

**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)	Case No. 2021-00185
AND A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY)	

INITIAL DATA REQUESTS OF THE ATTORNEY GENERAL

The Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (“Attorney General”) submits these Data Requests to Delta Natural Gas Company, Inc. (hereinafter “Delta” or the “Company”) to be answered by July 28, 2021 and in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate requested item will be deemed a satisfactory response.
- (2) Identify the witness who will be prepared to answer questions concerning each request.
- (3) Repeat the question to which each response is intended to refer.
- (4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.
- (5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification of the

preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

(6) If you believe any request appears confusing, please request clarification directly from undersigned Counsel for the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self-evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, notify the Office of the Attorney General and KIUC as soon as possible, and in accordance with Commission direction.

(10) As used herein, the words "document" or "documents" are to be construed broadly and shall mean the original of the same (and all non-identical copies or drafts thereof) and if the original is not available, the best copy available. These terms shall include all information recorded in any written, graphic or other tangible form and shall include, without limiting the generality of the foregoing, all reports; memoranda; books or notebooks; written or recorded statements, interviews, affidavits and depositions; all letters or correspondence; telegrams, cables and telex messages; contracts, leases, insurance policies or other agreements; warnings and caution/hazard notices or labels; mechanical

and electronic recordings and all information so stored, or transcripts of such recordings; calendars, appointment books, schedules, agendas and diary entries; notes or memoranda of conversations (telephonic or otherwise), meetings or conferences; legal pleadings and transcripts of legal proceedings; maps, models, charts, diagrams, graphs and other demonstrative materials; financial statements, annual reports, balance sheets and other accounting records; quotations or offers; bulletins, newsletters, pamphlets, brochures and all other similar publications; summaries or compilations of data; deeds, titles, or other instruments of ownership; blueprints and specifications; manuals, guidelines, regulations, procedures, policies and instructional materials of any type; photographs or pictures, film, microfilm and microfiche; videotapes; articles; announcements and notices of any type; surveys, studies, evaluations, tests and all research and development (R&D) materials; newspaper clippings and press releases; time cards, employee schedules or rosters, and other payroll records; cancelled checks, invoices, bills and receipts; and writings of any kind and all other tangible things upon which any handwriting, typing, printing, drawings, representations, graphic matter, magnetic or electrical impulses, or other forms of communication are recorded or produced, including audio and video recordings, computer stored information (whether or not in printout form), computer-readable media or other electronically maintained or transmitted information regardless of the media or format in which they are stored, and all other rough drafts, revised drafts (including all handwritten notes or other marks on the same) and copies of documents as hereinbefore defined by whatever means made.

(11) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained;

and, the nature and legal basis for the privilege asserted.

(12) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(13) Provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response, in compliance with Kentucky Public Service Commission Regulations.

(14) “And” and “or” should be considered to be both conjunctive and disjunctive, unless specifically stated otherwise.

(15) “Each” and “any” should be considered to be both singular and plural, unless specifically stated otherwise.

(16) “Update” indicates that the request should be periodically updated through the course of this matter.

Respectfully submitted,

DANIEL J. CAMERON
ATTORNEY GENERAL

A handwritten signature in blue ink that reads "J. Michael West". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

J. MICHAEL WEST
LAWRENCE W. COOK
ANGELA M. GOAD
JOHN G. HORNE II
ASSISTANT ATTORNEYS GENERAL
700 CAPITAL AVE, SUITE 20
FRANKFORT, KY 40601-8204
PHONE: (502) 696-5433
FAX: (502) 573-1005
Michael.West@ky.gov
Larry.Cook@ky.gov
Angela.Goad@ky.gov
John.Horne@ky.gov

Certificate of Service and Filing

Pursuant to the Commission's Order dated March 17, 2020 in Case No. 2020-00085, and in accord with all other applicable law, Counsel certifies that, on July 14, 2021, an electronic copy of the forgoing was served by e-mail to the following. A physical copy of the filing will be submitted to the Commission once the State of Emergency has ceased.

Monica H. Braun
Mary Ellen Wimberly
Katelyn L. Brown
monica.braun@skofirm.com
Maryellen.wimberly@skofirm.com
Katelyn.brown@skofirm.com

this 14th day of July, 2021.

A handwritten signature in blue ink, appearing to read "J. Michael West".

Assistant Attorney General

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

First Set of Data Requests

1. **Data Request Responses from Other Parties.** Please provide the OAG with copies of all Company data request responses (and all attachments and other documents) provided to other intervenors and parties in this proceeding.
2. Refer to the Application generally. Provide a succinct list that identifies all proposed pro forma adjustments, the amount of each pro forma adjustment, along with a brief description of each adjustment.
3. Refer to the Application generally. Taking into account the economic issues that were already present in a large portion of Delta's service area before the COVID-19 pandemic, and the exacerbated economic issues that the COVID-19 pandemic has caused, explain how Delta's ratepayers will be able to afford an increase in natural gas rates.
4. Did the Company receive funds under Paycheck Protection Program? If it did:
 - a. Provide the total amount received under the program.
 - b. Discuss whether that amount must be repaid.
 - c. Discuss how those funds were applied.
 - d. Discuss whether those funds offset increases to the revenue required by the Company.
5. Confirm that the reconnection charge charged by the Company will not increase under the proposed rates.
6. Identify all association dues included in the revenue requirement. For each instance where those dues were include:
 - a. Provide the name of the association to which those are paid;
 - b. Provide the amount;
 - c. Provide a description of the services the association provides to the Company;
 - d. Discuss whether the association engages, directly or indirectly, in lobbying; and
 - e. Discuss whether any portion of the dues paid to that association have been removed from the revenue requirement.
7. Provide the amount of 401k costs expensed within the i) base Period and ii) forecast period related to employees who are covered under a defined benefit plan.

Return on Equity

8. Refer to Attachment PRM-5.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- a. Explain why short-term debt capital was removed from the test period 2022 capital structure.
 - b. Provide the cost rate for short-term debt capital for the 13-month periods ending August 31 and December 31, 2021. Provide supporting work papers and documentation, including spreadsheets with cell formulas intact.
 - c. Provide Delta's historical 13-month average capital structures for the years 2015 through 2020. Provide the historical cost rates for long-term and short-term debt and the earned returns on common equity for each historical year
9. Provide any information in Mr. Moul's or Delta's possession on state Commission-allowed returns on equity from January 2020 through the most recent month in 2021. Identify whether the allowed returns were based on litigated rate cases and/or settlements.
10. Refer to Attachment PRM-10.
- a. To Mr. Moul's knowledge, has his financial risk adjustment ever been accepted in other rate proceedings? If so, provide the docket number, the jurisdiction, and a copy of all Orders accepting Mr. Moul's financial risk adjustment.
 - b. Provide the basis for the Hamada calculations, including copies of articles or text support that show the formula used by Mr. Moul and its derivation.
 - c. Provide the basis for the M&M calculations, including copies of articles or text support that show the formula used by Mr. Moul and its derivation.
11. Refer to page 26, lines 12 through 17 of Mr. Moul's Direct Testimony.
- a. Provide support for Mr. Moul's statement that a "leverage adjustment properly accounts for the risk differential between market-value and book-value capital structures." Provide copies of any articles, studies, textbook excerpts, or other documentary support.
 - b. Provide support that a leverage adjustment "must" be made to the DCF in a utility regulatory context. Provide copies of any articles, studies, textbook excerpts, Commission orders, or other documentary support.
12. Refer to page 27, lines 12 through 14 of Mr. Moul's Direct Testimony. Provide support for Mr. Moul's statement that the leverage adjustment uses "well recognized analytical procedures that are widely accepted in the financial literature." Provide copies of any articles, studies, textbook excerpts, or other documentary support.

Missing Excel Documents and Responses:

13. **Missing Excel Documents for Tabs.** Most of the Company's Tabs (with filing requirements information) were provided in Excel format in response to Commission Staff's ("Staff") first series of data requests, questions 54 (1-54). However, the OAG was unable to locate Excel format documents for Company Tabs 32, 33, 44, 55 and 58. Please

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

provide working Excel documents in electronic format with all spreadsheet links and formulas intact, source data used, and explain all assumptions and calculations used for the Tabs mentioned above. Otherwise, cite to how and when these Excel documents have been provided.

14. **Missing Excel Documents in Response to Staff’s First Data Request.** There are certain “PDF” schedules, attachments, and spreadsheet-type documents included with some of the Company’s responses to Staff’s First Series of Data Requests, but OAG could not locate a working Excel document (corresponding to the PDF document) provided with these responses (or in response to Staff question 54). Please provide working Excel documents (public and confidential) in electronic format with all spreadsheet links and formulas intact, source data used, and explain all assumptions and calculations used for Staff’s first series of data requests, questions number 1, 2, 3, 4, 5, 6, 7, 12, 19, 20, 22, 23, 24, 25, 39 Confidential, 44, and 51 (1-1, 1-2, 1-3, 1-4, 1-5, 1-6, 1-7, 1-12, 1-19, 1-20, 1-22, 1-23, 1-24, 1-25, 1-44, and 1-51). If these Excel documents have been provided, please cite to how and when they were provided.
15. **Missing Response Staff Data Request 1-36.** Staff’s First Series of Data Requests, question 36 (Staff DR 1-36), requested payroll-related information for several periods including the “forecasted test period.” However, no information was provided for the forecasted test period, please provide this information.

Financial, Organizational and Supporting Documents:

16. **Rate Base Adjustments and Differences.** Delta provides numerous Tabs (and workpapers) where its proposed individual Adjustments to operating income accounts (revenues and expenses) are identified, along with supporting Excel workpapers, such as Tab 57, Schedule D-1 and Schedule D-2 (and individual Excel workpapers are provided for each of the revenue and expense adjustments at Schedules D-2.1, D-2.2, D-2.3, etc.). Also, Tab 56, Schedule C-1 shows adjustments from Base Period to Forecasted test period for each primary operating revenue and expense account. However, the OAG could not find similar Tabs or workpapers identifying the individual Company proposed adjustments to each of the Rate Base accounts, such as Plant in Service, Plant Under Construction, Materials & Supplies, Accumulated Depreciation, etc. For example, it is difficult to determine how much of the change in rate base components from December 31, 2020 to Base Period, and from Base Period to Forecasted test period, is due to forecasting versus other specific “rate case type” adjustments. Address the following:
 - a. Provide working Excel spreadsheets/workpapers (or identify Tabs and related workpapers where this information is located) identifying each of the Company proposed adjustments to rate base accounts/components, in a manner similar to the spreadsheet/workpapers provided in support of revenue and expense accounts.
 - b. Tab 27 (Schedule 6), Tab 55 (page 1), and other workpapers show a final Forecasted test period December 31, 2022 Rate Base of \$136,735,989. However,

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Tab 33 shows a different Forecasted test period Rate Base of \$141,005,115 (with the difference from the other workpapers appearing to be in the Plant in Service account). Explain why Tab 33 shows a different Rate Base amount and identify which Rate Base amounts are correct for this case, and provide all necessary revisions to Company workpapers.

17. Provide Trial Balance (UPDATE). Provide a separate Trial Balance for Delta and PKY of all income statement and balance sheet accounts (including subaccounts) in the following format for periods 2019, 2020, and 2021 (and provide monthly updates for the 2021 Trial Balance as they become available):

- a. For the calendar year Trial Balances for 2019, 2020, and 2021 year-to-date (provide monthly Trial Balance updates for 2021 as they become available), for each account number, provide columns showing:
 - i) the monthly balance for each account.
 - ii) the change in the monthly balance from the prior month (for each account).
 - iii) the change in the monthly balance from the same month of the prior year (for each account).
 - iv) the cumulative year-to-date balance for each account (for example, for September 2019, the cumulative balance from January 2019 to September 2019 for each account would be provided).
 - v) The change in the cumulative year-to-date balance from the cumulative year-to-date balances of the prior year (for each account).

18. Reconcile Trial Balance Amounts to Rate Case Base Period Amounts (UPDATE). Address the following regarding reconciling the Trial Balance to account balances in this rate case:

- a. Please reconcile the actual per book Trial Balance amounts of Delta and PKY for each month and cumulative year-to-date (for each account) to the monthly and cumulative amounts for each account included in the revenue requirement (for income statement operating accounts and amounts included in rate base and capital structure) for the Base Period September 1, 2020 to August 31, 2021 and for the Forecasted Test Period Ending December 31, 2022 (Witness Andrea Schroeder's direct testimony, page 7, line 1, states that for the Forecasted Test Period, all Delta and PKY data is combined). In all cases, explain the reasons for the differences in amounts for each account between the Trial Balance and the revenue requirement Base Period, and identify those amounts that are treated as below-the-line amounts for rate case purposes.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- b. Regarding (a) above, provide timely periodic updates as each actual month of the 2021 Trial Balance becomes available, and as the Company substitutes actual amounts for budgeted amounts in the Base Period.
- c. Because the Base Period of September 2020 to August 31, 2021 overlaps the calendar year ending period of December 31, 2020 explain why Delta has, or has not, made adjustments to its revenue requirements to remove year-end accruals that were included in the calendar year ending December 31, 2020 financial data – so that financial data for the Base Period ending August 31, 2021 is properly reflected. Identify and provide all adjustments by account number that are necessary to remove accruals (and make other adjustments) from calendar year ending December 31, 2020 financial data so that the Base Period financial data for the twelve months ending August 31, 2021 is reasonable and accurate.

19. Updated Base Period Financials and Adjustments. Delta’s revenue requirement as filed uses a Base Period consisting of seven months of actual financial data (September 2020 to March 2021) and five months of budgeted financial data (April to August 2021) for the period September 1, 2020 through August 31, 2021. Address the following:

- a. Explain the date when Delta will update its filing and Base Period financial amounts to substitute actual financial data for the current budgeted financial data for the months April 2021 to August 2021. Or explain if Delta will periodically update its filing as each new month of actual financial data becomes available, and provide the dates when these updates will be made.
- b. Explain the time period lag from the end of each month and when the monthly financials are finalized and available for review (for example, how many days after May 31st will the May 2021 financial data be available).
- c. Regarding (a) and (b) above, explain when Delta will update its filing to provide its revised revenue requirement adjustments (such as at Tab 56), to reflect the substitution of actual monthly financial amounts for current budgeted financial amounts for the months April 2021 to August 2021 (and to reflect its filing on a forecasted basis).

20. Rate Base Comparison for Prior Years (UPDATE). Tab 33 provides a high level comparison of the primary account balances in rate base for December 31, 2021 through 2024, provide similar comparative data for prior periods and provide periodic updates to actual for the Base Period (and months after the base period) as they occur per the following:

- a. Provide a similar schedule as Tab 33 that shows a high level comparison of primary rate base account balances for prior years ending December 31, 2017 through December 31, 2020, plus March 31, 2021, along with updates for each month in 2021 as they become available (it is not necessary to provide the balance for cashing

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

working capital for prior periods ending December 31, 2017 to December 31, 2020). Provide columns showing the change in amounts from prior years.

- b. For each of the periods in (a) above, provide a separate Delta and PKY Balance Sheet and reconcile the amounts from the Balance Sheet to the high level comparison of primary rate base account balances.
 - c. In addition to information in (a) and (b), provide a Trial Balance (or other similar supporting documentation) showing the detailed primary accounts included in Plant in Service for Delta and PKY for each year/period requested. Also, provide columns showing the change in plant additions by account from prior years.
21. **Chart of Accounts Correction.** The Chart of Accounts at Tab 43 is intended to show the SAP account number and the corresponding FERC account number. However, the Balance Sheet account descriptions do not show the correct corresponding FERC accounts, but instead show the Operating Expense FERC account numbers (the Operating Expense descriptions do not show any corresponding FERC account numbers). Please correct Tab 43, so the proper FERC account numbers are provided for the Balance Sheet descriptions and so the proper FERC account numbers are lined up with the correct corresponding Operating Expense descriptions.
22. **Strategic Business Plan.** Witness William C. Packer’s direct testimony (page 4, lines 14 – 15) states that Essential prepares a multi-year Strategic Business Plan. Address the following:
- a. Provide the Strategic Business Plans (“Plan”) for Delta, PKY, PNG, and Essential for each of the prior years 2011 through 2021, including all Strategic Business Plans that address future years.
 - b. Explain when the Plan is prepared each year, and identify those personnel with each parent/holding company and affiliates (and their related positions) that primarily prepare the Plan.
 - a. Explain when the Plan is approved each year, and identify the Board, entities, or persons that approve the Plan.
23. **Internal Audits.** Explain if an internal audit is prepared for any operations of Essential, PNG, Delta, or PKY. If the answer is “yes”, then provide these internal audits for the calendar periods 2015 to 2021, and identify those recommended changes that were made and those that were not made (and explain why the recommendations were not made).
24. **Executive Officers for Each Affiliate.** Provide an organization chart and descriptive information showing the names and positions of all Executive/Officer positions (including, but not limited to Vice Presidents, Controller, and other financial/operations personnel) for Essential, PNG, Delta, PKY, and other affiliates and state operation. In addition, briefly explain the duties and responsibilities of each position (for example, by distinguishing the

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

roles of any “regional” officers versus state-specific or affiliate-specific officers). In all cases, identify the regions and state jurisdictions for which each officer has responsibility.

Budget Process Used to Prepare Forecasted Test Year Data:

25. **New Adjustments.** As Delta continues to update its Base Period financial data to substitute actual per book revenue, expense, capital/construction, depreciation, and capital structure amounts for the five months of budgeted amounts, address the following:

- a. Explain if Delta will add new or additional types of adjustments to this rate case to arrive at its final Forecasted Test Period amount at December 31, 2022. If the answer is “yes”, then explain those types of adjustments that are more likely to be revised given Delta’s awareness at this time (or provide all known revisions to-date).
- b. Explain if Delta is allowed to add new or additional types of adjustments as it updates its budgeted base period monthly amounts to actual per book monthly amounts (and cite to rate case filing requirements, statute, and other provisions that allows this).

