.4%	1.1%	1.7%	2.3%	3.0%	3.8%
2022	Second	0.2%	0.5%	1.2%	1.8%	2.4%	3.1%	4.0%
2022	Third	0.3%	0.5%	1.3%	1.9%	2.5%	3.2%	4.1%
2022	Fourth	0.4%	0.7%	1.4%	2.0%	2.6%	3.3%	4.2%
2023	First	0.5%	0.8%	1.5%	2.1%	2.7%	3.4%	4.3%
Long-range CONSENSUS								
2022		0.3%	0.5%	1.2%	2.0%	2.6%	3.3%	4.3%
2023		0.7%	0.9%	1.6%	2.4%	2.9%	3.7%	4.7%
2024		1.2%	1.5%	2.1%	2.7%	3.3%	4.1%	5.1%
2025		1.8%	2.0%	2.5%	3.0%	3.6%	4.5%	5.4%
2026		2.1%	2.3%	2.8%	3.2%	3.8%	4.7%	5.6%
2027		2.3%	2.5%	2.8%	3.3%	3.8%	4.7%	5.7%
Averages:								
	2023-2027	1.6%	1.8%	2.4%	2.9%	3.5%	4.3%	5.3%
	2028-2032	2.4%	2.6%	3.0%	3.3%	3.9%	4.8%	5.8%

Measures of the Market Premium

Value Line Return					
As of:	Dividend Yield		Median Appreciation Potential		Median Total Return
1-Oct-21	1.9%	+	8.78%	=	10.68%

DCF Result for the S&P 500 Composite								
D/P	(	1+.5g	)	+	g	=	k
1.41%	(	1.070	)	+	14.0%	=	15.51%

Summary			
Value Line			10.68%
S&P 500			15.51%
Average			13.10%
Risk-free Rate of Return (Rf)			2.75%
Forecast Market Premium			10.35%
Historical Market Premium			
Low Interest Rates	(Rm)	(Rf)	
1926-2020 Arith. mean	12.06%	2.85%	9.21%
Average - Forecast/Historical			9.78%

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY	**)))))**	**CASE NO. 2021-00185**

REBUTTAL TESTIMONY OF
WILLIAM C. PACKER
VICE PRESIDENT, REGULATORY ACCOUNTING AND REGIONAL CONTROLLER
ESSENTIAL UTILITIES, INC.

Filed: November 5, 2021

Q. Please state your name, position, and business address.

A. My name is William C. Packer. My business address is 762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. I am employed by Essential Utilities, Inc. ("Essential"), which is the ultimate parent company of Delta Natural Gas Company, Inc. ("Delta"), as Vice President Regulatory Accounting and Regional Controller.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to certain ratemaking and revenue requirement adjustments proposed by the Attorney General's witnesses. Specifically, I will respond to Bion Ostrander's adjustments regarding affiliate expense and income tax expense. Finally, I will explain why Richard Baudino's revisions to Delta's forecasted capital structure should be denied.

Delta's Affiliate Expense is Reasonable

Q. Please summarize Mr. Ostrander's proposed reduction of affiliate expense.

A. Mr. Ostrander has proposed a draconian and arbitrary reduction of the expenses Delta incurs for the services it receives from PNG Companies LLC and Essential. Mr. Ostrander observes that Delta's affiliate expenses are approximately $1.8 million for both the base and forecasted periods. Although the expenses are flat from the base to forecast periods, Mr. Ostrander claims the expenses are subjectively too high, and without any principled basis, recommends disallowing nearly **50%** of Delta's affiliate expense each year.

The proposed reduction is comprised of two adjustments: (1) the arbitrary disallowance of 50% of the affiliate expense allocated to Delta for Essential goods and services, which is roughly $468,000[1] and (2) the erroneous characterization of approximately $400,000 of expenses allocated from PNG as non-recurring.

Q. What is the basis of Mr. Ostrander's adjustment to reduce 50% of the expense associated with goods and services provided through Essential?

