

**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)	

OAG’S RESPONSE TO DATA REQUESTS OF PSC STAFF

The Office of the Attorney General, Office of Rate Intervention, provides the following responses to the Data Requests filed by PSC Staff. Mr. Ostrander and Mr. Baudino sponsor the testimony in the response.

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Respectfully submitted,

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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 October 27, 2021, an electronic copy of the forgoing was served by e-mail to the following.

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this 27th day of October, 2021.

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

Assistant Attorney General

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1. Refer to the Direct Testimony of Richard Baudino (Baudino Testimony) generally.
 - a. Provide Exhibits RAB-2-6 in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.
 - b. For each of the return on equity (ROE) methods employed, provide a separate discussion of the assumptions required and why each assumption can reasonably be assumed. If assumptions cannot be reasonably assumed, explain why not.

RESPONSE:

- a. Please refer to the attached spreadsheet entitled "Delta Gas 2021 ROE.xlsx".
- b. Mr. Baudino provided a general explanation of the assumptions for the constant growth version of the Discounted Cash Flow ("DCF") model on pages 15 through 17 of his Direct Testimony. One additional assumption of this model is that dividends, earnings, and book value all grow at the same rate over time. In his book *New Regulatory Finance*, page 252, Dr. Roger Morin presented four crucial assumptions embodied in the General DCF model as follows:
 1. Investors evaluate common stocks in the classical valuation framework and trade securities rationally at prices reflecting their perceptions of value.
 2. Investors discount the expected cash flows at the same rate, K , in every future period.
 3. The discount rate, K , obtained from the fundamental DCF equation corresponds to the specific stream of future cash flows alone, and no other.
 4. Dividends, rather than earnings, constitute the source of value to the investor.

Dr. Morin also listed additional assumptions for the standard DCF model as follows on pages 255 - 258:

1. The discount rate, K , must exceed the growth rate, g .
2. The dividend growth rate is constant in every year to infinity.
3. Investors require the same return, K , every year.
4. No external financing.

Mr. Baudino also provided an overview of the Capital Asset Pricing Model ("CAPM") foundation and assumptions on pages 22 through 23 of his Direct Testimony, as well as

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an explanation of some of the model's shortcomings on pages 24 through 25.

On pages 147 - 148 of New Regulatory Finance, Dr. Morin noted that the CAPM has two general assumptions that, in his view, overshadow the others:

1. Capital markets are competitive and efficient, and information is freely available to all investors.
2. Investors are rational profit-maximizers who pursue their monetary self-interests and demand higher returns for higher risks.

Please refer to Chapter 5 and Appendix 5-A of New Regulatory Finance for a thorough discussion of the additional assumptions underlying the CAPM.

The assumptions underlying the DCF and CAPM support these models, which have been accepted in regulatory jurisdictions throughout the United States. Their assumptions are not always met in practice in the real world. Nonetheless, these models are still useful in attempting to estimate the investor required ROE. As Mr. Baudino also pointed out in his Direct Testimony, the CAPM has shortcomings that make it less reliable for estimating the investor required ROE.

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2. Refer to the Baudino Testimony, page 10, Table 1. Provide an update with the most recent data available.

RESPONSE:

Mr. Baudino does not have the September 2021 Mergent public utility bond yield. The 30-Year Treasury Bond yield for September 2021 was 1.94%.

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3. Refer to the Baudino Testimony, page 11, Figure 2. Provide an update with the most recent data available.

RESPONSE:

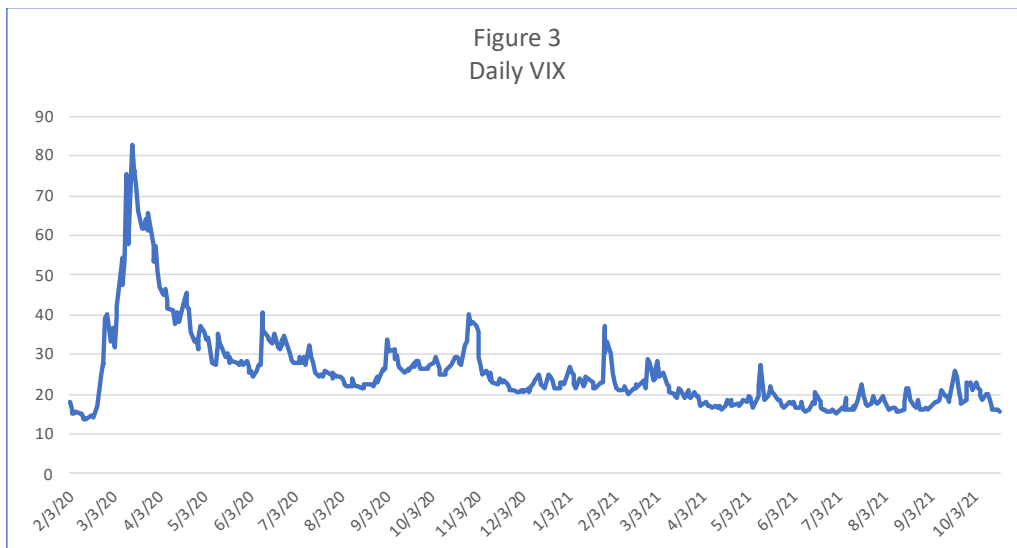
Mr. Baudino does not have the September 2021 Mergent average public utility bond yield and, thus, cannot update Figure 2.

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4. Refer to the Baudino Testimony, page 14, Figure 3. Provide an update with the most recent data available.

RESPONSE:

An updated Figure 3 is provided below, with data through October 20, 2021. Also, please refer to the attached Excel file entitled "Updated Figure 3.xlsx".



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5. Refer to the Baudino Testimony, page 15, lines 10–15.
 - a. Explain whether a proxy group of seven regulated gas distribution utilities represents a large enough representative sample on which to derive statistically significant ROE estimates.
 - b. In addition to using gas utilities, explain whether using water utilities as additional proxy companies would be appropriate in the Discounted Cash Flow and Capital Asset Pricing Model analyses and, if not, why not.

RESPONSE:

- a. In this case, it is Mr. Baudino's conclusion that the proxy group of seven gas distribution companies represents a large enough sample to reasonably estimate the required ROE for the proxy group and for Delta Gas.
- b. Mr. Baudino would not advise including water utilities in a proxy group of gas distribution companies given the different markets in which water utilities operate and the attendant different business risks faced by water utilities.

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6. Refer to the Baudino Testimony, page 18, lines 18–20. Explain why the most reasonable period over which to estimate dividend yields is six months.

RESPONSE:

Six months is a reasonable period over which to measure the current dividend yield for the proxy group. This length of time is not overly long compared to one year, in which stock prices earlier in the period may no longer reflect current investor requirements. However, six months is a reasonable period over which to smooth out any extreme fluctuations that may occur in stock prices, making shorter periods such as one or three months unreflective of longer term expectations of investors.

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7. Refer to the Baudino Testimony, page 26, line 3. Explain why using an average of both the median and average values is better than relying on one or the other.

RESPONSE:

Both the median and the average annual return projections represent alternative measures of central tendency of Value Line's large data base of companies. Using both the average and the median values provides a reasonable range of possible values for investor expectations regarding the expected annual return on the market, rather than simply relying on one measure (either the average or the median).

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8. Refer to the Baudino Testimony, page 26, lines 19–22, and page 27, lines 1–5. Explain why the “historical risk premium of stock returns over the long-term government bond returns has been significantly influenced upward by substantial growth in the price/earnings (“P/E”) ratio” is important and why Duff and Phelps subtracted out the percent equity ratio for stocks from the historical risk premium.

RESPONSE:

It is important to consider removal of the increase in the P/E ratio from historical risk premiums on the basis that continued expansion of the P/E ratio cannot be predicted to continue indefinitely. Duff and Phelps cited the work of Roger Ibbotson and Peng Chen in this area in the development and quantification of the supply-side equity risk premium.

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9. Refer to the Baudino Testimony, page 26, lines 13–18 and page 27 lines 7–15. Explain the reasoning for using 20-year Treasury bonds to determine the historical Market Risk Premium, but 30-year Treasury bonds were used as the risk free rate.

RESPONSE:

Duff and Phelps uses a 20-Year Treasury Bond, rather than the 30-Year Treasury Bond, in its analyses of annual total returns, income returns, and capital appreciation returns for its Basic U.S. Asset Classes, rather than the 30-Year Treasury Bond yield. However, there is very little difference in the yield between the 20-Year and 30-Year Treasury bond yields. For example, for September 2021 the 20-Year Treasury Bond yield was 1.87% and the 30-Year Treasury Bond yield was 1.94%, a difference of only 7 basis points.