26. **Updated Budget Variance Reports (UPDATE).** Tab 45 provides a monthly budget variance report for operating income statement accounts from September 2019 to March 2021. Address the following:

- a. Provide updated monthly budget variance reports (in the same format as Tab 45) for all months after March 2021 through the conclusion of this proceeding as they become available.
- b. Provide monthly budget variance reports (in the same format as Tab 45 for all months from January 2017 to August 2019).
- c. Per the monthly budget variance report at Tab 45, provide a year-to-date cumulative variance report (cumulative of all months by account number) for the calendar years 2017, 2018, 2019, 2020, and for the base period September 2020 to August 31, 2021 (provide cumulative balances through the most recent date in 2021, and provide updates as additional months become available).

27. **Variance Reports for Construction Costs (UPDATE).** Tab 45 provides a monthly budget variance report for operating income statement accounts. Address the following:

- a. Provide an annual budget variance report (for the entire year, not on a monthly basis) in a similar format as Tab 45 (including the amount and percent variance, along with an explanation for the variance) for the capital/construction budget for calendar years 2015 through 2020. Also, provide this same information on a year-to-date basis through 2021 (and provide monthly updates through the conclusion of this proceeding).

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- b. Explain if Delta prepares a monthly or annual capital/construction budget variance report as part of its management reports, and if not, then explain how construction projects are periodically monitored and provide copies of other reports and documentation that were reviewed regarding the capital/construction budget for calendar years 2015 through 2021 year-to-date.
28. **Budget and Forecast Process.** Provide a copy of Delta’s formal written budgeting and forecasting procedures, guidelines, and methods for the revenue budget, expense budget, and the capital/construction budget for the period January 2017 through the most recent date available, and explain the changes made to these budgeting/forecasting procedures, guidelines and methods during this period (and the reasons for those changes).
29. **Budget/Forecast Issues.** Witness John B. Brown’s direct testimony (page 10, lines 22 – 23) states that Delta has utilized the budget process to prepare forecasted test year information in this case. Also, he explains that the capital budget is provided to PNG’s Capital Review Committee and the Board for approval, although he does not discuss any similar budget approval process for the operating expense budget other than approval by “senior leadership” (page 11, lines 1 – 17). Also, Witness William C. Packer (page 5, lines 2 to 4) states that at Essential, the state subsidiary President and chief financial personnel (such as the state Controller), direct the preparation of budgets. Address the following:
- a. Please clarify if Delta intends to use the terms “budget” and “forecast” as having the same meaning, and explain if the expense “budget” is the same as the expense “forecast.” If there are differences between the expense “budget” and expense “forecast”, then explain the reasons for these differences and explain how the Company uses and relies upon the “budget” compared to the “forecast.” Also, provide both the expense budget and forecast (by account number) for each of the calendar years 2017 to 2020, and 2021 year-to-date, and identify and reconcile all differences in amounts by account number (or type of expense, such as payroll), and explain why these differences exist.
 - b. Explain if Delta uses the same expense budget/forecasting process on a year-to-year recurring basis (when no rate cases are filed), as was used in this rate case (which uses “rate case-type adjustments” to adjust from base period amounts to a forecasted amounts). Explain why or why not.
 - c. If Delta uses a different expense budget/forecasting process in years when no rate cases are filed, explain that budget/forecasting process in detail (provide copies of these formal written budget/forecasting procedures, guidelines and methods) and explain why that budget/forecasting process was not used in this rate case.
 - d. For each of the four prior calendar years 2017 to 2020, provide the annual expense budgets (it is not necessary to provide on a monthly basis) by account number, and provide the:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- i) underlying base period amounts (and identify which calendar years to which these correspond) as the starting point for the budget (similar to the base period of September 2020 to August 31, 2021 being the base period in this rate case).
 - ii) total annual amount of adjustments to each expense account or type of expense (such as payroll), similar to the rate-case type adjustments in this rate case.
 - iii) final budgeted/forecasted expense (resulting from base period plus adjustments similar to the process used in this rate case), and reconcile this to the final budgeted/forecasted expense amount.
- e. Explain if the revenue budget and the expense budget are approved by a Committee or the Board (similar to the Capital budget process), and explain why or why not. If the revenue and expense budgets are instead approved by “senior leadership” then identify which specific employees/positions comprise senior leadership and explain this process (explain if the state subsidiary President or state Controller that direct the preparation of budgets are also the same leadership team that approve the budgets).
 - f. Regarding (e) above, provide a copy of the specific revenue budgets and expense budgets provided to Committees or the Board for approval for calendar years 2017 to 2020 (and provide copies of Minutes or other documentation showing when and how these budgets were approved). Otherwise, provide a copy of the 2017 to 2020 revenue and expense budgets provided to “senior leadership” for approval, and provide documentation to show these budgets were formally approved, the date of approval, and any debate or discussion regarding the budgets (and provide the names and positions of those senior leaders that approved the budgets).
30. **Annual Budget.** Witness Packer (page 5, lines 14 – 15), states that Essential, in coordination with all of its subsidiaries, annually prepares the Operating Budget for the most current year. Address the following:
- a. Explain if Essential prepares an annual consolidated revenue and expense budget including all subsidiaries (including Delta). If the answer is “yes”, then provide this consolidated budget for each calendar year 2017 to 2020, and 2021 year-to-date. Provide the consolidated revenue and expense budgets and each of the individual subsidiary budgets included in the consolidated amounts (including Delta).
 - b. Explain if Essential’s consolidated revenue and expense budget, and the individual revenue and expense budgets of each subsidiary, use the same methods and process to prepare a budget/forecast as used in this rate case by Delta. Explain all differences in the budgeting/forecasted methods and processes used by other subsidiaries, compared to the methods and processes used by Delta in this rate case.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

31. Discretionary Amounts in Rate Case. Address the following regarding Delta’s revenue budget, expense budget, and capital budget and forecasted test period amounts ending December 31, 2022, that is used in this rate case:

- a. Explain if the December 31, 2022, forecasted test year revenue and expense amounts in this rate case include any new, additional, or discretionary types of revenues and expenses that were not included in the base period financials (September 1, 2020 to August 31, 2021) or the underlying budgets. If the answer is “yes”, then identify all these amounts by account number and description, and provide a reference to related testimony and other supporting documents that refer to these amounts.
- b. Explain if the December 31, 2022, forecasted test year capitalized/construction amounts included in rate base of this rate case include any new, additional, or discretionary types of capital/construction projects that were not included in the base period financials (September 1, 2020 to August 31, 2020) or the underlying budgets. If the answer is “yes”, then identify all these amounts by account number and description, and provide a reference to related testimony and other supporting documents that refer to these amounts.

Significant Changes/Fluctuation in Expenses:

32. Significant Fluctuations in Expense Accounts. Delta’s Excel spreadsheet titled “DELTA_R_PSCDR1_NUM054_061121_Rate_Model_CONF” (and the specific tab titled “State P&L 9 20 – 3 21”), shows the monthly income statement amounts included in the Base Period (for 7 actual months September 2020 through March 2021, plus 5 budget months April 2021 to August 2021). Please provide documentation and calculations to support the reasons for significant and/or unusual changes in expense amounts identified below:

- a. Account 5300180 Payroll Incentives – Explain why it is reasonable to include \$145,195 of Annual Incentives for December 2020 in the Base Period, when the typical monthly amount is \$72,000 to \$74,000. Explain and show why this amount is reasonable by comparing to monthly or annual amounts for the 3 prior years, explain why this significant increase occurred, and explain if the reasons causing this increase are recurring or non-recurring for the Base Period and Forecasted Test Period in 2022. Explain all Incentives included in the base period related to unique, extraordinary, or non-recurring performance measures/targets (such as related to COVID-19, rate case preparation, or one-time awards, etc.).
- b. Account 5300999 Capitalized Labor & Benefits (Proj Settlmt Use Only) – Confirm this reduction in labor/benefits expense of about \$1.2 million for actual September 2020 through March 2021 is treated as capitalized labor, and explain why a similar expense reduction (capitalized labor) was not included for budgeted months of April to August 2021 in the Base Period, and explain why there would not be any

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- capitalized labor for these projected months. Also, explain the language for this line item noted as “Proj. Settlement Use Only.” Explain this Settlement and the related issues. Provide documents supporting this Settlement and identify all other expenses and capitalized cost by account number in the Base Period related to this Settlement (such as other outside legal costs, etc.).
- c. Account 5301080 Employee Benefits NonService Costs – Explain why the monthly average expense declined from \$73,000/month (for actual September 2020 to February 2021) to amounts of \$42,000 for budgeted months April to August 2021 (including a March 2021 credit of \$145,755).
 - d. Account 5301990 Other Employee Benefits Misc. – Explain why actual costs for the first 7 months was about \$1,000 total, but increased to a total of about \$190,000 for the final 5 budgeted months.
 - e. Account 5302110 Recruiting Expenses – Explain why there were almost no expenses the first 6 months, and then \$1,500 in March 2021 and \$415 for the remainder months. Although the amount is not significant, explain the “recruiting” program and why it was initiated, why it did not start until about March 2021, if it is a recurring cost and why, and identify all other expenses by account number related to recruiting in the Base Period.
 - f. Account 5303030 Contractor Services – Explain why these expenses ranged from \$527,000 to \$290,000 for the first four actual months, but then there was a credit of \$109,000 in December 2020, and budgeted monthly amounts were only about \$5,500 for the last 5 months of the Base Period. Explain the unusual fluctuations as cited, explain if Contractor costs for the first four months are excessive or at a non-recurring level (explain why not), and identify the names of the related vendors and the services provided that make up much of this significant amount in the first 4 months. Also, explain if these vendors will be working for Delta going forward and in the Forecasted Test Period, and provide documentation to support this.
 - g. Account 5303120 Computer & Software Maintenance Services – Explain why these expenses were \$338,000 for the first actual 7 months, but were only \$24,000 for the final 5 budgeted months. Identify the type of software and vendor associated with these expenses, identify the purposes/type of expenses, identify the vendor names, and provide copies of related contracts. Because monthly costs decline to about \$4,800 the last 5 months of the Base Period, explain why expenses will (or will not be) reflected at this latest level going forward through the Forecasted Test Period (compared to the escalated costs of about \$48,000 per month for the first 7 months of the Base Period).
 - h. Account 5303315 IT/Telecom Contractor Services - Explain why these expenses were \$857,000 for the first actual 7 months, but were only \$23,000 for the final 5 budgeted months. Explain the “IT” services and “Telecom” services be provided,

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

identify the names of the vendors and related costs for each vendor, and provide a copy of the related contracts. Because monthly costs decline to about \$4,700 the last 5 months of the Base Period, explain why expenses will (or will not be) reflected at this latest level going forward through the Forecasted Test Period (compared to the escalated costs of about \$122,429 per month for the first 7 months of the Base Period).

- i. Account 5303890 Misc. Outside Services – Explain why these expenses were \$274,000 for the first actual 7 months, peaking at \$66,000 in September 2020, but were \$167,000 (about \$33,500 per month) for the final 5 budgeted months. Explain the Miscellaneous services to be provided and if these types of services were provided in the two prior years 2018 and 2019. Identify the names of the vendors, and provide a copy of the related contracts for the 6 largest vendors. Explain why this level of expenses will continue through the Forecasted Test Period.
- j. Account 5303999 Capitalized Outside Services – PROJ – Explain why costs of \$380,000 were capitalized for the first actual 7 months, but no outside consulting costs were capitalized the final 5 budgeted months (which could cause consulting expenses to be overstated). Provide the amounts for these vendors and related services that were expensed, and the amount that was capitalized, in the Base Period, and explain why consulting costs will not be overstated if some portion of the related costs are not capitalized for the final 5 months of the Base Period. Provide documentation from prior years 2018 and 2019 that shows how similar consulting services were capitalized and expensed during the year. Explain the services to be provided and if these types of services were provided in the two prior years 2018 and 2019. Identify the names of the vendors, and provide a copy of the related contracts for the 5 largest vendors.
- k. Account 5304340 Software/Hardware – Explain why these expenses were \$235,000 for the first actual 7 months, peaking at \$91,000 in March 2021 (average of \$33,000), but were \$11,000 total for the final 5 budgeted months. Explain the types of costs to be incurred and why these costs declined significantly beginning in the budgeted months April to August 2021. Identify the names of the vendors, and provide a copy of the related contracts for the 3 largest vendors. Explain why this level of expenses of \$246,000 will continue through the Forecasted Test Period.
- l. Account 5305010 Injury Expenses – Explain why there were no injury expenses recorded the first 7 months of the Base Period, but \$14,000 are recorded for the final 5 budgeted months.
- m. Account 5306060 General Property Insurance – Explain why insurance averaged \$23,000 per month for the first 7 months of the Base Period, but declined to \$8,200 per month the final 5 budgeted months, and explain if the average expenses for the final 5 months of expenses are more indicative for the Forecasted Test Period, and explain why or why not.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- n. Account 5310090 Misc. Fees – Explain why Misc. Fees averaged \$330 per month for the first 6 months, and then there was a large actual fee of \$275,600 in March 2021, and then fees declined to about \$250 per month for the final 5 budgeted months. Explain the large one-time fee in March 2021 and provide supporting documentation for this amount, and explain why this amount should be reflected in going forward expenses of the Forecasted Test Period.
- o. Account 5311010 Uncollectible Accounts – Explain why Uncollectibles averaged \$8,400 for the first actual 6 months, and then there was an actual expense of \$32,800 in March 2021 (the 7th month), and then Uncollectibles averaged \$15,700 for the remaining 5 budgeted months. Explain the large Uncollectible expense in March 2021 and the doubling of Uncollectible expenses per month from the first 6 months to the final 5 months. Explain if the increase in Uncollectibles is due to COVID-19, and if so, explain why this is considered a recurring cost for recovery in the Forecasted Test Period.
- p. Account 5399070 Fleet System Maintenance – Explain why zero expenses were recorded the first actual 7 months, but \$286,000 of expenses were reflected in the final 5 budgeted months of the Base Period. Explain these expenses, and explain why the 5 months of budgeted expenses are indicative of the Forecasted Test Period expenses.
- q. Account 5399999 Capitalized Other – PROJ SETTLMT USE ONLY – Explain why there are \$1.7 million of capitalized costs recorded for the first 7 months, but no costs recorded for the 5 budgeted months for this Settlement (explain why similar amounts were not capitalized for the final 5 budgeted months). Explain the type of Settlement expenses (such as relating to labor/payroll, outside consulting, or other), and explain the reasons for these expenses. Explain if this Settlement is related to the Settlement in Account 5300999 that was previously identified above (or explain if this is a different Settlement), and explain the Settlement and the related types of expense and capitalized amounts. Provide documents supporting this Settlement and identify all other expenses and capitalized cost by account number in the Base Period (such as outside legal expenses).

Payroll Costs and Adjustment:

- 33. **Provide Staff DR 1-36 With Additional Information.** Delta’s response to Staff Data Request First Series, question 36 (Staff DR 1-36), provides a comparison of budget to actual payroll for calendar years 2018, 2019, 2020, plus budget payroll for the base period and actual payroll for the first seven months of the base period (September 2020 to March 2021). However, Delta’s response states that the Actual payroll includes both expensed and capitalized payroll, but Budget payroll only includes expensed payroll (and excludes capitalized payroll). Therefore, the Actual and Budget payroll are not on an apples-to-apples comparison basis, and it is difficult to reach any conclusions about the accuracy of the Budget payroll compared to Actual payroll. And because Budget payroll is always

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

understated (because it does not include capitalized payroll), this bias makes it appear that Budget payroll is always less than Actual payroll for each period (which may not be necessarily accurate). Address the following:

- a. Provide a revised response to Staff DR 1-36 that gives the additional following information:
 - i) Budget payroll - Provide the total Budget payroll that includes both expensed and capitalized payroll for each year in the same format as Staff DR 1-36. Otherwise, explain why Delta cannot provide the Budget portion of capitalized payroll.
 - ii) Actual payroll – Provide separately the “expensed” and “capitalized” amounts of Actual payroll for each year in the same format as Staff DR 1-36. At the minimum, this will allow “expensed” Actual payroll to be compared to “expensed” Budget payroll, although an analysis comparing total (expensed and capitalized) Actual to total Budget payroll provides the best information. Otherwise, explain why Delta’s accounting system is unable to identify capitalized payroll for each of these years, especially if such information is available in reports provided to the Commission and other sources.

34. **Reconcile Payroll Costs in Various Documents – See Attachment.** Various source documents in Delta’s Application show different amounts for total payroll costs (combined payroll expensed and capitalized), expensed payroll, and thus for the residual amount of capitalized payroll for the Base Period ending August 31, 2021 and the Forecasted Test Periods of 2022, 2023, and 2024. This variation in payroll costs among different source documents might be explained in part by different payroll components included in some of these payroll costs. For example, some payroll costs may include or exclude various components of overtime, incentives, non-recurring vacation accrual, and other types of payroll costs. Also, some payroll costs may include or exclude some capitalized payroll costs (or might include some payroll costs that are non-regulated or have been recorded below-the-line). Please refer to the disparities in the various payroll costs (by source document and amounts) shown in the attached “OAG Attachment 1 - Payroll Reconciliation” and provide the following information:

- a. Please provide a complete explanation and reconciliation for all of the varying payroll costs for the base period and forecasted periods, and provide the specific underlying components of these payroll costs (base payroll, overtime, incentives, non-recurring vacation accrual, etc.) by account number (with related supporting documentation and financial records).
- b. As part of the reconciliation of (a) above, provide the related amount of payroll that is expensed and capitalized for each underlying payroll component by account number (and provide related supporting documentation). For example, when reconciling the base period total expensed and capitalized payroll costs of \$10,219,163 (from the Delta payroll adjustment), please reconcile both the

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

corresponding payroll expensed and capitalized by account number (and provide related supporting documentation and financial records).