A. Mr. Ostrander alleges that because Delta operated with PNG as its parent company for a period of time, there is no reason for Essential, its parent company since 2020, to provide services to Delta. Mr. Ostrander does not identify any specific charge, or person performing services, that is unnecessary, duplicative, or otherwise unsuitable for inclusion in the revenue requirement.

Q. Is this adjustment reasonable?

A. No, it is not. While Mr. Ostrander suggests that the services being provided by Essential are simply a second layer of "corporate overhead charges," Essential's employees are providing vital goods and services to Delta, as Essential does for all of its regulated affiliates. The expenses that originate with Essential are not simply general allocations with no clear benefit to Delta's ratepayers.

I am an example of the services Essential provides to Delta. I have provided support to Delta in the preparation and prosecution of this rate proceeding, as have many other Essential employees. My time, and others' time, is included in the allocations that Mr. Ostrander disputes. To accept his adjustment is to accept that 50% of the time I spend on Delta matters should be disallowed. The same is true for Essential's regulatory counsel

[1] Mr. Ostrander's Direct Testimony initially proposed disallowing $553,881 but Mr. Ostrander reduced the proposed adjustment to $467,971 in his October 27, 2021 Response to the Commission's First Request for Information to the Attorney General.

that provides legal services to Delta, Essential's tax professionals, human resources personnel, and other functional groups that support Delta's operations.

Q. Is it your opinion that Delta's customers benefit from the goods and services that Delta receives from Essential?

A. Absolutely. As an example, Delta expects to issue long-term debt later this month at an interest rate of 3.10%, which is the interest rate that Essential was able to obtain in the market. This interest rate is being passed directly to Delta and is significantly lower than Delta's last long-term debt issuance, which was 4.26%. Delta's customers will benefit from this favorable interest rate, as it directly impacts the cost of debt Delta has included in its forecast period in this case.

Q. Is Delta's affiliate expense comparable to other gas utilities that are part of a larger family of utilities?

A. Delta's affiliate expense is the very lowest of its gas utility peers in Kentucky on a total and per-customer basis. Indeed, it is more than ***100% lower*** than either Duke Energy Kentucky or Columbia Gas of Kentucky's affiliate expense per customer. This comparison is especially significant given that all three gas utilities are seeking rate adjustments based on the same forecast test period, which is calendar year 2022.

Utility	2022 Affiliate Expense	Customer Count	Total Affiliate Expense per Customer
Delta	$1,817,200[2]	38,823[3]	**$46.80**
Duke	$16,242,897.91[4]	101,285[5]	$160.37
Columbia	$19,320,924[6]	136,702[7]	$141.33

While Mr. Ostrander objects to Delta's receiving services from more than one affiliate, the total amount of the expense remains reasonable and well below the cost of other local utilities.

Mr. Ostrander repeatedly mentions that Delta's affiliate expenses increased in 2020. Delta has explained that Essential acquired Delta in 2020 and, of course, there are costs associated with being part of a publicly traded company. Even so, since the acquisition, Delta has been able to favorably access goods and services and expand the goods and services where there are synergies in doing so. An example of that is billing services. Prior to 2021, Delta performed all of its own billing services. Due principally to retirements, Delta had need for additional support in this area and has been able to transition a portion of the services to PNG and Essential. While Mr. Ostrander seems to suggest it was improper for Delta to begin receiving this support, this is precisely the benefit of being a member of a family of utilities.

[2] Tab 51 of Delta's Application.
[3] Delta's Response to Item No. 49 of Commission Staff's First Request for Information.
[4] (Case No. 2021-00190) Duke Energy Kentucky's Application at Tab 41.
[5] (Case No. 2021-00190) Duke Energy Kentucky's Response to Item No. 49 of Commission Staff's First Request for Information.
[6] (Case No. 2021-00183) Columbia's Application at Tab 67.
[7] (Case No. 2021-00183) Columbia's Response to Item No. 49 of Commission Staff's First Request for Information.