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10. Refer to the Baudino Testimony, page 27, lines 12–15. Provide a greater explanation of Duff and Phelps' "normalized" risk free rate, and how it incorporates expected inflation.

RESPONSE:

The Duff and Phelps methodology considers a range of estimates for the long-term real risk free rate as well as a range of expected inflation forecasts. In a simple build-up method, the range of values for the long-term real risk-free rate is added to a range of inflation forecasts to obtain a range for the long-term normalized risk-free rate. Duff and Phelps' current recommended normalized risk-free rate of 2.5% is near the midpoint of the current range of estimates for the long-term normalized risk-free rate.

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11. Refer to the Baudino Testimony, page 31, lines 17–25 and page 32, lines 1–6. Explain what impact, if any, the acquisition of Delta Natural Gas Company, Inc. (Delta) by Essential Utilities would have on the estimated ROE.

RESPONSE:

It is Mr. Baudino's view that Delta's acquisition by Essential Utilities lowered its risk and its required ROE going forward. In addition, please refer to Mr. Baudino's Direct Testimony on page 31, lines 1 - 16, regarding the mitigation of risk for Delta as a part of Essential Utilities.

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12. Refer to the Baudino Testimony, page 32, lines 8–22 and page 33, lines 1–4. Mr. Baudino recommends an equity ratio of 50.00 percent for Delta based upon the 2020 average equity ratios of the proxy group. Refer to Delta’s Response to Staff’s First Request for Information, Item 20. Historically, Delta’s equity ratio has ranged from 49.16 percent to 60.42 percent and is 54.48 percent for the first quarter of 2021. Explain how Mr. Baudino’s proposed 50.00 percent equity ratio aligns with Delta’s historical equity ratios.

RESPONSE:

Mr. Baudino's recommended common equity ratio is near the low end of the range of historical common equity ratios shown in Delta's Response to Staff's First Request for Information, Item 20. However, as Mr. Baudino pointed out on page 32, lines 14 - 17 of his Direct Testimony, his recommended 50% common equity ratio aligns with Essential Utilities' goal of maintaining an approximate 50% common equity ratio in the capital structure.

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13. Refer to the Baudino Testimony, Exhibit RAB-3 page 1 of 2. Comparing the projected Earnings per Share (EPS) growth rates of Value Line, Zacks and Yahoo! Finance, several are close and others are very different, e.g. New Jersey Resources, South Jersey Industries, and Spire Inc. Explain the factors, if known, in Value Line's EPS analyses versus other analysts' projections that would lead to such divergent results for select companies only.

RESPONSE:

Mr. Baudino does not know the factors in Value Line's analyses and results that would lead to the significantly divergent results for the selected companies in the question. The Yahoo! Finance and Zacks earning growth estimates are consensus forecasts from more than one source, which is different from Value Line's earnings growth forecasts that are prepared by one analyst.

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14. Refer to the Baudino Testimony, Exhibit RAB-5, page 1 of 2. Provide an explanation for the column "Adjusted Arithmetic Mean."

RESPONSE:

The adjusted arithmetic mean is the supply-side equity risk premium discussed by Mr. Baudino on pages 26 through 27 of his Direct Testimony. This equity risk premium has the extra return from inflation in the P/E ratio removed.

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15. Refer to the Direct Testimony of Bion C. Ostrander (Ostrander Testimony), page 12, lines 12–14. Confirm that this statement relates to Delta’s filings on September 21 and 22, 2021. Explain whether these filings materially change any recommendation.

RESPONSE:

Yes, Mr. Ostrander’s direct testimony at page 12, lines 12-14, was referring to Delta’s updated filings for certain data requests, including AG 1-17, AG 1-20, AG 1-86, and AG 2-35 updated on September 21, 2021, and AG 1-15 and AG 2-27 updated on September 22, 2021.