- c. Regarding (a) and (b) above, identify all miscellaneous payroll costs, including amounts related to non-regulated activity or functions or that were recorded below-the-line or inadvertently above-the-line, and show amounts by account number (along with supporting documentation and financial records).
 - d. Identify the correct payroll information and underlying amounts that should be relied upon for this Application and provide all corrections that need to be made to the Application and supporting documents if applicable.
 - e. Per the attached “OAG Attachment 1 – Payroll Reconciliation” sources (d1) and (d2), please explain why the Delta Tab 31 PDF filed with the Application shows different amounts for forecasted years 2022, 2023, and 2024, compared to the Tab 31 Excel spreadsheet filed with the Staff’s Data Request First Series, question 54 (Staff DR 1-54) which provided working Excel documents for previously provided PDF documents in the Application. Provide a reconciliation of these amounts (along with supporting documentation and financial records), indicate which amounts should be relied upon for this Application, and provide all corrections that need to be made to the Application and supporting documents if applicable.
 - f. Reconcile the August 31, 2021 Base Period payroll expense at “OAG Attachment 1 - Payroll Reconciliation”, columns B and C to the operating expense account balances for the “base year” column provided by Delta in response to Staff’s First Series of Data Requests, question 1(a) (1-1(a)).
35. **Expensed and Capitalized Payroll (UPDATE).** Please provide payroll information in the spreadsheet format shown below (provide in working Excel format) for the calendar years 2017, 2018, 2019, 2020, August 31, 2021 Base Period as filed (show actual and budget amounts separately, and provide periodic monthly updates for actual information) and the December 31, 2022 Forecasted Test Period:
- a. The amount of regulated payroll expensed by type of payroll cost (straight time, overtime, incentives, etc.). Also, provide capitalized payroll included in construction accounts, capitalized in deferred regulatory accounts, and other capitalized accounts. Finally, provide non-regulated and below-the-line payroll costs. It is not necessary to provide capitalized payroll or non-regulated/below-the-line payroll by type of payroll (such as straight time, overtime, etc.), the amounts can be provided in total.
 - b. Provide the percent of payroll expensed and capitalized for each of the periods.
 - c. Explain why the percent of payroll expensed and capitalized changed for each of the periods (for example, explain if the percent of payroll capitalized will increase in years where the construction budget is larger, etc.).

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

d. Identify source documents for the data provided.

Description	Payroll Expensed	Payroll Capitalized	Total Payroll	Source Document
Regulated:				
Straight time				
Overtime				
Incentives				
Other Bonuses and Awards (Describe)				
Holiday				
Illness and Leave				
Paid Time Off				
Severance and Separation Pay				
Other Regulated (Affiliates)				
Other Regulated (Describe)				
Capitalized in Construction Accounts				
Capitalized in Deferred Accounts				
Total Regulated Payroll				
Non-Regulated and Below-the-Line:				
Non-Regulated/Below-the-Line (Describe)				
Other (Affiliates)				
Other (Describe)				
Total Non-Regulated/Below-the-Line Payroll				
Grand Total Payroll				
Percent Payroll Expensed				
Percent Payroll Capitalized				

36. Payroll Adjustment. Address the following regarding Delta’s payroll adjustment at Tab 57, Schedule D-2.6 and at Tab 60, Sheet 1 of 2:

- a. Explain why components of Delta’s payroll adjustment at Tab 57, Schedule D-2.6 do not agree with related payroll costs at Tab 60 (Sheet 1 of 2) for both the Base Period and the Forecasted Period, as illustrated in the spreadsheet below. In all cases, provide a complete reconciliation between the varying payroll amounts at Tabs 57 and 60, identify the correct amounts, and explain any necessary revisions to the payroll adjustment (and provide all supporting documents and calculations).

Payroll	Tab 57		Tab 60	
	Base Period	Forecasted Period	Base Period	Forecasted Period
Straight time	\$ 9,372,351	\$ 9,813,200	\$ 8,900,480	\$ 9,319,133
Overtime	\$ 310,223	\$ 324,815	\$ 308,434	\$ 322,942
Incentives	\$ 1,041,781	\$ 545,959	not provided	not provided

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- b. Provide the amount of “Non-Recurring Vacation Accrual” by month (and account number) in the Base Period, explain what is included in this amount, explain why this amount is non-recurring and was removed from the Base Period, and identify all other similar non-recurring amounts in payroll costs for the Base Period.
- c. Explain why Incentives were reduced from a Base Period amount of \$1,041,781 to a Forecasted 2022 test period amount of \$545,959, and provide all supporting documentation and calculations.
- d. Explain if it is Delta’s intent to use the month-end number of employees or the monthly average number of employees for purposes of the Forecasted 2022 payroll, and explain why.
- e. Witness Brown’s direct testimony (page 13, lines 10 – 11) mentions the reorganization of Kentucky staff, explain when the reorganization occurred and provide the impact of this reorganization on Delta’s payroll adjustment by each specific component.
- f. Witness Packer’s direct testimony (page 6, lines 20 – 23) states that in April 2021, ownership of PKY (a farm tap affiliate of Delta’s owned by PNG) was transferred to Delta, explain and show the impact of the PKY transfer on Delta’s payroll adjustment by each specific component. Also, explain if the reorganization of Kentucky staff in (e) above is related to the PKY transfer.
- g. Explain how the FUTA and SUTA amounts of \$1,176,000 and \$1,814,400 were determined, and provide supporting documents and calculations, and provide actual amounts by account number for calendar year 2020, Base Period August 31, 2021, and Forecasted Test Year December 31, 2022.
- h. Explain if any pension or OPEB-related costs are included in Delta’s payroll adjustment at Tab 57, Schedule D-2.6, and identify these amounts.

37. Payroll Fluctuations per Staff DR 1-36. Delta’s response to Staff’s First Series of Data Requests, question 36 (Staff DR 1-36) provides budgeted and actual regular and overtime payroll costs, and budgeted and actual full-time and part-time employee headcount, on a monthly basis for the calendar years 2018, 2019, 2020, and the Base Period August 31, 2021 (this same information was requested for the Forecasted 2022 period, but was not provided by Delta). Explain the reasons and provide supporting documentation for the following monthly changes in actual payroll costs and payroll trends for the related periods:

- a. Explain why the Budgeted number of employees exceeds the Actual number of employees for almost every month and every year from January 2018 to March 2021, and explain why this makes the Budgeted number of employees a reliable estimate of Actual number of employees.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- b. Witness Andrea Schroeder’s direct testimony (page 4, lines 4 – 6), states that the Delta forecasted employees for years 2021 through 2024 stays constant at 162 employees, based on 153 employees for Delta and 9 transferred from PKY to Delta (which occurred in April 2021).
 - i) Explain why Delta was budgeting 161 employees (almost as many as the 162 employees after the PKY transfer in April 2021) as early as January 2020, and explain if this was intended to anticipate the transfer of 9 PKY employees in April 2021.
 - ii) Explain why Staff DR 1-36 shows Budgeted employees of 161 as late as August 2021, instead of the 162 employees cited by Witness Schroeder after the PKY transfer in April 2021. Explain why Actual employee headcounts do not reflect the impact of the PKY transfer after April 2021.
 - iii) Provide the missing “Forecasted” 2022 test period data requested in Staff Data Request 1-36, and explain if this includes the PKY transferred employees in the monthly Budgeted headcount of 162.
 - iv) Explain if Budgeted or Actual payroll costs for the Base Period include payroll costs related to the 9 employees related to the PKY transfer in April 2021, and separately identify these Budgeted and Actual payroll costs included in the Base Period (and provide all supporting documentation and calculations).
- c. Explain why the Actual number of employees has declined over time, from an average of 154 in 2018, 156 in 2019, 156.5 in 2020, 153 for the Base Period, and an Actual level of 149 employees at March 2021. Explain how this on-going decline and attrition of employees supports the increase of Forecasted 2022 level of 162 employees in this rate case (even if 9 employees are included from the PKY transfer).
- d. Explain why the month of December 2019 shows a significantly lower amount of “Regular” payroll costs of \$574,378 with a higher number of Actual full-time employees of 158, compared to almost all other months in December that show greater payroll costs but with fewer full-time employees (compared to December 2019). Explain why Regular payroll cost at December 2019 is lower than any other month of 2019.
- e. Explain why Delta is projecting an increase in payroll costs for Forecasted 2022 (based on its payroll adjustment), when the three most recent months of Actual Regular payroll costs included in the Base Period for January 2021, February 2021, and March 2021 have declined when compared to the same months in 2020.
- f. Explain why Delta is projecting an increase in payroll costs for Forecasted 2022 (based on its payroll adjustment), when actual Regular monthly payroll costs have declined every month of the Base Period from October 2020 to March 2021.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Explain the reasons for the decline in these Regular payroll costs and provide related supporting documentation.

- g. Explain why March 2021 actual Regular payroll cost of \$349,890 is significantly lower than any single month of payroll cost going back to January 2018 (the oldest data provided in this data request response), and provide related supporting documentation.

Overtime and Leak Management:

38. Overtime Payroll – See Attachment. This data request is based primarily on Delta’s response to Staff’s First Series of Data Requests, question 36 (Staff DR 1-36) and Overtime cost information at Tab 57 – Schedule D-2.6 (Delta’s payroll adjustment in this rate case). Please refer to the attached spreadsheet prepared by OAG, “OAG Attachment 2 - Payroll Overtime Costs per Staff DR 1-36.” Address the following:

- a. Explain why Overtime costs began increasing significantly in 2019, increasing from \$77,522 in 2018 to \$348,804 in 2019, and provide supporting documentation and calculations.
- b. Explain why Overtime costs decreased somewhat from \$348,804 in 2019 to \$272,591 in 2020, and provide supporting documentation and calculations.
- c. Explain why Overtime costs have been budgeted to increase from actual Overtime costs of \$272,591 in 2020 to Base Period August 31, 2021 Overtime costs of \$310,223 (7 months actual and 5 months budget), and to Forecasted Test Period December 31, 2022 Overtime costs of \$324,815, and provide supporting documentation and calculations.
- d. Address items (a), (b), (c) above in more detail. Provide the Actual and Budget Overtime costs for each of the calendar years 2018, 2019, 2020, and for each of the months of the Base Period ending August 31, 2021 (provide Actual Overtime costs through the most recent months available in 2021), and provide the Budgeted Overtime costs for the Forecasted test period December 31, 2022. In all cases, provide the amount of Actual Overtime costs expensed and capitalized (by account number) for each reason/event that caused the most significant Overtime costs:
 - i) Provide the Actual and Budget amount of Overtime costs related to gas leak testing, repairs and maintenance, and identify those departments or groups of employees (by account number) that have incurred the most substantial portion of Overtime costs related to gas leak repairs and maintenance (this might also be referred to as a leak management program or similar name).
 - ii) Provide the amount of Actual and Budget Overtime costs (by account number, year/month, and department) related to extraordinary or emergency gas leak occurrences, and identify each of these occurrences (by year/month/day) and

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

explain the conditions that lead to the extraordinary or emergency occurrence (explain the language that Delta uses to identify extraordinary or emergency gas leak occurrences, and provide Company written manuals or procedures that explains the terminology and protocol for extraordinary/emergency gas leak conditions).

- iii) Provide the amount of Actual and Budget Overtime costs (by account number, year/month, and department) related to those gas leak occurrences that required assistance from other utilities (Mutual Aid) or that required additional outside assistance from outside contractors (and provide the related month and days) for these occurrences.
- iv) Provide the amount of Actual and Budget Overtime costs (by account number, year/month, and department) related to all other relevant events or occurrences besides gas leak testing, repairs, and maintenance, such as Overtime for construction-related projects, conversion of any software systems, transfer of PKY to Delta, reorganization of Kentucky staffing, Overtime resulting from employee shortages (or other reasons) related to COVID-19, along with all other events that caused an increase in Overtime costs.
- e. Provide all cost versus benefit and similar analysis (or similar analysis) that shows if it is either more costly or less costly to hire additional employees to address gas leak testing, repairs and maintenance, compared to using existing employee levels at increasing levels of overtime costs. If no cost versus benefit analysis exists, explain why Delta has not performed this type of analysis given its increasing actual and projected level of related Overtime costs at existing employee levels.
- f. Identify the month/year when Delta believes that its increasing levels of Overtime costs will begin to decline due to progress in reduction of gas leak testing, repairs, and maintenance. Provide supporting documentation, budgets, and leak repair analysis to support this conclusion.
- g. Explain why Overtime costs related to gas leak testing, repairs, and maintenance continue to increase despite acceleration in the replacement (and repair) of gas pipelines.

39. Leak Management Costs. The prior data request seeks some information regarding Overtime costs related to leak management, but this data request seeks more comprehensive leak management information (such as total payroll costs and non-payroll costs) related to leak management. Provide the following:

- a. Payroll Costs - Provide the amount of Actual and Budget payroll costs (Regular/Straight Time and Overtime) for each department (or specific employee groups) and by account number, related to the leak management program and related leak testing, repairs, and maintenance (and similar other leak-related payroll

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- costs). This information should be provided for Actual and Budgeted Regular and Overtime costs for each of the calendar years 2018, 2019, 2020, and for each of the months of the Base Period ending August 31, 2021 (provide Actual Regular and Overtime costs through the most recent months available in 2021), and provide the Budgeted Regular and Overtime costs for each month of the Forecasted test period December 31, 2022. In all cases, provide the amount of leak management related Actual Regular and Overtime payroll costs that are expensed and capitalized (by account number).
- b. Non-Payroll Costs - Provide the amount of Actual and Budget non-payroll related leak management costs by account number, related to the leak management programs and related leak testing, repairs, and maintenance. This information should be provided for each of the calendar years 2018, 2019, 2020, and for each of the months of the Base Period ending August 31, 2021 (provide the actual costs through the most recent months available in 2021), and provide the Budgeted costs for each month of the Forecasted test period December 31, 2022. In all cases, provide the amount of non-payroll related leak management costs that are expensed and capitalized (by account number).
 - c. Regarding (a) and (b) above, provide payroll and non-payroll related costs by account number (for the same periods identified in (a) and (b) above) that are associated with leak management/pipeline safety training and similar programs, including but not limited to the Transmission Pipeline Integrity Rule, the Distribution Integrity Rule, OSHA/training, and Kentucky's 811 laws. In all cases, explain the reasons for the change in costs for each period/year.
 - d. Provide the amount of costs paid to other utilities (Mutual Aid) by account number for assistance related to gas leaks and other related issues (for the same periods identified in (a) and (b) above), and in each case explain if the incident or event was considered an extraordinary or emergency condition (and explain why or why not).
 - e. Provide the amount of costs paid to outside contractors by account number for assistance related to gas leak testing, repair, and maintenance and other related issues (for the same periods identified in (a) and (b) above), and in each case explain if the incident or event was considered an extraordinary or emergency condition (and explain why or why not).
 - f. Reconcile the amount of leak management payroll costs and non-payroll costs (by account number, year/month, and department) to any specific budgets for gas leak testing, repairs, and maintenance (and any specific related programs).
 - g. Provide a copy of the leak testing, repair, and maintenance log, report, or similar document that shows the annual i) budgeted repaired leaks; and the; ii) actual repaired leaks (for each month), including for the Base Period months and Forecasted test year months). Provide this information by "grade" of leaks (along

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

with Delta’s definition of the various grades of leaks). In all cases, separately show the number of leak repairs performed by Delta employees and the number of leak repairs performed by outside contractors.

- h. Provide copies of all leak management and leak-related reports and data required to be filed with the Commission, and provide these reports from the period January 2017 through the most recent date available in 2021.

Compensation Studies and Pay Raises:

40. Pay Raises in Payroll Adjustment. Delta’s payroll adjustment at Tab 57 (Schedule D-2.6) and at Tab 60 (Sheet 1 of 2) for the Forecasted test period includes a 4.7% raise (cost of living/merit raise) related to the Straight time raise amount of \$440,849 ($\$440,849/\$9372,351 = 4.7\%$) and Overtime raise amount of \$14,592 ($\$14,592/\$310,223 = 4.7\%$). Address the following:

- a. Explain why Delta’s payroll adjustment includes a Forecasted 2022 raise of 4.7% that is greater than the raises shown at Tab 31 for Forecasted 2022 (4.5% raise), Forecasted 2023 (3.0% raise) and Forecasted 2024 (3% raise), per Tab 31 Excel spreadsheet provided with Staff’s First Series of Data Requests, question 54 (1-54). Also, Delta’s response to Staff’s First Series of Data Requests, question 37 (1-37), shows primarily a 3% raise for the Forecasted 2022 period (beginning April 1, 2022). Provide all supporting documents for the 4.7% Forecasted 2022 raise.
- b. Regarding (a) above, explain why Delta’s payroll adjustment includes a Forecasted 2022 raise of 4.7% that is generally greater than raises of several actual prior years and greater than raises for Forecasted years 2023 and 2024. Explain how Delta has determined that employees will perform better and receive increased merit pay in the form of a 4.7% raise for Forecasted 2022 (compared to prior years and future years 2023 and 2024), or explain how a greater cost of living pay increase is justified for Forecasted 2022 compared to prior years and Forecasted 2023 and 2024.
- c. Regarding (a) and (b) above, explain and show the dollar impact of any “realignment” increase (Staff First Series of Data Requests, question 37 (1-37), effective May 1, 2021) on the 4.7% Forecasted 2022 raise.
- d. Regarding (a), (b), and (c) above, explain why personnel subject to receiving Overtime pay of \$310,223 (per the Delta payroll adjustment) would receive a Forecasted 4.7% raise, when it appears this group of personnel’s raise would be no more than 3% (per Staff First Series of Data Requests, question 37 (1-37)). Otherwise, identify the groups of personnel receiving Overtime pay, and identify those groups with the related pay raises at Staff DR 1-37.
- e. Delta’s response to Staff Data Request 1-46 refers to the Company’s Rate Case Compensation Overview document at Tab 60, and page 7 of 8 of this document

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

shows the “market” 2020 and 2021 annual pay increases to be in the range of 2.8% to 3.0%. Explain how Delta’s Forecasted period pay increase of 4.7% is considered reasonable and based on market levels, given market ranges of 2.8% to 3.0% in the Company’s Compensation Overview. Provide all other documentation and calculations that Delta relied upon to support an annual pay increase greater than competitive market levels.