A similar example is the administration of Delta's low-income assistance programs. The Delta employee administering the programs retired in 2020. An Essential employee, Rita Black, has significant expertise in administering similar programs. Ms. Black has stepped in and brought her talents and energies into the programs, and through the development of a multifactored marketing plan, has increased participation in the program by 96% from 2020 and 2021. This is yet another concrete example of the benefits of sharing best practices within the Essential family of utilities. If Mr. Ostrander's adjustment is accepted, 50% of Ms. Black's time that resulted in such a success will be disallowed.

Q. Has Mr. Ostrander also recommended disallowing a portion of the expenses originating from PNG?

A. Yes, Mr. Ostrander has proposed disallowing all of the software costs allocated from PNG to Delta during the forecast period, which is $384,159. He alleges that Delta "capitalized these software costs to their books and included them in rate base in this rate case, [and] this means that Delta is double-recovering these costs in this rate case, once via the affiliate charge expenses, and secondly via the same amounts capitalized to rate base."[8] He also alleges that many of the costs are non-recurring.[9] Mr. Ostrander states that if Delta can demonstrate these costs are recurring and not being double-recovered, "then it may be reasonable to allow these costs to be included in PNG allocations to Delta."[10]

Q. Please respond to Mr. Ostrander's adjustment and concerns.

A. Mr. Ostrander's allegations are incorrect. While the gross allocation does appear on the income statement, the portion being capitalized appears in a contra-account resulting in the

[8] Ostrander Direct Testimony at 51.
[9] Ostrander Direct Testimony at 50.
[10] Ostrander Direct Testimony at 52.

net income statement impact of zero for capital amounts, both in the Base Period and the Test Year. This ensures there is no double-counting of the expense.

Mr. Ostrander's suggestion that the expenses are not recurring is likewise incorrect, as Mr. Ostrander is confusing *capitalized* software costs with ongoing affiliate *expense*. Delta incurred capital costs in 2020 and 2021 to implement SAP, but those SAP capital costs are not the basis of the projected affiliate expense related to software in the forecast test period. Now that Delta and PNG are both utilizing SAP, Delta is able to transition many of the "back office" SAP functions to PNG with respect to billing services and account reconciliations. Because Delta had a standalone customer account system prior to the SAP implementation, it was not possible for PNG to assist with these services. Delta repeatedly explained in data responses that its affiliate expense related to billing services has increased due to the increased provision of these services. Mr. Ostrander's suggestion that this ongoing affiliate expense is the same as the capital costs Delta has previously incurred is simply false.

<u>Income Tax Expense</u>

Q. Please summarize Mr. Ostrander's adjustment to income tax expense.

A. Delta explained in its data responses that due to a calculation error, its base period update would reflect a decrease in federal tax expense of $738,174 and state income tax expense of $39,600. These adjustments were included in the base period update Delta filed with the Commission on October 14, 2021. Mr. Ostrander's testimony recognizes those adjustments.

Q. Does Delta contest these adjustments?

A. No, it does not. Delta discovered the calculation error, disclosed it to the Commission and Attorney General, and reflected the adjustments in its base period update.

Adjustments to Capital Structure

Q. Please summarize Delta's forecasted capital structure.

A. For the forecasted test period, Delta's 13-month average projection through December 31, 2022 for its capital structure is 51.76% equity, 48.24% long term debt, and zero percent short term debt. This information can be found at Tab 63 of Delta's application.

Q. Has Mr. Baudino proposed adjustments to Delta's forecast capital structure?

A. Yes. Mr. Baudino has recommended a capital structure of 50.00% common equity, 48.24% long-term debt, and 1.76% short-term debt. As such, Mr. Baudino has proposed (1) reducing Delta's equity percentage and (2) imputed short-term debt.