Delta’s September 21, 2021 response to AG 1-17 provided the monthly actual Income Statements through August 31, 2021, but this updated income statement information did not include information by subaccount number or other adequate detailed information (specific to the adjustments proposed by Delta and certain adjustments proposed by Mr. Ostrander) that could be used to revise the adjustments proposed by Mr. Ostrander at Exhibit_(BCO-2). However, certain other Delta updated data requests dated September 21 and 22, 2021, did result in revisions to the following adjustments proposed by Mr. Ostrander:

- Exhibit_(BCO-2.6E), page 1 of 2 – Reduce Payroll Expense for Overstated Expense Ratio (revised per September 22, 2021 AG 2-27 and 1-35). See attached Excel spreadsheet Revised Exhibit_(BCO-2.6E), page 1 of 2, per Staff 1-15.
- Exhibit_(BCO-2.6E), page 2 of 2 – Reduce Payroll Tax Expense per Revised Exhibit_(BCO-2.6E), page 1 of 2 for Overstated Expense Ratio (revised per September 22, 2021 AG 2-27 and 1-35). See attached Excel spreadsheet Revised Exhibit_(BCO-2.6E), page 2 of 2 per Staff 1-15.
- Exhibit_(BCO-2.6F) – Reduce Incentive Expense per Revised Exhibit_(BCO-2.6E), page 1 of 2 for Overstated Expense Ratio (revised per September 22, 2021 AG 2-27 and 1-35). See attached Excel spreadsheet Revised Exhibit_(BCO-2.6F), per Staff 1-15.
- Exhibit_(BCO-2-6G) – Reduce Affiliate Charges to Delta from Essential/PNG (revised per . See attached Excel spreadsheet Revised Exhibit_(BCO-2-6G) per Staff 1-15.

Revised Exhibit_(BCO-2.6E) – Reduce Payroll Expense for Overstated Expense Ratio:

Mr. Ostrander’s adjustment per Exhibit_(BCO-2.6E), page 1 of 2, is revised from an original reduction in Straight/Overtime payroll expense of \$359,396 to a revised (and increased) reduction in expense of \$439,313. Mr. Ostrander applied the related actual percent of Straight/Overtime payroll expense for the Base Period to Delta’s Forecasted Straight/Overtime payroll costs.

Delta’s updated September 22, 2021 response to AG 2-27 provided actual August 31, 2021 total payroll, payroll expense, and payroll capitalized by payroll component. Mr. Ostrander inserted these updated amounts into related Excel adjustment schedule and calculations at

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Revised Exhibit_(BCO-2.6E), page 1 of 2. Delta’s actual August 31, 2021 Base Period payroll amounts show a reduction in the percent of Straight Time and Overtime costs that are expensed (compared to Delta’s original filing), and the Straight Time percent expensed declined from 75.89% to 73.49%, and Overtime percent expensed declined from 75.89% to 74.71%. Mr. Ostrander calculated a revised 3-year weighted average percent of Straight/Overtime percent (using the original 2019 and 2020 amounts, plus the revised 2021 Base Period amounts) of 73.73% (compared to Mr. Ostrander’s original adjustment of 74.51%). Because the actual percent of Straight/Overtime payroll expense has declined, this results in a greater adjustment, and reduction to payroll expense for Straight and Overtime payroll costs.

The payroll costs and percentages addressed above only include “regulated” payroll costs. Delta’s updated filing on October 17, 2021 includes adjustment D-2.3 to remove non-regulated payroll costs of \$59,370, and because these amounts were removed via a separate specific adjustment by Delta, it was not necessary to reflect these amounts in Mr. Ostrander’s adjustment that is addressed above.

Revised Exhibit_(BCO-2.6E), page 2 of 2 – Reduce Payroll Tax Expense per the Prior Adjustment for Overstated Expense Ratio:

Mr. Ostrander is not aware that Delta has revised its Forecasted payroll tax expense. Therefore, Mr. Ostrander has adjusted Payroll Tax Expense only for the updated 3-year Straight/Overtime payroll expense factor included at Revised Exhibit_(BCO-2.6E), page 1 of 2, and the revised payroll tax expense amount is shown at the attached Revised Exhibit_(BCO-2.6E), page 2 of 2. This results in an increase in the reduction to payroll tax expense, from an original reduction of \$28,012 to a revised amount of \$34,195.

Revised Exhibit_(BCO-2.6F) – Reduce Incentive Expense per the Prior Adjustment for Overstated Expense Ratio:

Mr. Ostrander is not aware that Delta has revised its Forecasted incentive expense. Therefore, Mr. Ostrander has adjusted Incentive Expense only for the updated 3-year Straight/Overtime payroll expense factor included at Revised Exhibit_(BCO-2.6E), page 1 of 2, and the revised incentive expense amount is shown at the attached Revised Exhibit_(BCO-2.6F). This results in an increase in the reduction to incentive expense, from an original reduction of \$19,382 to a revised amount of \$23,659.