41. Compensation Studies. Witness Packer’s direct testimony (page 12, lines 5 – 8) states that Delta uses a market-based approach to establishing its compensation levels, and the Company compensates employees at or above the 50th percentile of the market. Staff Data Requests 1-46 and 1-47 requested a copy of the compensation studies and related compensation policies, and Delta’s response refers to the Company’s Rate Case Compensation Overview at Tab 60 and to certain external compensation studies used as a benchmark to address the competitiveness of the Company’s compensation. However, the responses to Staff DR 1-46 and 1-47, and the Compensation Overview, do not provide any specific national benchmark compensation studies that show Delta’s compensation reflects competitive market levels. The Compensation Overview, pages 7 of 8, only shows the competitive market for 2020 and 2021 annual pay increases is in the 2.8% to 3.0% range, although no compensation studies for base salaries, incentives, and benefits are provided. Address the following:

- a. Provide a copy of all current compensation studies that Delta and Witness Packer relied upon to determine that the Company compensates employees at or above the 50th percentile market level, and that the Company’s total compensation policy is competitive with the market (including the market for base salary, incentives, and benefits compensation).
- b. Regarding (a) above, refer to specific pages and tables in the compensation studies that compare sampled Delta/Essential job positions to similar job positions in the competitive market (of peer companies), to determine that the Company’s compensation is at or above the 50th percentile of the market, and that the Company’s base salaries, incentives, and benefits are competitive with the market. Identify all specific data included in the compensation studies that Delta relied upon regarding its conclusion that its compensation is competitive with market levels.
- c. Regarding (a) and (b) above, identify the “market and peer companies” to which Delta/Essential compares its compensation, and identify the geographic location, size of utilities (and other financial and operating information used to identify peer companies), along with other characteristics used to determine the group of peer companies for comparison purposes.
- d. Explain if it is the Company’s position that its specific “short and long-term incentives” are competitive with the market, and cite to specific pages of the compensation studies that explain and show that the specific amount and type of

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Company incentives are competitive with market-based incentives of peer companies.

- e. Please confirm that Delta has not previously provided any specific compensation studies to show that its compensation levels are at or above the 50th percentile, or that its base salaries, incentives, and benefits are competitive with the market.

Kentucky Reorganization and PKY Transfer:

42. Reorganized Kentucky Staff. Witness Brown’s direct testimony (page 13, lines 10 – 16) briefly describes Essential’s reorganization of Kentucky staff, with the Accounting and Information Technology staff now reporting to PNG in Pittsburg and Human Resources served by a group at PNG, which will improve efficiency and productivity. Address the following:

- a. Explain the time period when the Kentucky reorganization took place, and identify the dates of key reorganization changes.
- b. Provide a copy of the Company’s original written business plans and studies regarding the reorganization that addressed the expected positive and negative financial and operational impacts, the decreased and increased cost (by type and account number) impact on each of Delta and Essential, along with the quantification of any other efficiencies and productivity. In addition, show any final analysis performed to compare anticipated benefits to actual results.
- c. Explain if the impact of this reorganization is reflected in the Base Period and Forecasted test period of this rate case, and provide the financial impact (cost increases and decreases, and other impacts) by type of account and account number for the related month/year, and identify the impact reflected in Company-proposed rate case adjustments. Otherwise, explain why no impact is reflected in this rate case for the reorganization.
- d. Explain if this reorganization resulted in a change in how employee costs are recorded on the books of Delta, resulting in employees whose costs were previously treated as “payroll costs” to now being treated as non-payroll related costs, or treated as costs now subject to the Utility Services Agreement with affiliates (or explain if these costs were shifted from the Utility Services agreement as non-payroll costs to amounts now recorded as payroll costs). Identify and explain the amount of change in costs (by account number) between payroll-related and non-payroll related, and provide these amounts by month and year, along with the impact on the Base Period and Forecasted test period.

43. PKY Transfer. Witness Schroeder’s direct testimony (page 6, lines 20 - 23) states that in April 2021, ownership of PKY, a farm tap affiliate of Delta’ owned by PNG, was transferred to Delta, and when the merging of operations is complete then PKY’s corporate

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

entity will be dissolved (for the Forecasted test period , all PKY and Delta information is combined). Address the following:

- a. Please explain if all PKY financial information is included in amounts of this rate case for the first time in the Forecasted test period and the related adjustments from the Base Period to the Forecasted test period, and that such amounts were not included in the Base Period financial amounts. Identify all PKY amounts in the Forecasted test period and in each Delta adjustment by account description and account number.
- b. Explain why PKY was transferred to Delta from PNG, instead of remaining with PNG or instead of being transferred to another affiliate.
- c. Provide a copy of the Company's original written business plans and studies addressing the transfer of PKY and identify the expected positive and negative financial and operating impacts, the decreased and increased cost (by type and account number) impact on each of Delta and PNG, along with the quantification of any other efficiencies and productivity. In addition, show the actual final analysis and results of all these impacts (by account number), and explain how actual final results varied from the original planned impacts.
- d. Explain if this transfer resulted in a change in how certain employee costs of Delta, PKY, or other entities are recorded on the books of Delta, resulting in employees whose costs were previously treated as "payroll costs" to now being treated as general and administrative costs, non-payroll related costs, or costs now subject to the Utility Services Agreement with affiliates (or explain if costs were shifted from the Utility Services agreement as non-payroll costs to amounts now recorded as payroll costs). Identify and explain the amount of change in costs (by account number) between payroll-related and non-payroll related, and provide these amounts by month and year, along with the impact on the Base Period and Forecasted test period.

Affiliate Allocations and Transactions:

44. **Service Agreements and CAM.** Delta's response to Staff's First Set of Data Requests, question 10 (Staff DR 1-10), refers to Service Agreements for allocating costs from PNG and Essential to Delta (and PKY), along with Service Agreements for allocating costs from Delta to other affiliates. Tab 51 states that costs from Essential are first allocated to PNG and then to Delta or PKY. Also, Tab 51 states that Delta's affiliate activities are governed by its Cost Allocation Manual ("CAM") and Service Agreements (with the Commission recently approving changes to Delta's CAM in Case No. 2021-00149 and the Commission approving Delta's Services Agreement in Case No. 2018-00379). Finally, Witness Packer's direct testimony (page 10, lines 14-23 and page 11, lines 1-18) briefly addresses affiliate transactions and Service Agreements. Address the following:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- a. Delta’s response to Staff DR 1-10 states that PNG and Essential both allocate costs to Delta, but Tab 51 states that costs from Essential are first allocated to PNG and then to Delta. First, clarify if Essential and PNG both separately allocate costs to PNG. Second, clarify if all costs allocated from PNG to Delta are originally sourced from Essential. Third, clarify if some of the costs allocated from PNG to Delta were originally sourced from Essential (and part of allocations from Essential to PNG), along with the allocation of other costs from PNG to Delta (that were not originally allocated from Essential to PNG).
 - b. Provide a copy of all current Service Agreements that explain and support the cost allocations and any direct assignment of costs from Essential to PNG, from PNG to Delta (and PKY), from Essential to Delta (and PKY), and from Delta to all other affiliates. Provide the date these Service Agreements were approved by the Commission and implemented by PNG, Essential, and Delta.
 - c. Provide a copy of the current CAM that explains and supports the cost allocations and any direct assignment of costs from Essential to PNG, from PNG to Delta (and PKY), from Essential to Delta (and PKY), and from Delta to all other affiliates. Provide the date the CAM was approved by the Commission and implemented by PNG, Essential, and Delta.
 - d. Explain why the response to Staff DR 1-10 only cited to the Service Agreements and not to a CAM (as did Witness Packer’s testimony cited above for pages 10 and 11), whereas Tab 51 cites to both the CAM and Service Agreements for governing affiliate transactions.
 - e. Provide a copy of all prior Service Agreements and CAM for the calendar years 2017 through 2020 that explain and support the cost allocations and any direct assignment from Essential to PNG, from PNG to Delta (and PKY), from Essential to Delta (and PKY), and from Delta to all other affiliates, and explain the changes (and reasons for changes) in the Service Agreements and CAM from year-to-year.
- 45. Lower of Cost or Market.** Delta’s response to Staff’s First Set of Data Requests, question 10 (Staff DR 1-10), refers to Service Agreements for allocating costs from PNG and Essential to Delta (and PKY), along with Service Agreements for allocating costs from Delta to other affiliates (the response states that costs from Essential are first allocated to PNG and then to Delta). Also, Tab 51 states that Delta’s affiliate activities are governed by Service Agreements and a CAM. Address the following:
- a. Regarding costs allocated from PNG and Essential to Delta (and PKY) via Service Agreements and/or CAM, explain if these allocated costs are reflected at the lower of cost or fair market value (“market”). If the answer is “yes”, then provide supporting documentation and calculations to compare the “cost” and “market” for each service (to show amounts are reflected at the lower of cost or market). If the answer is “no”, then explain why costs are not reflected at the lower of cost or

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

market, and explain why Delta believes it is unreasonable for cost allocations to be reflected at the lower of cost or market.

- b. Regarding (a) above, if costs allocated from PNG and Essential to Delta (and PKY) cannot be proven to be at the lower of cost or market, then explain if Delta has issued requests for proposals to third parties or evaluated options for outsourcing some of these services from third parties at possible competitive (and lower) “market” prices/costs. Explain why Delta has not performed this type of analysis or attempted to determine the cost/price of these services in the competitive market. If Delta has evaluated outsourcing options, then provide this related supporting documentation, analysis and conclusions.
- c. Explain if costs allocated from PNG and Essential to Delta (and PKY) include any mark-up above the costs of PNG and Essential (such as for a rate of return, cost of living factor, inflation factor, profit additive, or other component), and explain and identify these amounts (and cite to the language in the related Service Agreement and/or CAM that addresses these issues).
- d. Explain if costs allocated from PNG and Essential to Delta (and PKY) include any flat-rate or fixed “Management Fees”, and provide supporting documentation and calculations for these amounts (and cite to the language in the related Service Agreement and/or CAM that addresses these issues). Explain why the flat-rate or fixed Management Fees are not cost-based, or provide documentation and calculations supporting the cost basis of these amounts.
- e. Provide all analysis performed by Delta, PNG and Essential that compares the positive and negative attributes, along with the related costs, benefits, and savings, of the current arrangement that allocates costs from PNG and Essential to Delta.

46. Reconcile Cost Allocations from Tab 51 to Tab 59 – See Attachment. Both Tab 51 and Tab 59 appear to provide different amounts related to costs allocated from PNG and Essential to Delta and PKY for the Base Period, and OAG was unable to reconcile these costs using Delta’s response to Staff’s First Series of Data Requests, question 6 (Staff DR 1-6) related to professional services expense. Part or all of this difference may be due to amounts at Tab 51 consisting of both “expensed” and “capitalized” amounts allocated to Delta and PKY (Tab 51 does not show the account description or account number where amounts are recorded), whereas Tab 59 only shows the “expensed” amounts.

Tab 51, page 1 of Attachment, shows PNG/Essential costs allocated to Delta of \$1,592,544 for the Base Period, and page 2 of Attachment, shows PNG/Essential costs allocated to PKY of \$236,015 for the Base Period (total PNG/Essential costs allocated to Delta/PKY of \$1,141,869).

Tab 59, shows “professional services expense” for the Base Period that includes Essential Utilities expense of \$1,107,763 related to Delta operations (and \$34,107

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

related to PKY operations). Also, Tab 59 shows “professional service expense” for the Base Period that includes Peoples Natural Gas expense of \$0 related to Delta operations (and \$5,460 related to PKY’s operations).

Provide a reconciliation of these costs and address the following:

- a. Provide information in a same or similar working Excel spreadsheet format as “OAG Attachment 3 – Expensed and Capitalized Amounts Allocated to Delta and PKY by PNG and Essential”, showing amounts allocated by PNG and Essential that are expensed and capitalized on the books of Delta and PKY, and amounts should be shown by service (using those services identified at Tab 51, Attachment pages 1 and 2, along with any other services) and by account number. This information should be provided for the calendar years 2017 to 2020, plus the Base Period ending August 31, 2021 and Forecasted Test Period ending December 31, 2022. Also, provide a reconciliation of these allocated expensed and capitalized amounts for the Base Period, to the Base Period allocated amounts shown at Tab 51 and Tab 59 for Delta and PKY.
- b. Explain why Tab 51 PNG/Essential amounts allocated to Delta of \$1,592,544 for the Base Period exceeds (and does not reconcile to) the Tab 59 Essential expense related to Delta operations (for professional service expense) of \$1,107,763 for the Base Period by an amount of \$484,781. Also, explain why the only PNG related expenses included at Tab 59 (as professional service expense) related to Delta’s operations for the Base Period shows a \$0 balance, so this does not assist with reconciling the difference of \$484,781 noted above. Please explain and reconcile the difference in the amounts between Tab 51 and Tab 59, and use information from Delta’s response to Staff DR 1-6 if possible.
- c. Explain why Tab 51 PNG/Essential amounts allocated to PKY of \$236,015 for the Base Period does not reconcile to the Tab 59 Essential expense related to PKY operations of \$34,107 for the Base Period. Explain why amounts allocated from PNG to Delta and PKY are not shown as a separate line item in the professional services accounts at Tab 59 (only a line item for “Essential” is shown, and the small amounts for the “PNG” line item do not appear to be allocated expenses from PNG). Please explain and reconcile the difference in the amounts between Tab 51 and Tab 59, and use information from Delta’s response to Staff DR 1-6 if possible.
- d. Explain if the Essential expenses shown on Delta’s books (\$1,107,763) and PKY’s books (\$34,107) from Tab 59 “professional service expenses”, along with the PNG expenses shown on Delta’s books (\$0) and PKY’s books (\$5,460) from Tab 59 “professional service expenses”, are not intended to reflect expenses allocated from Essential and PNG to Delta and PKY for the Base Period and Future Test Period. If these amounts are not allocated expenses, provide an explanation and supporting documentation for these amounts (including copies of related agreements/contracts and a copy of the 10 largest invoices from Essential and PNG). Also, reconcile

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

these amounts to any supporting documents at Delta's response to Staff DR 1-6 if possible.

47. Tab 51 Costs Allocated to Delta. Tab 51, page 1 of the Attachment, shows costs allocated from PNG (and perhaps Essential) to Delta by service (Executive, Legal, Human Resources, etc.) primarily for periods 2019, 2020, Base Period and Forecasted test period. Also, page 1 states that no costs were allocated to Delta by PNG in 2018 because the Delta Services Agreement was not approved by the Commission until February 2019. Address the following regarding information at Tab 51, page 1:

- a. Regarding the costs at Tab 51, page 1 of the Attachment, explain which "service" costs by year, are "expensed" and which are "capitalized, and provide the corresponding account numbers recorded on Delta's books.
- b. Explain and providing supporting documentation and calculations that show if Delta's total O&M expenses have either increased or decreased (compared to from prior years) after PNG/Essential began allocating expenses to Delta.

First, explain and identify the amount and type of 2018 and 2019 directly incurred expenses by Delta (by account number and service) that were eventually eliminated, decreased, increased, or substituted by expenses allocated from PNG/Essential to Delta beginning in 2019 and 2020 (for example, the elimination and substitution of allocated service costs related Billing Services, Budget and Financial Strategy, Executive, General Accounting, Human Resources, and Information Technology Applications).

Second, compare the decrease in expenses for Delta for 2018 and 2019 to the increase in expenses allocated from PNG/Essential to Delta in the amount of \$113,472 for 2019 and \$924,969 for 2020, and provide the net increase or net decrease in expenses for Delta that resulted after allocations from PNG/Essential began. If there is a net "increase" in Delta expenses as a result of PNG/Essential allocations, explain why this supports the allocation of costs from PNG/Essential to Delta as being more a more reasonable, beneficial, and efficient process and result for Delta.

- c. Explain why costs allocated from PNG/Essential to Delta increased by a significant amount from \$113,472 in 2019 to \$924,969 in 2020, especially when the Delta Service Agreement was approved in early 2019 (February 2019) and it appears a greater portion of allocated expenses would have been allocated to Delta in 2019 (when using the amount of 2020 allocated costs as a comparison). Provide all supporting documentation and calculations.
- d. Regarding (c) above, explain why most of the increase in allocated costs was for the services of Budget and Financial Strategy, Executive, and Information Technology Applications.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- e. Explain why costs allocated from PNG/Essential to Delta increased significantly from \$924,969 in 2020 to \$1,592,544 in the Base Period (and essentially the same level for the Forecasted test period). Provide all supporting documentation and calculations.
- f. Regarding (e) above, explain why most of the increase in allocated costs was for the services of Billing Services, Budget and Financial Strategy, Executive, General Accounting, Human Resources and Information Technology Applications.