Q. Is Mr. Baudino's reduction of the equity ratio reasonable?

A. No, it is not. Mr. Baudino bases his adjustment on the equity ratios of the companies in his proxy group:

Table 3
Proxy Group Equity Ratios

	2020	2021
Atmos Energy Corp.	60.0%	52.0%
New Jersey Resources	44.9%	46.0%
Northwest Natural Holding Co.	50.8%	51.0%
ONE Gas, Inc.	58.5%	36.0%
South Jersey Industries, Inc.	37.4%	36.5%
Southwest Gas Holdings, Inc.	49.5%	45.5%
Spire Inc.	51.0%	48.0%
Average	50.3%	45.0%

Source: Value Line Investment Survey, Aug. 27, 2021

The equity ratios in the proxy group contain two equity ratios that are inappropriately low – ONE Gas, Inc. at 36.0% and South Jersey Industries, Inc. at 36.5% and must be disregarded. As I explained in my direct testimony, Delta, PNG, and Essential made a commitment in Case No. 2018-00369 that Delta maintain a maximum debt-to-capitalization ratio of 55 percent. As such, if Delta were to have an equity ratio similar to either of those members of the proxy group, Delta would be in violation of its commitment to the Commission as it is prohibited from having an equity ratio of less than 45%. It is unreasonable for Mr. Baudino to utilize these companies in his proxy group with regard to Delta's capital structure.

Mr. Baudino utilized the group average ratio from 2020, which was 50.3%, to recommend a 50% equity ratio for Delta. If the two companies that violate Delta's merger commitment are removed, the average of Mr. Baudino's group for 2020 is 51.24%, which is very close to Delta's proposed equity ratio of 51.76%. This is further evidence of the reasonableness of Delta's capital structure.

Q. Is Delta's capital structure consistent with other natural gas utilities in Kentucky?

A. Yes, it is. As explained in response to Item No. 19 of Commission Staff's Third Request for Information, the 2021 year-end equity ratios for Louisville Gas and Electric Company is approximately 53%, Columbia Gas of Kentucky Inc.'s and Duke Energy Kentucky, Inc.'s is approximately 52%, and Atmos Energy Corporation's is 58%. This is yet another data point demonstrating the reasonableness of Delta's proposed capital structure.

Q. Is Mr. Baudino's adjustment consistent with his testimony in other natural gas rate cases in Kentucky?

A. No, it is not. Mr. Baudino has recommended a common equity ratio of 51.75% for Columbia Gas of Kentucky, Inc. in his September 8, 2021 Direct Testimony in Case No. 2021-00183. Mr. Baudino has recommended an even higher equity ratio of 53.5% in his September 30, 2021 Direct Testimony in Case No. 2021-00214 for Atmos Energy

Corporation. Both of Mr. Baudino's recommended equity ratios in those cases exceed Delta's proposed equity ratio in this proceeding. There is no principled reason why Delta's equity ratio should be artificially lower than other natural gas utilities in Kentucky.

Q. Is Mr. Baudino's adjustment to impute short-term debt reasonable?

A. No, it is not. Mr. Baudino provides no credible explanation as to why Delta's capital structure should be manipulated in the forecast period. Delta has made the determination that it will fund its debt needs through long-term debt and has obtained approval from the Commission to issue $26 million in long-term debt to effectuate this capital structure. Mr. Baudino's adjustment, by contrast, would impose a fictitious capital structure that does not match Delta's actual structure. Mr. Baudino provides no principled argument that a utility must have short-term debt. Instead, he appears to use this argument to support his proposed reduction of Delta's equity ratio, which, as discussed in the preceding question, is unwarranted.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

VERIFICATION

STATE OF PENNSYLVANIA	**)**	
	)	**SS:**
COUNTY OF MONTGOMERY	**)**	

The undersigned, **William C. Packer**, being duly sworn, deposes and says he is Vice President, Regulatory Accounting and Regional Controller for Essential Utilities, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.

William C. Packer

WILLIAM C. PACKER

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 5 day of November, 2021.

Maureen E Marrone (SEAL)

Notary Public

My Commission Expires:

12/18/2023

Commonwealth of Pennsylvania - Notary Seal
MAUREEN E MARRONE - Notary Public
Montgomery County
My Commission Expires Dec 18, 2023
Commission Number 1203050

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY	**)))))**	**CASE NO. 2021-00185**

REBUTTAL TESTIMONY OF
ANDREA SCHROEDER
CONTROLLER
DELTA NATURAL GAS COMPANY, INC.