Revised Exhibit_(BCO-2.6G) – Reduce Affiliate Charges to Delta from Essential/PNG.

Delta’s September 21, 2021 updated response to AG 2-35 (providing actual information through August 31, 2021), appears to support a revision to part of Mr. Ostrander’s Affiliate Charge adjustment as reflected at the attached Revised Exhibit_(BCO-2.6G). As shown below, the first part of Mr. Ostrander’s affiliate expense adjustment for charges from Essential to Delta, reflects a

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decrease in the original adjustment, the original adjustment reduced Essential affiliate charges by \$553,881, and the revised adjustment reduces these same charges by \$467,971. The second part of Mr. Ostrander affiliate expense adjustment does not change, and it removes PNG capital cost allocations to Delta of \$398,159. Therefore, the total affiliate charge adjustment changes from a reduction of \$952,040 to a revised reduction of \$866,130.

Staff Data Request 1-15 to AG		
Ostrander Revised Affiliate Charges		
A	B	C
	Exhibit (BCO-2.6G)	
	Ostrander	Ostrander
	Original Adjustment	Updated Adjustment
Essential charges to Delta - forecasted period	\$ 1,107,762	\$ 935,941
AG reduce affiliate charges by 50%	50%	50%
Essential charges adjusted per AG	\$ (553,881)	\$ (467,971)
Source: Delta September 21, 2021 response to AG 2-35: "Attachment_to-AG-2-35_- 1600_Essential_Allocations_Updated_with_YTD-Aug_2021", the original amount of \$1,107,762 per column X, row 57, and updated actual amount of \$935,941 per column W, row 57.		
	Ostrander	
	Original Adjustment	
PNG capital cost allocations to Delta - forecast	\$ (398,159)	\$ (398,159)
Total AG adjustment to affiliate charges	\$ (952,040)	\$ (866,130)
Pre-Tax GRCF	1.0	1.0
AG Revenue Requirement Impact	\$ (952,040)	\$ (866,130)

The revised adjustment (shown above) from \$553,881 to \$467,971 may be reasonable, although this is not absolutely certain due to the absence of other detailed supporting documentation. For example, Delta has not provided an updated Income Statement with actual amounts for the twelve months ending August 31, 2021 that shows detailed subaccounts for all affiliate expenses (for affiliate charges from Essential and PNG to Delta and PKY) that can be reconciled to amounts in the updated September 21, 2021 Excel schedules at AG 2-35. Therefore, without this reconciliation of various affiliate charges shown in Excel schedules at updated AG 2-35, there could be other actual affiliate charges on the books that decreased or require downward adjustment.

Per the table above, the original amount of \$1,107,762 (column X, row 57) and the revised amount of \$935,941 (column W, row 57) are from Delta's September 21, 2021, updated response to AG 2-35 Excel attachment, "Attachment_to-AG-2-35_- _1600_Essential_Allocations_Updated_with_YTD-Aug_2021."

In addition, Mr. Ostrander proposed a second part to his affiliate adjustment at Exhibit (BCO-

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2.6G) to remove nonrecurring PNG capital allocations to Delta of \$398,159 as shown above. However, Mr. Ostrander is not proposing to revise this adjustment because Delta's September 21, 2021 response to AG 2-35 did not provide adequate supporting documentation for any changes. Delta's September 21, 2021 response to AG 2-35 Excel attachment, "Attachment_to-AG-2-35_-_1600_PNG_Allocations_Updated_with_YTD-Aug_2021", shows the capital portion that Mr. Ostrander adjusted of \$398,159 (columns AO and AP, row 31), and Mr. Ostrander did not adjust for the "expense" portion of these affiliate charges of \$86,623, which are a part of total PNG allocations of \$484,782 (column AO and AP, row 32).

However, Delta's "Base Period Actual" amounts (column AM, rows 40 to 62) do not show how much of the revised "total" affiliate charges of \$484,294 (column AM, row 62) relates to only the "capital" portion of these affiliate charges that Mr. Ostrander adjusted. Also, because Delta's updated actual total amount of \$484,294 does not differ materially from the original total amount of \$484,782 (which includes Mr. Ostrander's "capital" only adjustment of \$398,159), a revision to Mr. Ostrander's original adjustment may be immaterial or may not be necessary.

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16. Refer to the Ostrander Testimony, page 24, Table BCO-2, line 27. Explain why the average should include the base period, instead of using 2018–2020.