48. Tab 51 Costs Allocated to PKY. Tab 51, page 2 of the Attachment, shows costs allocated from PNG (and perhaps Essential) to PKY by service (Executive, Human Resources, etc.) primarily for periods 2018, 2019, 2020, Base Period and Forecasted test period (PKY was transferred to Delta in 2021). Address the following regarding information at Tab 51, page 2:

- a. Regarding the costs at Tab 51, page 2 of the Attachment, explain which “service” costs by year, are “expensed” and which are “capitalized, and provide the corresponding account numbers recorded on PKY’s books.
- b. Explain and provide supporting documentation and calculations that show if PKY’s total O&M expenses have either increased or decreased (compared to from prior years) after PNG/Essential began allocating expenses to PKY. If there is a net “increase” in PKY expenses as a result of PNG/Essential allocations, explain why this supports the allocation of costs from PNG/Essential to PKY as being more a more reasonable, beneficial, and efficient process and result for PKY.
- c. Explain why costs allocated from PNG/Essential to PKY fluctuated from year-to-year, increasing by about \$15,000 from 2018 to 2019, decreasing by about \$33,000 from 2019 to 2020, increasing by about \$26,000 from 2020 to the Base Period, and decreasing by about \$11,000 from the Base Period to the Forecasted test period. A
- d. Regarding (c) above, explain why most of the fluctuation in allocated costs from year-to-year was related to the services of Executive, General Accounting, Human Resources, and Various.

49. Affiliate Costs Allocated/Direct Assigned to Delta and PKY (UPDATE) – See Attachment. Delta’s response to Staff’s First Set of Data Requests, question 10 (Staff DR 1-10), refers to Service Agreements for allocating costs from PNG and Essential to Delta (and PKY), and for allocating costs from Delta to other affiliates. Also, Tab 51 states that affiliate activities are governed by Service Agreements and the CAM, and it provides some basic information regarding amounts allocated from PNG to Delta and PKY for the periods 2018 through the Forecasted test period. This OAG data request seeks more detailed information than is provided in Tab 51. Provide the following information for the calendar years 2017 to 2020, plus the Base Period August 31, 2021 (and provide periodic monthly updates throughout 2021) and the Forecasted Test Period December 2022:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- a. Provide information in a same or similar working Excel spreadsheet format as “OAG Attachment 4 – Expenses Allocated and Direct Assigned to Delta and PKY by PNG and Essential”, showing expenses allocated and direct assigned from PNG and Essential to Delta and PKY by service (Executive, Human Resources, Legal, etc.) and by related expense account number on the books of Delta and PKY books for each of above periods (including the Base Period in this filing with 7 months actual and 5 months budgeted, along with periodic monthly updates for actual amounts). Also, if Essential allocates and direct assigns other expenses to Delta and PKY (that are not first allocated or direct assigned to PNG), then provide this same information for expenses allocated and direct assigned from Essential to Delta and PKY. For each service and/or related expense account number, identify the related allocation method/factor (and detailed formula) that is used to allocate expenses to Delta and PKY for each of the related periods.
- b. Regarding (a) above, provide the amount of the cost pool (by service or other grouping) that is allocated from PNG and Essential to Delta and PKY, and provide the related specific allocation method/factor, and explain why the related allocation method/factor is reasonable and an appropriate cost driver and cost-causer for each cost pool.
- c. Provide the amount of the cost pool (by service or other grouping) that is used for allocating costs from Essential to PNG (which are then subject to being allocated from PNG to Delta and PKY) and the related specific allocation method/factor, and explain why the related allocation method/factor is reasonable and an appropriate cost driver and cost-causer for each cost pool.
- d. Regarding (a) above, provide an explanation and documentation supporting the reason for the change from year to year, in the amounts: 1) allocated to Delta and PKY for each service; and 2) direct assigned to Delta and PKY for each service. Also, address each of the following possible reasons for change in allocated and direct assigned costs from year-to-year to Delta and PKY (along with other relevant reasons):
 - i) Change in the allocation method/factor.
 - ii) Change in the costs included in various cost pools.
 - iii) Change in the number or types of services.
 - iv) Change (increase or decrease) in the PNG expenses subject to being allocated or direct assigned to Delta and PKY (this could include a change in the amount of expenses being allocated from Essential to PNG, which are then subject to being allocated to Delta and PKY).
 - v) Delta and PKY payroll costs (and employees) shifted to PNG or Essential (or vice versa with payroll costs shifted to Delta or PKY) and are now being

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

allocated back to Delta and PKY (by PNG or Essential) under a Service Agreement/CAM (and are no longer being treated as Delta or PKY payroll costs). For example, this might relate to services previously provided at the affiliate level by Delta, but now being provided on a more centralized basis by PNG or Essential.

- vi) Reorganization and/or acquisition by another entity.
- vii) Other reasons (explain).
- e. Regarding (a) above, for each of the allocation methods/factors used to allocate expenses from PNG and Essential to Delta and PKY, provide the specific formula, inputs (numerator and denominator, etc.) and all underlying calculations. For example, if the “number of customers” are used as an allocation factor for certain service costs or a cost pool, then provide the amount of Delta’s (and PKY) customers used as a numerator (with supporting sources and calculations), and the total number of customers (by each affiliate) used as the denominator (with supporting sources and calculations), along with the total service cost or cost pool amount (with supporting sources and calculations for each affiliate’s service cost/cost pool amounts) that are multiplied by the related allocation factor.

50. Executive/Officer Payroll Allocated/Direct Assigned to Delta and PKY. Provide the following for Executive/Officer payroll expense allocated by PNG and Essential to Delta and PKY for the calendar years 2017 to 2020, plus the Base Period August 31, 2021 (and provide periodic monthly updates throughout 2021) and the Forecasted Test Period December 2022:

- a. For each of the related periods requested, provide the amount of PNG and Essential Executive/Officer payroll expenses (by Executive/Officer name and position) that are: i) allocated; and ii) direct assigned to Delta, PKY, and all other affiliates via the Services Agreement/CAM, and provide the allocated amount by service and account number.
- b. Regarding (a) above, identify the allocation method/formula that is used for allocating or direct assigning these costs Executive/Officer payroll expenses, and show the percent of costs allocated to each affiliate.
- c. Regarding (a) and (b) above, explain the reason for changes in the allocated and direct assigned amounts of Executive/Officer payroll costs for each period.

51. Delta Allocations to Affiliates. Delta’s response to Staff’s First Set of Data Requests, question 10 (Staff DR 1-10), refers to cost allocations from Delta to its affiliates (Delta Resources, LLC, Delgasco, LLC, and Enpro, LLC.) for services such as natural gas transportation, natural gas liquids processing, administrative, management and other services. Also, Tab 51 provides some related allocated cost information at a high level. This data request seeks more detailed information than is provided in Tab 51 regarding

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Delta's cost allocation to affiliates. Provide the following information for the calendar years 2017 to 2020, plus the Base Period August 31, 2021 (and provide periodic monthly updates throughout 2021) and the Forecasted Test Period December 2022:

- a. Provide the amount of revenues that Delta received (or was reimbursed) by each affiliate (by account number), and for each type of service provided by Delta to each of the affiliates for the periods identified above. If the affiliate reimbursement to Delta is treated as a reduction of expenses/costs (instead of recorded as revenues on Delta's books), then provide the amount of expense reduction by account number for each type of service provided by Delta to each affiliate for the periods identified above.
- b. For each service cost and/or related cost pool allocated by Delta to affiliates, identify the related allocation method/factor (and detailed formula) that is used to allocate costs from Delta to each affiliate. Also, identify the percent of expenses by service (or account number) allocated by Delta to each affiliate.
- c. Regarding (b) above, provide the amount of the cost pool (by service and/or expense account number) that are allocated from Delta using each specific allocation method/factor for each of the related periods, and explain why the related allocation method/factor is reasonable and an appropriate cost driver and cost-causer for each cost pool.
- d. Regarding (b) and (c) above, provide an explanation and documentation supporting the reason for the change in allocated amounts from Delta to affiliates from year to year. Also, address each of the following reasons for changes in amounts from year-to-year (along with other relevant reasons):
 - i) Change in the allocation method/factor.
 - ii) Change in the costs included in various cost pools.
 - iii) Change in the number or types of services.
 - iv) Change (increase or decrease) in the costs subject to allocation by Delta.
 - v) Change in the amount of payroll costs (or employees) subject to allocation by Delta.
 - vi) Reorganization and/or acquisition by another entity.
 - vii) Other reasons (explain).
- e. Regarding (a) above, for each of the allocation methods/factors used to allocate costs from Delta to affiliates, provide the specific formula, inputs (numerator and

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

denominator, etc.) and all underlying amounts from the books of Delta and affiliates used in the calculation.

- f. For each of the related periods requested, provide the amount of Delta Executive/Officer payroll expenses (by Executive/Officer name and position) that are subject to allocation to all other affiliates via the Services Agreement/CAM, and provide the total amount actually allocated by Delta for each service (and identify the allocation method/formula that is used). Explain the reason for changes in the allocated amounts of Executive/Officer payroll expenses for each period. If no Delta Executive/Officer payroll costs are allocated to other affiliates for services provided, explain why this is a proper treatment of these costs.

52. Expenses Allocated to Each Affiliate by PNG and Essential (UPDATE) – See Attachment. Delta’s response to Staff’s First Set of Data Requests, question 10 (Staff DR 1-10), refers to Service Agreements for allocating costs from PNG and Essential to Delta (and PKY). Also, Tab 51 provides some basic information regarding amounts allocated from PNG/Essential to Delta and PKY for the periods 2018 through the Forecasted test period. This OAG data request seeks more detailed information than is provided in Tab 51. Provide the following information for the calendar years 2017 to 2020, plus the Base Period August 31, 2021 (and provide periodic monthly updates throughout 2021) and the Forecasted test period December 2022:

- a. Provide information in a same or similar working Excel spreadsheet format as the two Attachments “OAG Attachment 5.1 - Expenses Allocated to Each Affiliate by PNG” and “OAG Attachment 5.2 - Expenses Allocated to Each Affiliate by Essential” showing expenses allocated (and percent allocated) from PNG and Essential to Delta, PKY, and all other affiliates by service (Executive, Human Resources, etc.) for each of the related periods. The OAG Attachments requests information in a format to show total PNG and Essential expenses, the amount of PNG and Essential expenses not allocated to affiliates, the total amount of PNG and Essential expenses allocated to affiliates, and the individual columns showing allocation to each affiliate by PNG and Essential.
- b. If not previously addressed, provide an explanation and documentation supporting the reason for the change from year-to-year in the PNG and Essential expenses allocated to each affiliate by service, and address each of the following reasons for the change (along with other relevant reasons):
 - i) Change in the allocation method/factor.
 - ii) Change in the costs included in various cost pools or services.
 - iii) Change in the number of services or types of services subject to allocation.
 - iv) Change in the amount of PNG or Essential expenses subject to allocation to Delta and other affiliates.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- v) Affiliate payroll expenses (and employees) shifted to PNG or Essential payroll costs and are now being allocated to affiliates under a Service Agreement/CAM (and are no longer being treated as affiliate payroll costs). For example, this might relate to services previously provided at the affiliate level, but now being provided on a more centralized basis by PNG or Essential.
 - vi) Reorganization and/or acquisition by another entity.
 - vii) Other reasons (explain).
- c. For each of the related periods, if there are any affiliates that are not being allocated a portion of service costs of PNG and Essential, then explain why and provide supporting documentation.

53. Delta Challenge of Affiliate Allocations. Witness Packer’s direct testimony (page 11, lines 14-18) states that Delta’s management has the opportunity to challenge and question affiliate expenses, and expects Delta management will do so. Address the following:

- a. Witness Packer’s testimony appears to indicate Delta has never challenged allocations from PNG and Essential, but may do so in the future. Explain why Delta has never challenged any cost allocations from PNG or Essential to date. Otherwise, provide documentation showing that Delta has challenged certain cost allocations, and provide supporting documentation for this challenge (such as correspondence between Delta and PNG or Essential), and explain the outcome of the challenge.
- b. Explain why Witness Packer states that he “expects” Delta’s management will challenge affiliate allocations, explain if there are allocation methods or other allocation issues and concerns that Delta anticipates raising with PNG or Essential, and identify these concerns.
- c. Delta allocates certain costs to certain affiliates, explain if any of these affiliates have challenged Delta’s allocations, and explain the challenge and the outcomes (and provide related supporting documentation).

Outside Services:

54. Professional Service Expenses for Prior Years. Staff’s First Series of Data Requests, question 6 (Staff DR 1-6), requested a detailed analysis of professional expenses for the 12 months preceding the test period. Because Delta’s response to this data request did not show professional service expenses (by vendor) for the preceding test period in an easy to follow spreadsheet format like Tab 59 (and the information was not provided in a working Excel spreadsheet), it was difficult to identify and evaluate these amounts by vendor and period. Address the following regarding professional services, where professional services are intended to include those categories at the attachment to Tab 59 consisting of Outside Legal Services, Accounting-Audit, Accounting-Other, and Professional Service Expenses:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- a. Provide professional services by vendor name and amount for Delta and PKY for each of the calendar years 2017, 2018, 2019, 2020, and the Base Period in a working Excel spreadsheet format similar to that provided at Tab 59 for professional services. For each year/period, show the vendor name and amount by account number on the books of Delta (and PKY).
- b. Regarding (a) above, identify all expense amounts that were allocated from each of Essential and PNG to each of Delta and PKY (for each of the periods).
- c. Regarding the change in professional service expense for each year from 2107 through the Base Period, identify the 10 largest vendors with expense balances of \$20,000 or more that are contributing to this change from year-to-year, and explain why these vendors cost changed from year-to-year. Also, provide copies of contracts for these related vendors, a description of the services provided, and a copy of the three largest invoices (for each applicable period) for each vendor.
- d. Regarding (c) above, identify those vendor costs that are recurring and those which are one-time non-recurring costs.

55. Reconcile Professional Service Expenses from Tab 56 to Tab 59. Tab 56, Schedule C-3, shows Account 9923000 A&G Outside Services Employed expense of \$1,114,263 for the Base Period (7 months actual and 5 months budget), an adjustment of \$202,650 to Base Period expenses, and an adjusted Forecasted Test Period expense of \$1,316,913. For the Base Period, Tab 59 shows combined Professional Service costs (the term “costs” is being used here because it is not clear if these amounts include both “expensed” and “capitalized” amounts) of \$1,510,113 for Delta (consisting of Outside Legal Services of \$114,793, Accounting-Audit of \$45,451, Accounting of \$155,183, and Professional Service Expenses of \$1,194,686). Address the following:

- a. Identify the costs by vendor at Tab 59 that are expensed, and the amount that are capitalized, by account number on Delta and PKY books. Explain if some of the costs at Tab 59 are capitalized, and explain and show how this impacts the reconciliation of costs between Tab 56 and Tab 59.
- b. Per the above, reconcile the Delta Base Period Outside Services expense of \$1,114,263 (at Tab 56) to the Professional Service expenses of \$1,510,113 (Tab 59 per above), and identify the differences by name and amount of the related vendor (and identify the source/location of all reconciliations). Identify all other account number and related amounts at Tab 56 by that include outside professional costs, if this is necessary to reconcile to the larger amount of professional expenses shown at Tab 59. Also, identify those vendors by amount included the above summation of professional service expenses from Tab 59 that should be removed (along with any other vendors costs from Tab 59 that should be added), to reconcile to amounts at Tab 56. Also, explain and show how the capital versus expense treatment of these vendor costs impacts the reconciliation.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

56. Explain Significant Increase in Outside Services Employed from 2019 to Base Period August 31, 2021. Tab 56, Schedule C-3, page 1, for Account 923 Outside Services Employed, shows expenses of \$1,114,263 for the Base Period (7 months actual and 5 months budget). Tab 41, page 99, for Account 923, Outside Services Employed, shows expenses of \$717,427 for December 31, 2020, and expenses of \$289,200 for December 31, 2019. Address the following:

- a. Explain the reasons for the significant increase in Outside Services Employed expense, from \$289,200 in 2019, to \$717,429 in 2020, to \$1,114,263 for the Base Period. Provide all supporting documentation and calculations supporting the reasons for the increase in these expenses.
- b. Explain how much of the increase in Outside Services Employed expenses from 2019 to the Base Period is a result of increases in expenses being allocated (or direct assigned) from PNG and Essential to Delta (and PKY), and identify this impact by showing the amount of Outside Services Employed expenses allocated (and separately show the amounts direct assigned) from PNG and Essential to Delta (and PKY) from 2019 through the Base Period, and identify changes by vendor name and amount.
- c. For each of the years 2019, 2020 and the Base Period, provide the twelve largest vendor names and related expense amounts comprising the related total Outside Services Employed (Account 923) expense account balance, and explain if the change in expenses for these vendors is driving the significant increase in expenses from 2019 through the Base Period and provide a reconciliation to support this conclusion. For each vendor, describe the services provided.
- d. If not provided in (c) above, identify the names and related expenses of those vendors that are primarily contributing to the significant increase in Outside Services Employed expense of Delta (and PKY) from 2019 through the Base Period. For each vendor, describe the services provided.
- e. Regarding the vendors identified in (c) and (d) above for 2019, 2020, and the Base Period, explain which of these vendors expenses represent recurring expenses for future years and which represent one-time or non-recurring costs for the future, and provide supporting documentation for the Company's conclusion. For each vendor, describe the services provided.
- f. Regarding the vendors identified in (c) and (d) above, provide a copy of the related contract (or other supporting documents if a contract is not available) supporting the expense, and identify the terms of the contract that support the cost as a recurring or non-recurring contract, or otherwise explain why this type of cost is recurring each year (and provide documentation to support this).