Filed: November 5, 2021

Background

Q. Please state your name, position, and business address.

A. My name is Andrea Schroeder. My business address is 3617 Lexington Road, Winchester, Kentucky 40391. I am employed by Delta Natural Gas Company, Inc. ("Delta") as its Controller.

Q. What is the purpose of your testimony?

A. My testimony responds to certain adjustments proposed by the Attorney General's witness Bion Ostrander. Specifically, I respond to Mr. Ostrander's criticism of Delta's proposed regulatory asset treatment and three-year amortization of rate case expense and his proposal to remove certain of Delta's dues and lobbying expense.

Rate Case Expense

Q. Please describe Mr. Ostrander's position on Delta's rate case expense.

A. Mr. Ostrander has proposed adjustments to Delta's rate case expense that conflict with well-established Commission precedent. Mr. Ostrander recommends Delta's rate case expense be amortized over a five-year period instead of the three-year period Delta proposed. He claims a longer amortization period is appropriate because Delta did not provide specific support of a three-year amortization period and because it has been ten years since Delta last filed a rate case. He also argues that regulatory asset treatment is inappropriate for rate case expense.

Q. Has the Commission consistently approved a three-year amortization period for rate case expense?

A. Yes. A three-year amortization period for rate case expense is supported by decades of Commission precedent. The Commission has approved a three-year amortization period for rate case expenses in a litany of recent rate cases.[1] The Commission has explained that a three-year amortization period for rate case expense is "normally permitted by the Commission" and "[c]onsistent with the Commission's normal ratemaking practices."[2] Furthermore, in Delta's last rate case, the Commission explained: "[W]hile exceptions exist, the Commission generally has permitted amortization of a utility's actual rate case expenses over a three-year period."[3]

Q. In approving a three-year amortization period for rate case expense, has the Commission typically opined on the timing of the utility's next rate case?

A. No. To my knowledge, the Commission has not linked the approval of a three-year amortization period with an expectation that a utility would file its next rate case in three years.

Q. Has the Commission previously considered the Attorney General's proposal for a five-year amortization period?

A. Yes. In Case No. 2000-00080, the utility proposed to amortize rate case expense over three years and the Attorney General argued a five-year amortization period should instead be used. Like in the present case, the Attorney General argued in Case No. 2000-00080 that

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[1] *See, e.g.*, *Electronic Application of East Kentucky Power Cooperative, Inc. for a General Adjustment of Rates, Approval of Depreciation Study, Amortization of Certain Regulatory Assets, and Other General Relief*, Case No. 2021-00103, Order (Ky. PSC Sept. 30, 2021); *Electronic Application of B & H Gas Company, Inc. for an Alternative Rate Adjustment*, Case No. 2020-00364, Order (Ky. PSC Sept. 10, 2021) ("The Commission finds that B & H should only recover its actual rate case expense, which should be amortized over three years . . . ."); *Electronic Application of Kenergy Corp. for a General Adjustment of Rates Pursuant to Streamlined Procedure Pilot Program Established in Case No. 2018-00407*, Case No. 2021-00066, Order (Ky. PSC June 24, 2021); *Electronic Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates*, Case No. 2020-00160, Order (Ky. PSC Dec. 8, 2020) ("The Commission finds this amount [of rate case expense] reasonable but finds that a three-year amortization period is more appropriate."); *Electronic Application of Meade County Rural Electric Cooperative Corporation for an Adjustment of Rates*, Case No. 2020-00131, Order (Ky. PSC Sept. 16, 2020); *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates*, Case No. 2018-00358, Order (Ky. PSC June 27, 2019).

[2] *Application of Big Rivers Electric Corporation for an Adjustment of Rates*, Case No. 2012-00535, Order (Ky. PSC Oct. 29, 2013).