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- g. Regarding vendors and expenses in (c) and (d) above, explain which of these vendor's expenses have been included in rate case expense for this rate case, and reconcile to those amounts.

57. Outside Professional Service Costs. Using the list of vendors and related costs shown at Tab 59 as Outside Professional Service Expenses (Outside Legal, Accounting-Audit, Accounting-Other and Professional Service Expenses) along with other vendors comprising the Account 923 Outside Services Employed balance of \$1,114,263 for the Base Period, address the following (if the information was not previously provided in the prior data request):

- a. Identify the 15 vendors with the largest expense comprising the balance of \$1,114,263 (for Account 923, Outside Services Employed) for the Base Period. For each vendor, describe the services provided.
- b. Regarding (a), explain which of these vendors expenses represent recurring expenses for future years and which represent one-time or non-recurring costs for the future, and provide supporting documentation for the Company's conclusion.
- c. Regarding the vendors identified in (b) above, provide a copy of the related contract (or other supporting documents if a contract is not available) supporting the expense, and identify the terms of the contract that support the cost as a recurring or non-recurring contract, or otherwise explain why this type of cost recurring each year (and provide documentation to support this).
- d. Regarding the vendor costs in (b) and (c) above, provide the expenses of these same vendors (or other vendors that were used for providing the same service in prior years) for each of the prior calendar years 2018, 2019 and 2020, and explain why these historical costs for each vendor does support (or does not support) the level of costs used for this vendor/service in the Base Period. If these vendors or their services were not used in prior years, explain why these services are necessary for the Base Period and Forecasted Test Period.
- e. Regarding the vendor costs in (b) and (c) above, explain how much of these vendor costs were allocated (and which were direct assigned) from PNG and Essential to Delta and PKY for each of the calendar years 2018 through 2020, and the Base Period. Explain why any increase in amounts allocated or assigned from PNG or Essential for these years, supports the level of costs included in the Base Period for this vendor.

Severance and SERP:

58. Severance. Provide severance and separation payment/settlement expenses (by account number) for each of the calendar years 2018, 2019, 2020, and for each of the months of the Base Period ending August 31, 2021 (provide actual severance and separation costs

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

through the most recent months available in 2021), and for the Forecasted test period December 31, 2022, per the following:

- a. Provide all severance and separation payment/settlement expenses for each of the years and periods above (by account number), and explain the reasons causing the severance or separation payments, such as related to any mergers, transfer of ownership, COVID-19, business decisions regarding downsizing, Company decisions to offer certain employees a separation payment/settlement opportunity to leave or retire early, along with other reasons.
- b. Regarding (a) above, for each of the years and periods, provide the number of employees subject to the severance and separation payment/settlement expenses.
- c. Regarding (a) above, provide a copy of the Company's written plans or other documentation that explains severance or separation payment/settlement programs offered to employees or other similar programs.
- d. Explain if as a result of COVID-19, the Company implemented any downsizing or attrition programs that resulted in severance or separation payment/settlement costs, and provide a copy of documentation related to these programs.

59. Supplemental Executive Retirement Plan ("SERP"). Provide the amount of SERP expenses (by account number) for each of the calendar years 2018, 2019, 2020, and for each of the months of the Base Period ending August 31, 2021 (provide actual severance and separation costs through the most recent months available in 2021), and for the Forecasted test period December 31, 2022, per the following:

- a. Provide all SERP expenses for each of the years and periods above (by account number).
- b. Provide a copy of the Company's SERP plan, and explain when and why it was first implemented for Delta.
- c. Regarding (a) above, for each of the years and periods, provide the number of employees/executives eligible for SERP and the number of employees/executives included in the SERP expenses.
- d. Explain why SERP costs should be included in the revenue requirement.

COVID-19:

60. COVID-19. The Commission opened Case Number 2020-00085 to address issues related to the impact of COVID-19 on utilities and their customers, and have issued a number of Orders to date. Some of the actions taken by the Commission include, utilities shall cease disconnections for non-payment for a certain period, utilities shall waive all late payment charges for a period, utilities shall create payment plans for arrearages, investor-owned

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

utilities are permitted carrying charges on arrearages, changes in how utilities accrue or estimate bad debt expense will be addressed in the utility's next rate case, In addition, Delta appears to have provided responses to at least two sets of Commission data requests.

Provide the impact of COVID-19 for each month of the Base Period (provide actual and budgeted amounts), the Forecasted test period, and for all Delta proposed adjustments (by account number) as addressed below:

- a. Provide and explain the impact of COVID-19 related Costs on each month of the Base Period and Forecasted test period as previously explained (by account number). This shall include the impact on operating revenues, operating expenses, amounts included in a deferred regulatory asset, and annual amortization expense of a deferred regulatory asset. These expenses (or reduction in revenues) and cost increases on balance sheet accounts, shall include (but not limited to) Bad Debt Expense/Uncollectibles, Late Fees (lost late fee revenues), Reconnect Revenues, Waived Reconnect Revenues, PPE/Cleaning, Computer Software, Employee Reimbursement, Hospital Feeder Inspections, Health Screening, Sequestering (hotels), Wages/Salaries (and other related payroll costs), Leak Detection Management Costs, Outside Professional and Legal Costs, Pipe Replacement Capital Costs, and other categories of costs.
- b. Provide and explain the impact of COVID-19 related Cost Savings (and cost offsets, avoided costs, and cost reductions) on each month of the Base Period and the Forecasted test period as previously explained (by account number). This shall include the impact on operating revenues, operating expenses, amounts included in a deferred regulatory asset, and annual amortization expense of a deferred regulatory asset. These expense savings or expense reductions, and cost savings impacts on balance sheet accounts shall include (but not be limited to) Existing and New Employee Positions That are Not Filled or On Hold, Other Payroll Costs and Benefits (Overtime, Incentives, Healthcare, Pensions, etc.), Employee Training (Conferences and Travel), Gasoline, Toll and Parking Costs, Facilities/Building Utility and Maintenance Costs (while employees work off-premise), Outside Professional and Legal Costs, Leak Detection Management Costs, Affiliate costs per affiliate agreements, and all other types of cost savings.
- c. Provide and explain the impact of various types and amounts of Revenues on each month of the Base Period and Forecasted test period as previously explained (by account number) that will offset the incremental COVID-19 related costs, including (but not limited to) any offsetting revenues from the U.S. Department of Treasury's administration of S.3548, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).
- d. Provide and explain the impact of COVID-19 on Capital Construction Costs (and other balance sheet accounts) for each month of the Base Period and Forecasted test

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

period as previously explained (by account number). This shall include related increases and decreases in Capital Construction budgets and other capitalized costs (for pipeline and other costs), including impacts on other capitalized amounts of Materials and Supplies, Computer Software, and other amounts. In all cases, identify the amounts the Capital Construction Budget was decreased for each specific year/month, and identify those projects that were eliminated or deferred to future periods.

- e. For the Base Period and Forecasted test period as previously explained, provide the amount of carrying charges included on any deferred regulatory assets or arrearages and provide supporting documentation and calculations, and explain how these carrying charges were calculated by account number.
- f. For the Base Period and Forecasted test period as previously explained, explain if and how Delta has changed how it accrues or estimates Bad Debt Expense/Uncollectibles, and provide all supporting documentation and calculations that address this impact by account number.
- g. If a deferred regulatory asset has been established, provide the amounts included in the regulatory asset (per the amounts identified in (a) and (b) above), and provide the beginning balance subject to amortization, the annual amortization, the accumulated amortization, and the net regulatory asset, for the entire period the regulatory asset has been in place.
- h. Provide the number of years over which any regulatory asset is amortized, and explain how Delta determined this amortization period (and identify the number of months amortized to date, as of the most recent date).
- i. Explain if Delta made any adjustments in this rate case, or if it has budgeted costs or revenue levels for the Base Period and Forecasted test period (to increase any costs or decrease any costs) in order to either: i) remove the impact of COVID-19 from the Base Period and Forecasted test period; or ii) to normalize or annualize the impact of COVID-19 on costs. Provide these impacts by account number and explain the reasons for these adjustments or impacts in budgeted costs, and provide all supporting calculations.
- j. Identify all COVID-19 related costs and impacts that Delta seeks to recover in the Base Period and Forecasted test period that are not compliant with prior Commission Orders in CN 2020-00085, and refer to Commission Orders that support Delta's ability to include and recover certain impacts of COVID-19 in this rate case (and identify all of these impacts by account number).

Depreciation Expense:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

61. Depreciation Expense Calculation (Update). Delta proposes an increase in depreciation expense of \$1,556,983 related to increased plant balances and proposed depreciation rates. Address the following questions based on Delta's Depreciation Expense adjustment calculation workpaper at Tab 55, page 8 of 13, unless otherwise noted.

- a. Delta's depreciation expense adjustment calculation workpaper begins with plant balances at December 31, 2020 and all remaining additions are estimated/budgeted. Provide an updated depreciation expense adjustment calculation workpaper that begins with the most recent actual year-to-date 2021 plant balances for calculating depreciation expense, and provide periodic updates for this workpaper to substitute actual plant additions for estimated amounts.
- b. Confirm that the Capital Expenditures (Capex) Budget at Tab 15 for years 2021 through 2024 is gross of retirements, but if retirements have been deducted then provide the gross amount of Capex and the amount of retirements for all Capex amounts.
- c. The depreciation workpaper shows 2021 estimated plant additions of \$18,963,702 (without retirements), but Delta's 2021 Capex budget (Tab 15) shows plant additions of \$18,500,000. Explain why the depreciation workpaper includes \$463,702 ($\$18,963,702 - \$18,500,000$) of estimated additional Capex not included in the 2021 Capex budget, and: i) identify the specific amounts of plant additions (by account number) comprising the \$463,702 that are included in the depreciation workpaper (and the corresponding retirement amounts) and not included in the 2021 Capex budget (so these amounts can be removed if necessary); and ii) explain why Delta should be allowed to recover depreciation expense on this additional \$463,702 of plant additions not included in the 2021 Capex budget.
- d. The depreciation workpaper shows 2022 estimated plant additions of \$17,612,234 (without retirements), but Delta's 2022 Capex budget (Tab 15) shows plant additions of \$17,333,500. Explain why the depreciation workpaper includes \$278,734 ($\$17,612,234 - \$17,333,500$) of estimated additional Capex not included in the 2022 Capex budget, and: i) identify the specific amounts of plant additions (by account number) comprising the \$278,734 that are included in the depreciation workpaper (and the corresponding retirement amounts) and not included in the 2022 Capex budget (so these amounts can be removed if necessary); and ii) explain why Delta should be allowed to recover depreciation expense on this additional \$278,734 of plant additions not included in the 2022 Capex budget.
- e. Delta proposes an increase in depreciation expense of \$1,556,983, explain if Delta makes a corresponding adjustment to increase the Accumulated Depreciation balance, and identify the related Tabs and workpapers where this adjustment is located (and identify the amount of this adjustment and how it is calculated). If Delta is not proposing a corresponding adjustment to the Accumulated Depreciation balance, explain why and cite to precedent to support Delta's position.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Capital Expenditure Budgets:

62. **Difference in CapEx Budgets.** Tab 15 provides Delta’s projected Capex budget for years 2021 to 2024, and Tab 19 shows major projects comprising this same Capex budget. Explain why the Capex amounts shown in Tab 19 exceed the Capex amounts for the same year in Tab 15 (except for year 2024 and a small difference in 2021). Explain the reason for this difference and explain which Capex amounts should be relied upon and why.
63. **Capitalized Labor in Capex.** Regarding Tab 19, for all major construction projects for years 2021 to 2024, provide the amount of labor/payroll that is capitalized in those major projects, and provide both “internal” labor (Delta employees) and any “external” labor (outside contractors).
64. **Prior Year Capex Budgets.** Tab 19 shows total Capex projected budgets for years 2021 to 2024, along with construction costs for projects constituting 5% or more of the annual construction budget (and the Capex projects expected start date, actual start date, and expected completion date). Provide the following in a similar format:
 - a. Provide information in a similar format as Tab 19, with the first column showing the original Capex projected budget amounts from 2011 to 2020, provide a second column showing the actual Capex expended for those same years, and provide a third column showing the variance between projected and actual Capex. Finally, explain the reason for the variances between projected and actual amounts for each year (for major projects comprising the variance). If Delta prepares Capex budget variance reports for each year, please provide that information for years 2011 to 2020.
 - b. Provide information in a similar format as Tab 19, showing original budgeted Capex projects exceeding 5% of the annual Capex budget for each of the years 2017 to 2020. For each of these major projects in each year, provide the original expected start date, the actual start date, the expected completion date, and the actual completion date. In addition, for each major project, show the amount and percent of difference between the original budget amount and the final actual construction cost, and explain the reasons for the variance between the original budgeted amounts and actual final cost. Provide supporting documentation prepared at that time to show the reason for differences between budgeted and actual construction costs for major projects (including work order information, variance reports, or other data).
 - c. Regarding (b) above, provide the amount of labor/payroll that is capitalized in those major projects for years 2017 to 2020, and provide both “internal” labor (Delta employees) and any “external” labor (outside contractors).

Dividends:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

65. **Dividends Paid by Delta.** For each of the years from 2010 through 2020 (and for forecasted years 2021 through 2024), provide the following regarding dividends paid by Delta to PNB, Essential and other affiliates:
- a. Provide the amount of dividends paid by Delta to PNG, Essential and other affiliates by account number.
 - b. Regarding (a) above, provide copies of written documentation and policy that explains the method and formula for determining the amount of dividends that Delta pays to these entities (and provide calculations to show how the method/formula is used to determine the amount of dividends paid for each of the periods).
 - c. Explain why the policy and method for calculating dividends changed for each of the years or varied due to change in ownership, and explain why each of the methods for calculating dividends is reasonable and proper.
 - d. For each of the above years/periods from 2011 to 2020 (and forecasted periods 2021 to 2024), provide the amount of Delta retained earnings both before and after the payment of dividends, and explain if Company policy requires that Delta maintain a specific or minimum amount of retained earnings (and identify this amount for each year).
 - e. Explain how the amount of dividends paid by Delta to other entities impacts the capital structure, cost of capital, and revenue requirement in a Delta rate case.

Witness John B. Brown Direct Testimony:

66. **Impact of Change in Ownership.** Witness Brown's direct testimony (page 3, lines 9 – 21) generally refers to three change in ownership/acquisition transactions since the last rate case, including Delta's common stock acquisition by PNG Companies LLC ("PNG") in 2017, the acquisition of PNG and Delta by Aqua America, Inc. ("Aqua") in 2020 (including the subsequent name change to Essential Utilities Inc.), and in April 2021 the transfer of ownership to Delta of Peoples Gas of Kentucky LLC ("PKY"), a farm tap affiliate of Delta owned by PNG. Address the following:
- a. Regarding the PNG and Aqua America acquisition of Delta, and the transfer of PKY to Delta, provide and describe the related journal entries for the acquiring and acquired company regarding these transactions (by account number). Also, identify the portion of the journal entry amounts that were recorded on Delta's books and the portion of the journal entry amounts recorded on the parent/holding company of Delta at that time.
 - b. Regarding the transactions in (a) above, identify the financial impacts of these transactions that are reflected in the base period and the forecasted test period revenue requirement of this rate case, including (but not limited to) amounts

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- reflected in O&M expenses, amortization expense, capitalized costs (including deferred regulatory accounts), acquisition adjustments, capital structure (debt, equity, retained earnings, etc.) and other transaction-related amounts included in the revenue requirement of this rate case (and describe and identify all amounts by account number for each month and year).
- c. If not included in (b) above, describe all transaction-related amounts included in a deferred regulatory account for each year (including, but limited to an acquisition adjustment) and subject to amortization (by account number), and provide the following for each transaction for each year through December 31, 2021:
 - i) the beginning and ending balance in the regulatory asset for each year, for each transaction (by account number).
 - ii) the number of years being amortized (and explain how this amortization period was determined).
 - iii) annual amortization expense (by account number).
 - d. Regarding (c) above, provide the unamortized balance and remaining number of years to be amortized as of December 31, 2022 for each transaction.
 - e. Regarding (b) and (c) above, explain and provide documentation that supports the reasonableness, propriety, and precedent for these transaction-related costs and impacts being included in the revenue requirements of this rate case.
 - f. Regarding (b) and (c) above, cite to and identify all Commission Orders (and related case numbers), that have approved recovery, denied recovery, or deferred a decision on recovery (to future rate cases or other proceedings) of these transaction-related costs that have been included in the revenue requirements of this rate case. In all instances, identify Delta's non-compliance with prior Commission Orders (if applicable) and the reasons for non-compliance.
 - g. Regarding (b) and (c) above, identify all transaction-related costs and impacts that have been recorded below-the-line or have not been included in the revenue requirement of this rate case and explain the reason for this treatment (and describe and identify all amounts by account number for each month and year). Explain if the below-the-line treatment or exclusion from the revenue requirement is consistent with Commission Orders or precedent.
 - h. Explain how Delta's debt and equity balances (and capital structure in general) were impacted by each of the change in ownership/acquisition transactions above, and identify the change in debt and equity (and provide the amount of debt and equity before and after the transaction) and explain the reasons for the specific changes in debt and equity balances related to the transaction.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- i. Explain how Delta’s deferred taxes, income tax carryforward, and other tax credit amounts were impacted by each of the change in ownership/acquisition transactions above, and identify the change in these amounts (and provide the balances before and after the transaction) and explain the reasons for these specific changes related to the transactions. In all cases, explain if some amount of Delta’s deferred taxes, income tax carryforward, and other tax credit amounts were relinquished, sold, or otherwise reduced by the impact of these transactions, and explain the rationale for this change and why it was reasonable.

67. Economies of Scale Related to Ownership Change. Witness Brown’s direct testimony (page 3, lines 14 – 16) states that the various acquisitions (and change in ownership) have allowed Delta to have access to technologies, economies of scale, and expertise beyond what was practicable as a standalone utility. Address the following:

- a. Please identify and provide supporting documentation and calculations for each of the various types and amounts of “economies of scale” for Delta, and explain how this translates to actual tangible cost savings for each appropriate calendar or fiscal year from 2017 through the most recent period available (by account number, functional cost, or other categories).
- b. Regarding (a) above, provide both the economies of scale and actual tangible cost saving lease that are reflected in the revenue requirements of this rate case for the base period and the forecasted test period (by account number, functional cost, or other categories).

68. Best-In-Class Comparison. Witness Brown’s direct testimony (page 4, lines 5 – 6) states that Essential (Delta’s ultimate parent) is one of the largest, best-in-class, publicly regulated water, wastewater, and natural gas utilities in the United States, with operations dating back to 1886. Address the following:

- a. Provide supporting documentation, studies, and comparison to other utilities (and explain if the data was prepared by the Company or a third party) that was relied upon to support the Company’s claims above, and provide this information for each of the years 2010 through 2021.
- b. Regarding (a) above, identify those companies that Essential was compared to, and provide the rank order comparison of Essential and all applicable companies for each specific operating, financial, service quality, and other statistic that the Company relied upon in reaching a conclusion that Essential was one of the largest, best-in-class water, wastewater, and natural gas utilities.
- c. Regarding (a) and (b) above, explain if the “natural gas utility” operations of PNG and Delta Gas operations specifically, were compared (or can be compared) to the stand-alone natural gas operations of other utilities (and provide this rank order comparison for all statistics), or explain if the comparison is only available for the

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

combined water, wastewater, and natural gas utility operations of these utility companies. Provide a specific comparison for just “natural gas” utility operations if this information is available on a stand-alone basis for PNG (Kentucky, Pennsylvania, and Kentucky) and on a stand-alone basis for Delta Gas (Kentucky).

69. Customers Lost/Gained Due to Bypass and Other Reasons. Witness Brown’s direct testimony (page 9, lines 18 – 19) indicates Delta has lost customers to bypass in the past. Address the following:

- a. Provide the number of customers and related revenues lost to bypass, by customer tariff class, for each year from 2010 through 2021 year-to-date, and provide supporting documentation and studies to support this conclusion.
- b. Provide the number of customers and related revenues lost for all other reasons besides bypass (customer went out of business, moved, etc.) by customer tariff class, for each year from 2010 through 2021 year-to-date, and provide supporting documentation and studies to support this conclusion.
- c. Identify the number of customers and related revenues “gained or added” from customers switching to Delta from alternate energy supplies (customers bypassing other energy providers), by customer tariff class, for each year from 2010 to 2021 year-to-date, and provide supporting documentation and studies to support this conclusion.
- d. Explain and provide documentation supporting all actions taken and programs implemented by the Company from 2010 to 2020 to protect against loss of customers to bypass, and explain how effective the Company believes these actions have been.

70. Regarding PHMSA-mandated pipe inspections, explain whether Delta will be utilizing multiple inspection methods, or if it will rely exclusively on in-line inspections (ILI).

71. Regarding ILIs, explain whether Delta maintains contracts with external vendors for the necessary services and supplies to conduct and evaluate the required inspections, or whether the Company has the necessary in-house staffing and materials to perform these tasks.

72. If Delta does not perform these services in-house, explain whether the Company’s affiliates have evaluated the costs and benefits of performing these tasks and services on a joint basis in order to obtain economies of scale. If so, provide copies of any relevant studies in this regard. If not, explain fully why not.

- a. Explain whether Essential Utilities’ water affiliates could also make use of the ILI tools its gas affiliates are required to use, and if so, whether cost sharing between the water and gas affiliates would be appropriate.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

73. Discuss the types of inspections that Delta will be required to make, and the types of data it will collect for each such inspection. Explain also if inspection tools will be able to conduct multiple types of inspections in one run of the inspection tools, or if multiple runs will be required.
- a. Explain whether Delta could achieve any cost savings by utilizing a multi-diameter smart pig inspection tool, either on a Company-only basis or through sharing the multi-diameter tool(s) and their associated costs with the Company's other gas and/or water affiliates.

10-Year Changes and Other Impacts:

74. **Operating Statement Changes.** Witness Brown's direct testimony (page 8, lines 17 – 21) states that Delta's operation and maintenance expenses have only increased by 18% since 2010. Also, address the fluctuations based on Delta's Tab 64. Address the following:
- a. Provide supporting documentation, calculations, operating income statements, and related O&M expenses for the period December 31, 2010 through December 31, 2020, along with all other relevant periods, to support Witness Brown's testimony regarding the 18% changes in O&M expenses from 2010.
 - b. Per Tab 64, explain why Operating Expenses increased from \$36.8 million in 2011 to a peak level of \$45.8 million in 2014, then declined to \$34.0 million in 2017, then increased to \$36.7 million in 2018, then declined to \$34 million in 2019, and then increased to \$32.5 million in 2020. Explain the reasons for the changes in specific types of expenses that had the largest impact on these expense fluctuations over the noted years. Identify all short and long-term trends with these operating expenses.
 - c. Per Tab 64, explain why Operating Revenues declined from \$51.2 million in 2011 to \$47 million in 2012, then peaked at \$61.3 million in 2014, then declined to \$46.4 million in 2016, then increased to \$49.6 million in 2018, then decreased to \$47.6 million in 2019 and \$43.9 million in 2020. Explain the reasons for the changes in specific types of operating revenues that had the largest impact on these revenue fluctuations over the noted years, and explain the fluctuating impact of competition on these revenue amounts. Identify all short and long-term trends with these operating revenues.

Software:

75. **SAP and GIS Mapping Software.** Witness Brown's direct testimony (page 12, lines 18-24 and page 13, lines 1 – 8) briefly addresses Delta's recent implementation of the SAP software/data platform to unify customer data sources in one system, and the GIS mapping system (in the process of being implemented) that allows field technicians to have real-time access to distribution/transmission system maps from laptops in their vehicles. Also,

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Witness Morphew's direct testimony (page 7, lines 14 – 21) briefly addresses the GIS software. Address the following:

- a. Provide the names of the vendors for each of the SAP and GIS software, and provide a copy of the corresponding contracts, final approved purchase order, and the five largest invoices for each of the software.
- b. Explain if PNG and/or Essential had previously implemented and used the SAP or GIS software prior to Delta acquiring this software, and explain if these software purchases are intended to coordinate these types of software between PNG, Essential, and Delta. Otherwise, explain if PNG and/or Essential are using the same SAP or GIS software that was purchased by Delta, and explain how the respective costs are allocated or treated to reflect multiple company use of this software.
- c. Provide the dates the software were implemented, and the date that costs were recorded on the books.
- d. For each of the SAP and GIS software, provide the amounts capitalized and expensed by account number (and provide a copy of the journal entry and date), and explain this transaction and the accounts impacted.
- e. Regarding (d) above, separately provide the impact of the SAP and GIS software on both the Base Period August 31, 2021 and the Forecasted Test Period December 31, 2022 revenue requirement of this rate case by account number (show impacts by months of the related periods). This impact should include (but not be limited to):
 - i) Provide the amounts capitalized by account number and account description by type of cost (such as software cost, installation, coding, testing, etc.), amounts amortized to date, and the net software amount as of the Base Period and the Forecasted Test Period.
 - ii) Provide the annual amortization expense and provide the amortization period (number of years), and explain how the amortization period was determined.
 - iii) Provide all amounts initially expensed or capitalized, along with on-going amounts expensed or capitalized for each of the categories of costs related to technology evaluation, selection of a supplier, development costs (related to user training, data conversion, and overhead and administration), costs incurred after implementation (related to maintenance and employee training), and all other costs. Identify all one-time and non-recurring costs versus those costs that are recurring from year-to-year.
 - iv) Provide all amounts expensed for annual licenses, annual maintenance/service agreements, annual upgrades, and other similar costs. Identify all one-time and non-recurring costs versus those costs that are recurring from year-to-year.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- v) Identify corresponding software that was replaced or retired by this SAP and GIS software, and provide the corresponding journal entry by account number. If corresponding software will continue to be in service and not retired, then explain why this treatment is appropriate and identify the costs of this software included in the Base Period and Forecasted Test Year (including amounts capitalized, annual amortization expense, and other annual expenses including maintenance/service agreements, license agreement costs, upgrade costs, etc.). Identify all one-time and non-recurring costs versus those costs that are recurring from year-to-year.
 - f. Explain if any of the costs of the SAP and GIS software were direct assigned or allocated from PNG or Essential, and provide these amounts by account number for the Base Period and Forecasted Test Period.
76. **Software Policy.** Provide a copy of Delta’s written software policy, and explain the following:
- a. Explain if Delta stops recording software amortization expense on its books when the respective software becomes fully amortized (reaches the end of its amortization period), and explain those conditions under which Delta would, or would not, stop recording software amortization expense.
 - b. Explain if Delta continues to record software amortization expense on its books when the respective software becomes fully amortized, but only if the software is still being used and is in service. Explain the reason for this treatment, and refer to Commission Orders or other precedent that allow this treatment.
 - c. Explain if Delta continues to record software amortization expense on its books when the respective software becomes fully amortized, even if the software is not being used or is not in service, or may have been replaced by other software. Explain the reason for this treatment, and refer to Commission Orders or other precedent that allow this treatment.
77. **Software Additions in 2021 and 2022.** Delta’s depreciation expense calculation Excel workpaper “DELTA_R_PSCDR1_NUM054_061121_Rate_Model_CONF”, shows a “Computer Software Major” account balance \$3,839,904 for Delta/PKY on the books at December 31, 2020, along with gross estimated capitalized software additions for this account of \$1,796,351 in 2021 (through December 31, 2021), and gross estimated capitalized software additions of \$1,343,704 in 2022 (through December 31, 2022), consisting of \$800,000 January to June 2022 and \$543,704 from July to December 2022. Address the following:
- a. The 2021 and 2022 estimated software additions identified above for “Computer Software Major” account in the depreciation expense Excel workpaper represent greater than 5% of the total estimated plant additions for 2021 and 2022 from Tab

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

19, but are not specifically identified in Tab 19. Explain if these software additions for 2021 and 2022 consist of various types of software that are included in the “all other projects less than 5% category” at Tab 19 for both 2021 and 2022. If the answer is “yes”, then show how the 2021 and 2022 software additions from the above depreciation expense Excel workpaper reconcile to the amounts in Tab 19 for 2021 and 2022 in the category of “all other projects less than 5%”, which is \$9.7 million for 2021 and \$10.2 million for 2022.

- b. The software balance for the “Computer Software Major” account of Delta/PKY at December 31, 2020 is \$3,839,904 (as cited above), and the estimated gross plant additions (before netting with minor retirement amounts) for 2021 and 2022 will increase this software balance by \$3,140,055 (\$1,796,351 in 2021 and \$1,343,704 in 2022), almost doubling this software balance in only two years. Address the following:
 - i) Explain why the “Computer Software Major” account balance will almost double in only two years, whereas the current balance of \$3.1 million at December 31, 2020 took many years to accumulate. Explain the reason for significant increase in software capital additions for 2021 and 2022 compared to prior years, and explain why software additions are a priority in these two years.
 - ii) Regarding the gross estimated software additions of \$1,796,351 in 2021 and \$1,343,704 in 2022 (total of \$3.1 million), provide a listing showing all specific types of software (and a description of the software and its function) by amount that are comprising these additions for 2021 and 2022, and for the 10 largest software additions provide work orders, purchase orders, and all related invoices or quotes to date from related vendors.
 - iii) Regarding (ii) above, explain why Delta/PKY will add estimated software of \$3.1 million in 2021 and 2022, but will only retire \$52,000 of software in these same years (per the depreciation expense Excel workpaper). Provide all supporting documentation and workpapers to explain the amount of estimated retirements in relation to the estimated software additions (and explain why additions from January to June 2022 of \$800,000 will have \$15,157 of retirements, and why additions from July to December 2022 of \$543,704 will also have this same amount of retirements of \$15,157).
- c. Explain if the SAP and/or GIS mapping software are included in the estimated gross plant additions for 2021 and 2022 addressed above, or explain if the SAP and/or GIS mapping software is already included in the December 31, 2021 software balance of \$3,839,904 for the “Computer Software Major” account or in the December 31, 2021 balance of \$1,377,728 for the “Computer Software Other” account balance, and provide a complete reconciliation of all software plant balances (at December 31, 2021) and estimated software additions (for 2021 and

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

2022) to show where the amounts for the SAP and GIS mapping software are included.

- d. Identify the amount of software plant additions (and retirements) included in the December 31, 2020 CWIP account by type and description of software, and per item (i) above, explain the reason for the significant increase in software balances for the 2021 and 2022 periods.

78. List of Software. Delta's depreciation expense calculation Excel workpaper "DELTA_R_PSCDR1_NUM054_061121_Rate_Model_CONF", shows a December 31, 2020 balance of \$3,839,904 for "Computer Software Major" and a balance of \$1,377,728 for "Computer Software Other", address the following:

- a. Provide a listing of all software amounts (by description/vendor for each specific software, as identified on the books) that are on the books at December 31, 2022, and show the date/year first capitalized to the books, the amortization period (3, 5, 10 years, etc.), and the date that the software becomes fully amortized. If this request proves too voluminous, then provide this information for the 30 largest software amounts.
- b. Regarding (a) above, it is not necessary to provide the amortization expense, but for the Base Period and the Forecasted Test Period, provide all other software-related expenses by account number and description (including, but not limited to, costs incurred for maintenance and employee training, licenses, maintenance/service agreements, upgrades, and all other types of expenses). Identify all one-time and non-recurring costs versus those costs that are recurring from year-to-year.
- c. Regarding (a) above, identify all software balances (by description/vendor for each specific software) that will be fully amortized by the end of the Base Period August 31, 2021, provide the related amount of annual amortization expense, and explain if Delta has removed this related amortization expense from this rate case (and explain why or why not, and explain why Delta will continue recording amortization expense on these fully amortized assets). Provide a copy of the workpaper and calculations that removes this amortization expense (explain if this amortization expense has been removed at the depreciation calculation workpaper "DELTA_R_PSCDR1_NUM054_061121_Rate_Model_CONF", and explain how this workpaper removes these amounts).
- d. Regarding (a) above, identify all software balances (by description/vendor for each specific software) that will be fully amortized by the end of the Forecasted Test Period December 31, 2022, provide the related amount of annual amortization expense, and explain if Delta has removed this amortization expense from this rate case (and explain why or why not, and explain why Delta will continue recording amortization expense on these fully amortized assets). Provide a copy of the

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

workpaper and calculations that removes this amortization expense (explain if this amortization expense has been removed at the depreciation calculation workpaper “DELTA_R_PSCDR1_NUM054_061121_Rate_Model_CONF”, and explain how this workpaper removes these amounts).

Incentives:

79. Incentives Disallowed. Witness Packer’s direct testimony (page 11, lines 9 – 20) states that Delta is aware of the Commission’s policy that incentive costs based on financial metrics are not allowed for recovery in a rate case, but Delta has included all incentive costs in this rate case because it can demonstrate that its total compensation an employee earns is reasonable based on the market. Address the following:

- a. Delta’s position appears to be that financial metric based incentive costs should be allowed in this rate case because these costs are reasonable compared to the market. Explain if it is Delta’s understanding that the Commission’s precedent to disallow financial metric based incentive costs is based on a position that Delta (and other utility companies) total incentive costs are unreasonable or are excessive compared to the market, and provide a citation for Delta’s position to the related Commission Orders making this argument.
- b. Explain if Delta continues to incur financial metric based incentive costs, and these costs are included in the Base Period and the Forecasted Test Period.

80. Additional Data per Confidential Staff DR 1-39 (UPDATE). Witness Packer’s direct testimony (page 11, lines 9 – 20) states that Delta is aware of the Commission’s policy that incentive costs based on financial metrics are not allowed for recovery in a rate case, but Delta has included all incentive costs in this rate case. Also, Delta’s response to Staff’s First Series of Data Requests, Confidential question 39 (Confidential Staff DR 1-39), shows base salary, overtime, incentives, and other payroll costs by Officer/employee categories for the calendar years December 31, 2018 through December 31, 2020, and the Base Period August 31, 2021. Address the following:

- a. Provide updated compensation information in the same format as Staff DR 1-39 for the Base Period August 31, 2021 on a periodic monthly basis, substituting actual information for the budgeted information in the Base Period of the original filing for these payroll costs.
- b. Provide the same compensation and payroll information (in the same format) included in Delta’s response to Confidential Staff DR 1-39, for the additional calendar years of December 31, 2016 and December 31, 2017.
- c. Explain if the compensation and payroll costs in response to Staff DR 1-39 for the Base Period August 31, 2021 reflects the same amount of compensation and payroll costs included in the Forecasted Test Period December 31, 2022, except for the payroll adjustment proposed by Delta (per Tab 57, Schedule D-2.6). Otherwise,

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

explain all differences between the Base Period August 31, 2021 compensation and payroll costs in response to Staff DR 1-39 and the Forecasted Test Period compensation and payroll costs included in the revenue requirement of this rate case.