[3] *Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates*, Case No. 2010-00116, Order (Ky. PSC Oct. 10, 2010).

there was no evidence in the record that would support the utility filing a rate case within three years and that it had been ten years since the utility last filed a rate case. The Commission disagreed with the Attorney General, stating that the "AG has not presented any evidence to persuade the Commission to abandon its approach of amortizing rate case expense over 3 years. For these reasons the Commission finds a 3-year amortization period is appropriate . . . ."[4]

Q. Has the Attorney General presented a compelling reason for the Commission to stray from precedent and approve a five-year amortization period for rate case expenses?

A. No. The Commission has already considered the exact arguments the Attorney General raises and concluded that a three-year amortization period was appropriate. Delta should not be penalized for defraying rate increases over a longer period than other utilities. A three-year amortization period is reasonable and should be approved.

Q. Is regulatory asset treatment appropriate for Delta's rate case expense?

A. Yes. The Commission has allowed regulatory asset treatment for rate case expense. This treatment ensures the expense of a rate case is equally shouldered by present and future customers. Delta requested the amortization of its actual rate case expense in its Application at Tab 57, Schedule D-2.9. Delta reiterated its request for authority to record rate case expense as a regulatory asset in its supplemental response to Commission Staff 1-12, which it filed on August 12, 2021. I am aware of no other deferral accounting method for amortizing an expense over a multi-year period without authority to record it as a regulatory asset.

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[4] *The Application of Louisville Gas and Electric Company to Adjust its Gas Rates and to increase its Charges for Disconnecting Service, Reconnecting Service and Returned Checks*, Case No. 2000-00080, Order (Ky. PSC Sept. 27, 2000).

Q. Is Delta updating its rate case expenses for actuals?

A. Yes. Delta updated its estimated rate case expense at Tab 57 of its base period update, which it filed on October 14, 2021. The Commission has consistently allowed the recovery of actual rate case expenses even in forecasted rate cases.[5]

Dues and Lobbying Expense

Q. Did Delta appropriately remove from its revenue requirement portions of its dues and lobbying expense that are directly related to lobbying?

A. Yes. Delta provided the association dues included in its revenue requirement at Tab 59 in its Application. As Delta explained in response to Attorney General 1-6, Delta removed from its revenue requirement the portions of association dues attributable to lobbying based on the lobbying percentages identified in the organization's invoice.[6]

Q. Does Mr. Ostrander propose to remove a larger portion of certain association dues than the amount identified as lobbying on the associations' invoices?

A. Yes. Mr. Ostrander proposes to remove *all* of Delta's American Gas Association ("AGA"), Kentucky Oil and Gas Association ("KOGA"),[7] Kentucky Gas Association ("KGA"), and Southern Gas Association ("SGA") dues from the revenue requirement.

Q. What does Mr. Ostrander provide as support for his assertion?

[5] *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year*, Case No. 2010-00036, Order (Ky. PSC Dec. 14, 2010) ("[T]he Commission has historically used actual costs to determine rate case expense even in proceedings in which a forward-looking test period is used."); *see also*, *e.g.*, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates*, Case No. 2018-00281, Order (Ky. PSC May 7, 2019).

[6] Delta inadvertently failed to remove portions of dues for three associations when it filed its Application. Delta made these corrections in its base period update.

[7] Mr. Ostrander refers to the Kentucky Oil and Gas Association as the Kansas Oil and Gas Association. Delta is not a member of the Kansas Oil and Gas Association. Delta assumes Mr. Ostrander intends to refer to the Kentucky Oil and Gas Association.

A. Very little. He relies on the Commission's recent decision in Case Nos. 2020-00349 and 2020-00350, which disallowed Edison Electric Institute dues. He states that this supports the removal of all AGA, SGA, KGA, and KOGA dues. He neglects to mention that in Case No. 2020-00350, the utility also paid AGA, SGA, and KGA dues and excluded no more than the portion of dues that Delta has excluded. The Commission did not remove any further portion of the AGA, SGA, or KGA dues.

Q. Has Delta met its burden of proof in demonstrating that AGA, SGA, KGA, and KOGA dues are properly recoverable from its customers?