81. Incentives by Type of Metric. Witness Packer’s direct testimony (page 11, lines 9 – 20) addresses the Commission’s policy on financial metric incentives and Delta’s position on this issues. Address the following for each of the calendar years December 31, 2018 through December 31, 2021, and the Base Period and Forecasted Test Period:

- a. For each of the short-term and long-term types of incentives, identify and explain those incentive metrics (targets or criteria) that are considered by Delta to be “financial-based metrics” (not allowed per prior Commission precedent), those that are “customer-based metrics” (are allowed per prior Commission precedent), and those that are a combination of “financial and customer based metrics” (and identify the amount or percent of financial versus customer-based metric). In each case, provide a copy of the Company’s written incentives policy that describes each metric, and explain why Delta believes the metric is either “financial based”, “customer-based”, or a combination of “financial and customer-based.”
- b. Regarding (a) above, identify the driver (or components/inputs) of the financial-based metrics, customer-based metrics, and combination financial and customer-based metrics, and provide the related formula or method for determining the financial or customer-based metric. In all cases, show Delta’s “targeted” metric driver/component and the final metric driver/component achieved. For example, if Return on Equity (“ROE”) is one of the financial-based metric driver/components, then disclose this and all other financial-based drivers/components. Also, show the “targeted” range of ROE (and all other financial and customer-based metrics), and the actual ROE achieve, and show the amount or percent of incentive pay-out associated with the range and actual ROE achieved.
- c. Regarding (b) above, in regards to the driver or component of the financial-based and customer-based metrics and the related formula, explain if the driver/component (such as ROE) is based on the ROE of Essential, PNG, Delta, or some combination. In all cases, provide the formula and the specific company(s) financial and operational inputs used in determining the metric.
- d. Explain the reasons for the change in the composition of the financial-based versus customer-based metrics from year-to-year.
- e. Explain the reasons for the change in the driver or components of the financial and customer-based metrics for each year. For example, if the driver/component for financial-based metrics is the ROE, then provide the “targeted” ROE for each year/period, and explain why the targeted or desired ROE changes each year.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

82. Incentives Expense. Witness Packer’s direct testimony (page 11, lines 9 – 20) addresses the Commission’s policy on financial metric incentives and Delta’s position on this issues. Also, Delta’s response to Staff’s First Series of Data Requests, Confidential question 39 (Confidential Staff DR 1-39), shows total incentive expense for certain years/periods, but does not break this out between short-term and long-term incentive components. Address the following for each of the calendar years December 31, 2018 through December 31, 2021, and the Base Period and Forecasted Test Period::

- a. Separately provide the amount of short-term incentive compensation expense and long-term incentive compensation expense by account number (and description) for each year/period, and explain the reason for changes in short and long-term incentives for each year/period.
- b. Regarding (a) above, if possible, separately provide the amount of short and long-term incentive expense by type of component (and account number), such as each type of short-term incentive expense (each type of bonus or award, etc.) and each type of long-term incentive expense (such as performance shares, performance units, etc.) for each year/period.
- c. Regarding each type of short-term incentives in (b) above (for each type of bonus or award), explain the incentive performance drivers (or criteria) that impact how employees are paid (or explain if the bonus/award is not driven by incentive performance), and provide a copy of Delta’s written policies that identify these performance drivers for each year/period. For example, identify employee’s short-term incentive bonus/awards that are driven by performance related to COVID-19, rate case preparation, cost savings, reorganization, and other factors.
- d. Regarding (a) and (b) above, for long-term incentive performance shares and performance units (or similar type incentives), for each year/period, provide the number of shares/units issued and granted/vested, and identify how many of the shares/units were used in calculating the amount of long-term incentive expense for each year. Generally explain how performance shares/units (or similar long-term incentives) are accounted for and treated on the books.
- e. Regarding (a) and (b) above, if possible, separately provide the amount of short and long-term incentive expense between financial-based metrics and customer-based metrics for each year/period.
- f. For each year/period, explain how the “expense” amount of short and long-term incentives was determined. For example, explain if the short and/or long-term incentives expensed for a particular year is an estimate based solely on prior-year employee performance (with any true-up in the subsequent year), or is based on an estimate (or accrual) of current year employee performance (with any true-up in the subsequent year), is based on an estimate of 50% current employee performance and an estimate of 50% future year employee performance (with true-up in the

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

subsequent period). In all cases, identify the amount of short-term and long-term incentive expense for each year/period, and provide the amount of true-up in the subsequent year(s).

Pensions:

83. Freezing Pension Plan and Increasing Defined Contribution. Witness John Brown's direct testimony (page 13, lines 17 – 23) states that Delta made a significant change to its pension program in May 2021, freezing the pension plan for all employees, and this reduces pension expense by about \$808,000, although this offsets the cost of enhancing the defined contribution plan. Also, Delta's response to Staff's First Series of Data Requests, question 33 (Staff DR 1-33), states that Delta's adjustment to reduce Pension Expense will be corrected in its Base Period update to reflect an additional reduction of \$511,670, along with what appears may be another correction to increase Pension Expense by \$21,375. Address the following:

- a. Explain why Delta is freezing Pension Plans for all of its employees, and ceasing all accruals effective May 1, 2021 (which along with the strong investment performance), is resulting in Delta's proposed Pension Expense adjustment.
- b. Explain if Delta's Pension Expense reduction of \$808,439 will be updated to reflect an additional reduction of \$511,670, or a reduction of \$511,670 offset by the other correction to increase Pension Expense by \$21,375.
- c. Provide a copy of the Willis Towers Watson actuary report that shows freezing the pension plan benefits will result in a reduction in Pension Expense of \$808,439, along with an additional reduction of \$511,670. Provide a reconciliation from specific amounts cited at pages of the actuary report to Delta's Pension Expense balances per books, to arrive at the adjustments of \$808,439 and \$511,670, respectfully.
- d. Witness Brown states that Pension Expense savings will be partially offset by the cost of enhancing the defined contribution plan is shown at Delta's Pension Expense adjustment at Tab 57, Schedule D-2.5, and this increases 401K expense by \$310,198, from Base Period expense of \$404,796 to Forecasted Test Year expense of \$714,994. Provide documentation supporting Delta's increased contribution of \$310,198 to the 401K plan adjustment, and explain why freezing the Pension Plan required increased contributions to the employee 401K plan by the amount of \$310,198, and explain how a Delta contribution of \$310,198 was determined (as opposed to some other amount), and reconcile all amounts to related actuary reports.
- e. Provide Delta's Pension expense by account number, for each of the calendar years 2018 to 2020, and the Base Period (by month), and explain the reasons for changes in these expenses from year-to-year.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- f. Provide Delta's Defined Contribution Plan expense by account number, for each of the calendar years 2018 to 2020, and the Base Period (by month), and explain the reasons for changes in these expenses from year-to-year.

84. Increased Medical and Dental Costs (UPDATE). Delta's Pension expense adjustment at Tab 57, Schedule D-2.5, shows an adjustment to increase Medical costs by \$523,276, and increase Dental costs by \$81,948, for the Forecasted Test Period (based on annualizing 3 months of data ending March 31, 2021). Address the following:

- a. Provide an update of amounts on a periodic basis (for the most recent actual data) of the Medical and Dental expense adjustment calculation, from using 3 months of expenses ending March 31, 2021, to using the most recent months of actual data for the Base Period.
- b. Explain why Medical and Dental insurance benefit costs have increased significantly from the Base Period amounts to the Forecasted Test Year amounts, explain if this is due to improved benefits coverage provided to employees (and describe these improved benefits and related costs), increase in costs by Delta's insurance carrier (and provide documentation from the carrier to confirm this cost increase), or explain all other reasons for increase in costs along with supporting documentation.
- c. Explain why Delta's adjustment has increased Medical and Dental costs by an additional expected increase of 5%, and provide all supporting documentation for this additional increase.
- d. Provide Delta's Medical and Dental expense by account number, for each of the calendar years 2018 to 2020, and the Base Period (by month), and explain the reasons for changes in these expenses from year-to-year.

Rate Case Expense:

85. Rate Case Expense Contracts. Staff's First Series of Data Requests, question 12(b) (Staff DR 1-12(b), requested a copy of all contracts supporting legal and consulting rate case costs for this case, but the OAG could not locate any contracts provided with Delta's response. Address the following:

- a. Provide a copy of all contracts and other documents supporting the rate case expense for legal and other consultants in this rate case. If there are no contracts to support certain rate case consulting costs, then confirm this for each consultant.
- b. If there are no contracts to support certain legal and other consulting rate case expense for this case, then explain how Delta determined the estimated rate case expense for each consultant and provide the related supporting documentation and calculations (including all estimates provided by consultants).

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- c. Identify all legal and consultant rate case costs that are supported by: i) contracts based on a not-to-exceed cost basis (and identify this cost for each consultant), ii) contracts based partially or entirely on a retainer basis or fixed fee (regardless of hours incurred); and iii) all contracts that do not have an upward limit or maximum contractual cost level.

Other Costs and Impacts:

86. Property Tax Expense (UPDATE). Delta's Tab 57, Schedule D-2.7 shows an adjustment to increase property tax expense by \$335,311 based on a factor of 1.095 that is an estimate of the increase in taxable property from December 31, 2019 to December 31, 2021. Also, Delta's Excel workpaper, "DELTA_R_PSCDR1_NUM054_061121_Rate_Model_CONF" per Schedules 5.1 and 5.2 show some supporting calculations. Address the following:

- a. Provide Delta's property tax expense (by account number) for each of the calendar years 2018 to 2020, plus the Base Period (by month) and the Forecasted Test Period, and explain the reasons for the changes in property tax expense for each year.
- b. For each of the financial years/period in (a) above, explain the time period of the assessable plant per the property tax bill (for example, explain if the assessed plant for property tax purposes is always one year in arrears behind the related financial period).
- c. Provide the date that the latest property tax statements will become available to Delta in 2021, and provide a copy of the property tax statement when it becomes available and explain the amount of property tax expense that will be recorded on Delta's books by account number.
- d. Regarding (a) and (b) above, provide the net assessable plant (by account or categories) supporting the property tax expense of each year, and provide the corresponding net plant accounts recorded on the books related to the same assessable year and explain the reasons for the differences between assessable plant and actual plant per books for each year (for example, explain plant on the books that is not assessable or has a different value for assessment purposes). In all cases, provide the ratio (percent factor) of assessable plant to per book plant for the same year.
- e. Explain and provide support for Delta's property tax expense adjustment showing December 31, 2019 Net Plant of \$144,629,535 multiplied by the property tax rate of 1.996426%. Explain and provide the supporting documentation and calculations for the 2019 property tax rate of 1.996426%, and explain how this reconciles to property tax values and the calculated tax per Delta Schedule 5.1, and explain if the

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

1.996426% factor reconciles to any factors provided at the property tax assessment statement.

- f. Explain why 2019 plant and property tax factors were used in this property tax expense adjustment calculation, and explain why 2020 related plant and property tax factors were not used, and provide these calculations for the 2020 period.
- g. Explain why Delta's Tab 57, Schedule D-2.7 property tax adjustment shows a factor increase of 1.095 from December 31, 2019 to December 31, 2021 plant balances, and explain why Delta cannot substitute actual December 31, 2020 plant balances for the December 31, 2019 plant amounts. Please substitute the 2020 actual data for the 2019 data, or explain why this calculation cannot be performed.

87. Hydrocarbon Liquid Processing Plant. Witness Morphew's direct testimony (page 8, lines 10 – 19) states that Delta's hydrocarbon liquid processing plant in Bell County has been turned off because of decreased natural gas production in eastern Kentucky, although the plant is maintained in operational condition. Address the following:

- a. Explain if the Commission has previously approved this processing plant being turned off, or explain if Commission approval is not necessary.
- b. Provide the date the processing plant was most recently turned off, and provide Delta's best estimate of when the plant will be turned on again (and provide supporting documentation for this estimate).
- c. For the period from January 2011 through June 30, 2021, identify the number of times the processing plant has been turned off and on (and provide those specific dates), and explain why the plant was turned off and on in each instance.
- d. Provide the total cost of operating this plant that is included in the revenue requirement of this case by account number, including the amounts in rate base by account number (plant in service, CWIP, M&S, etc.), depreciation/amortization expense by account number, operating and maintenance expense by account number, property tax by account number, other taxes by account number, and all other amounts.
- e. Explain and identify the number of specific personnel working at the liquid processing plant (or that have some primary responsibility for the liquid processing plant) both before and after it was turned off, and explain how many employees have been laid off or terminated, re-assigned to other functions, or otherwise treated during the period when the plant is turned off.
- f. Provide a citation to precedent by the Commission, for allowing the costs of a liquid processing plant that is not being used to be recovered in a rate case revenue requirement (cite to the utility, case number, and Commission Order language). Otherwise, explain Delta's complete rationale for this treatment in this rate case.

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

88. Excess Deferred Income Tax Amortization. Address the following regarding the impact of the excess deferred income tax amortization under the Tax Cuts and Jobs Act as approved by the Commission (or explain if this impact for Delta has not been reviewed by the Commission):

- a. Provide the financial impact on all income statement and balance sheet accounts (by account number) for calendar years 2018, 2019, 2020, the Base Period, and the Forecasted Test Period related to the amortization of excess deferred income taxes on all categories of impacted plant assets with deferred taxes.
- b. Explain if the Commission has approved the amount of excess deferred taxes to be amortized for each plant category and the amortization period/years, and provide these amounts (and a citation and reconciliation to the related Commission Order).
- c. Show these impacts upon all deferred tax accounts (by account number), showing the beginning excess deferred balance for each category, the amortization amount for each year for each excess deferred balance category, and the ending unamortized excess deferred balance by category for the years noted above. Explain if any of the excess deferred tax balances will be fully amortized by December 31, 2022.
- d. Explain the impact of excess deferred tax amortization on this rate case, including deferred tax balances, income tax expense, and all other account balances.

89. Reorganization. In Case Number 2021-00283, Delta has filed an Application for corporate reorganization, regarding the indirect acquisition of control of Delta by LDC Funding. Delta states this restructuring will not have any impact on the financial structure of Delta, no impacts on costs or expenses, and no impact on rates or services. Address the following:

- a. Provide the names of attorneys and outside consultants addressing this reorganization for Delta, and identify the amount of expenses included in the Base Period and the Forecasted Test Period for these attorneys and consultants (by account number), including all amounts allocated and direct assigned by PNG and Essential to Delta.
- b. Regarding (a) above, provide the costs of these attorneys and outside consultants that are related to the reorganization issue and has been recorded on Delta's books (by account number) for the Base Period and Forecasted Test Period.
- c. Regarding (a) and (b) above, provide the costs of these attorneys and outside consultants that are not related to the reorganization issue and have been recorded on Delta's books (by account number) for the Base Period and Forecasted Test Period.

90. Accruals. Address the following regarding accrued expenses:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

- a. Provide the amount of the 20 largest accrued expense entries (by account number) made on the books for the actual and estimated months included in the Base Period August 31, 2021, provide an explanation for the accrual, provide documentation supporting the accrual calculations, and provide a copy of the related journal entry.

91. **Prepays.** Per the Rate Base Summary at Tab 55, and supporting schedules, address the following:

- a. Explain why the 13-month prepaid balance has declined from \$1,678,137 at December 31, 2009 to \$1,072,741 at March 31, 2021, and provide supporting documentation.
- b. Provide an explanation of the types of costs included in the 20 largest prepaid balances at March 31, 2021 (and identify the oldest and newest cost amounts by date and category).
- c. Provide the reasons for the 20 largest increases in prepaid balance categories from December 31, 2016 to March 31, 2021.

92. **Inflation Factors. Address the following regarding inflation factors (and similar cost-of-living indexes):**

- a. Identify and explain all budgeted and forecasted revenue, expense, taxes, and rate base amounts included in the Base Period and the Forecasted Test Period, including all Delta-proposed adjustments, that use an inflation factor (or similar cost-of-living index or factor) as part or all of its calculations to estimate these amounts, and provide all supporting calculations and the amount of the inflation factor used in each calculation.
- b. Explain why the inflation factor was used for estimating the specific amounts in (a) above, and was not used for other types of budgeted and forecasted revenue, expense, taxes, and rate base amounts.
- c. Explain and refer to Commission precedent for this approach of using inflation factors for estimating Base Period and Forecasted Test Period amounts, including Company-proposed adjustments.

93. **H.B. 487 Single Sales Factor Apportionment.** Witness Packer's direct testimony (page, 10, lines 8 – 9) states that H.B. 487 adopts single sales factor apportionment for multistate companies. Explain and provide supporting documentation to show how this change has impacted Delta's costs, revenues, allocations, and revenue requirement in this rate case. Provide the date of the effective change and the impact on Delta's income statement and balance sheet by account number.

94. **Tax Sharing Agreement.** Provide a copy of the tax sharing agreement or similar document that explains how shared or allocated tax obligations, tax credits, net operating

ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

loss carryforwards, and other tax items are allocated between (or reimbursed between) Delta, Essential and PNG. Provide an explanation in layman's terms of how this document is used between Delta and affiliates, and how it impacts the revenue requirement in this rate case.

CONFIDENTIAL DATA REQUESTS

95. [REDACTED]

- [REDACTED]

- [REDACTED]

- [REDACTED]

- [REDACTED]

- [REDACTED]

**ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN
ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND
NECESSITY**

between [REDACTED] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

- [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

- [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

- [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

- [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

- [REDACTED]
[REDACTED]
[REDACTED] [REDACTED]
[REDACTED]

- [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

**ELECTRONIC APPLICATION OF DELTA NATURAL GAS COMPANY, INC. FOR AN
ADJUSTMENT OF ITS RATES AND A CERTIFICATE OF PUBLIC CONVENIENCE AND
NECESSITY**

This concludes these Data Requests.