A. Yes. Delta's employees participate in these industry associations and organizations to gain knowledge, training, timely information, and experience throughout the industry to allow Delta to provide service to its customers in the most economical, cost-effective, safe, and reliable manner. Delta described the significant benefits these organizations provide in response to Attorney General 1-6. Delta derives outstanding value from these associations and the associations play an important role in Delta's provision of safe and reliable service.

Q. Mr. Ostrander also discusses removing a portion of Kentucky Chamber of Commerce ("Kentucky Chamber") and Kentucky Association for Economic Development ("KAED") dues. Does Delta dispute this adjustment?

A. No. Mr. Ostrander proposes to remove 15 percent of the Kentucky Chamber[8] dues and 7.2 percent of the KAED dues. As Delta explained in response to Attorney General 1-6, Delta inadvertently failed to exclude these portions of Kentucky Chamber and KAED dues. Delta corrected this in its base period update.

[8] Mr. Ostrander refers to the Kentucky Chamber as the Kansas Chamber. Delta is not a member of the Kansas Chamber. Delta assumes Mr. Ostrander intends to refer to the Kentucky Chamber.

Q. Please describe the services Capital Link Consultants provides and Mr. Ostrander's proposal to remove certain of these costs.

A. Delta engages Greg Coker of Capital Link Consultants to provide a variety of services for Delta. His services are primarily not lobbying-related and include a variety of external and media responsibilities. Mr. Coker also manages specific projects for Delta on an as-needed basis. Delta included a full list of Mr. Coker's responsibilities in response to Attorney General 2-17. As Delta explained in response to Attorney General 2-17, Delta pays Capital Link Consultants a monthly retainer of $3,500 for these services. This fee has remained flat for nearly a decade. Delta receives a great number of services from Capital Link Consultants for this fee and Delta believes it is the most economical manner to staff these matters.

Mr. Coker also serves as Delta's lobbyist. On an annual basis, Delta asks Mr. Coker to provide the portion of his time spent lobbying. In accordance with Mr. Coker's determination that 20 percent of his professional services are related to lobbying, Delta removed 20 percent of Mr. Coker's fees from the revenue requirement. Mr. Ostrander ignores the many services that Mr. Coker provides to Delta and proposes that all of the Capital Link Consultants' costs be disallowed. There is no basis for the disallowance Mr. Ostrander recommends.

Q. Does Mr. Ostrander also recommend the disallowance of a portion of the payroll costs of an employee who is a registered lobbyist?

A. Yes. The Attorney General asked Delta to identify all employees of Delta and affiliates that are registered lobbyists. Delta identified two Essential employees who are registered lobbyists in *Pennsylvania*. Only costs related to Kimberly Joyce, Vice President, Regulatory & Legislative Affairs for Essential, are allocated to Delta. Ms. Joyce indicated that five percent of her time is related to lobbying activities; therefore, it may be reasonable to remove $493.27 from the revenue requirement. Delta provided details of the allocations and support for Ms. Joyce's estimate in response to Attorney General 2-18. Delta made this adjustment in its base period update.

Mr. Ostrander arbitrarily argues that 50 percent of Ms. Joyce's payroll costs allocated to Delta should be removed from the revenue requirement. He does not dispute Ms. Joyce's lobbying estimate and provides no support for her spending 50 percent of her time on lobbying. This recommendation is arbitrary and baseless and should not be considered.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF CLARK)

The undersigned, **Andrea Schroeder**, being duly sworn, deposes and says she is Controller of Operations of Delta Natural Gas Company, Inc., that she has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of her information, knowledge, and belief.

Andrea Schroeder
ANDREA SCHROEDER

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 4th day of November, 2021.

Emily P. Bennett (SEAL)
Notary Public

My Commission Expires:
6/20/24

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY	**)))))**	**CASE NO. 2021-00185**

REBUTTAL TESTIMONY OF
WILLIAM STEVEN SEELYE
MANAGING PARTNER
THE PRIME GROUP, LLC

Filed: November 5, 2021

Q. Please state your name and business address.

A. My name is William Steven Seelye. My business address is 2604 Sunningdale Place East, La Grange, Kentucky 40031.

Q. By whom and in what capacity are you employed?

A. I am the managing partner for The Prime Group, LLC, a firm located in La Grange, Kentucky, providing consulting and educational services in the areas of utility regulatory analysis, revenue requirement support, cost of service, rate design and economic analysis.

Q. On whose behalf are you testifying in these proceedings?

A. I am testifying on behalf of Delta Natural Gas Company ("Delta"), which provides natural gas transportation and sales service in central and southeastern Kentucky.

Q. Did you submit direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address Kentucky Office of the Attorney General's ("AG's") witness Bion C. Ostrander's recommendation to set Delta's cash working capital ("CWC") to zero. I will also address Mr. Ostrander's recommendation to remove accounts payable from prepaids and CWIP balances.

Q. Please describe Mr. Ostrander's proposal regarding CWC.

A. Mr. Ostrander proposes to set Delta's CWC as zero "as reasonable compromise between Delta's original CWC of $2,000,869 and Delta's revised lead/lag study showing a negative CWC of ($213,233)."

Q. Do you agree with Mr. Ostrander's recommendation?

A. No. While Mr. Ostrander's recommendation is not an unreasonable position, it continues to be my recommendation that the 1/8th methodology that has been used by Delta for decades to calculate CWC should be used in this proceeding. If the Commission determines that a lead/lag study is more appropriate, then the Commission should put Delta on notice that in future proceedings that its CWC should be supported by a lead/lag study. In this proceeding, Delta followed the long-standing established practice accepted by the Commission in all of Delta' prior rate cases over the past 20 years or more (for example, in Case Nos. 99-176, 2004-00067, 2007-00089, and 2010-00116). I am unaware of any statute or regulation that requires CWC to be determined based on a lead/lag study. Accordingly, it would be reasonable for the Commission to put Delta on notice prior to requiring that CWC should be determined based on a lead/lag study.

Q. But didn't you sponsor the lead/lag study used to determined CWC for Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E")?

A. Yes. However, it is important to understand that prior to submitting lead/lag studies in rate cases, KU and LG&E had reached an agreement in a prior rate case stipulation and settlement agreement to submit lead/lag studies in their subsequent rate cases. No such requirement was agreed to or otherwise ordered by the Commission in any of Delta's previous rate cases. Therefore, it does not seem reasonable to require CWC to be determined based on a lead/lag study when Delta has never agreed to use a lead/lag study to determine CWC nor previously been ordered by the Commission to determine CWC based on a lead/lag study.

Q. Are there other problems with setting CWC at zero in this proceeding?

A. Yes. Setting CWC at zero -- or even worse at a negative amount -- would penalize Delta for taking steps to improve its cash management practices. While setting CWC at zero does represent a compromise between Delta's proposed CWC of $2,000,869 and the CWC of ($213,233) from the lead/lag study that Delta was directed to perform for PSC DR 3-29, even this compromise, which is skewed against Delta, would effectively penalize Delta for its managerial effectiveness. It is my view that a more reasonable approach would be for the Commission to accept Delta's proposed CWC based on the 1/8th methodology in this proceeding and put Delta on notice that in future rate cases that CWC should be supported by a lead/lag study. As an alternative, in the true spirit of compromise, the CWC could be set in this proceeding at a level halfway between the $2,000,869 and ($213,233), which would result in a CWC of $893,818 [($2,000,869 + (213,233)) / 2 = $893,818.]

Q. Mr. Ostrander proposes an adjustment to remove accounts payable of $117,048 from the prepaids and accounts payable of $14,335 from CWIP balances. Do you agree with these adjustments?

A. Yes. The reasons given by Mr. Ostrander for these adjustments are reasonable.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF FRANKLIN)

The undersigned, **William Steven Seelye**, being duly sworn, deposes and says he is a Principal of The Prime Group, LLC, that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.

WILLIAM STEVEN SEELYE

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 4 day of November, 2021.

Jennifer Shearer (SEAL)
Notary Public

My Commission Expires:

May 26, 2024