RESPONSE:

The three-year average uses the actual 2019, 2020, and August 31, 2020 base period payroll expense percentages because this reflects the three most recent “actual” periods of payroll costs that are known, measurable, and available. Please see the response to Staff 1-15, where Mr. Ostrander has now updated the payroll adjustment at Exhibit_(BCO-2.6E) to reflect actual base period payroll costs at August 31, 2021, per Delta’s September 22, 2021 response to AG 2-27 (and 1-35).

The known and measurable 3-year average Straight/Overtime percent of payroll costs expensed from the 2019/2020/base period is used to adjust Straight/Overtime expense for the Forecasted Period, because the percent of payroll costs expensed for the Forecasted Period by Delta are not actual, and are not known and measurable. Also, the base period is not the test period in this rate case (the Forecasted Period is the test period), thus Mr. Ostrander has not used data from the test period to establish a 3-year average.

Also, if 2018 data was used in the 3-year average, this would reflect data that may be considered stale because it is four years removed from the forecasted test period of December 31, 2022, thus it is more reasonable to use the most recent three years of data.

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17. Refer to the Ostrander Testimony, pages 32–34. Provide the reasonable employee level to include in base rates.

RESPONSE:

Mr. Ostrander did not propose an adjustment to revise Delta’s forecasted payroll costs based on employee levels, although pages 32 to 34 of his testimony addresses concerns with Delta’s used of apparent budgeted/projected headcount of 162 employees (100% fill employment capacity) for the forecasted test period (without adequate documentation to support that headcount level).

Delta’s response to AG 2-22 shows that some additional employees have been hired through August 2021, but this data request did not provide updated actual headcount reports to support these additions, and it is possible there were some offsetting unfilled positions/vacancies that were not addressed by Delta. It is not possible to reach any further conclusions about Delta’s most recent headcount (and related payroll costs) without additional updated headcount information and payroll costs, and the ability to evaluate and issue discovery on that information.

Finally, and most importantly, Delta’s updated September 22, 2021 response to AG 2-27 provides actual payroll costs for the base period ending August 31, 2021. This information shows that Delta’s original budgeted payroll expense for the base period August 31, 2021 (7 months actual and 5 months estimated) of \$8,006,427 (Exhibit_BCO-2.6E, page 1 of 2) was overstated by \$427,963, when compared to actual payroll expense of \$7,578,464 for the base period August 31, 2021 (per September 22, 2021 response to AG 2-27, and per Revised Exhibit_(BCO-2.6E, page 1 of 2, provided in response to Staff 1-15).

Although Delta overstated its budgeted August 31, 2021, base period payroll expense by \$427,963, Delta has not made any corresponding adjustment to decrease its forecasted period December 31, 2022 payroll expense of \$8,339,892 (Exhibit_BCO-2.6E, page 1 of 2) in this rate case. Mr. Ostrander’s revised adjustment to the payroll expense ratio reduces payroll expense by \$439,313 and indirectly addresses part of the excessive payroll costs proposed by Delta. In addition, if headcount levels were increasing, as claimed by Delta, then it does not appear that actual payroll expense would have decreased for the August 31, 2021 base period as explained above.

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18. Refer to the Ostrander Testimony, page 34, line 15, through page 35, line. Explain why this adjustment would not increase Delta's rate base.

RESPONSE:

Technically, this adjustment to reduce incentive expense should also increase rate base by the same amount, although the revenue requirement impact on rate base would be relatively minor. Mr. Ostrander is not opposed to a corresponding adjustment to increase rate base. Please see Mr. Ostrander's response to Staff 1-15 regarding the revised incentive expense adjustment.

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19. Refer to the Ostrander Testimony, page 48, lines 3–9. Explain why the recommended adjustment removes 50 percent of the allocated overhead and provide the basis for the 50 percent reduction.

RESPONSE:

Mr. Ostrander’s testimony (page 46, line 5 through page 48, line 2) states his concerns with the significant increase in affiliate charges from Essential to Delta of \$618,518 (126%), from actual affiliate expenses of \$489,244 in 2020 (page 38, Table BCO-3, column E, line 9) to estimated affiliate expenses of \$1,107,762 for the base and forecasted test period (page 38, Table BCO-3, column F, line 9), along with Delta’s lack of supporting documentation to justify this significant increase in estimated affiliate expenses over a relatively short period of time.

However, because Delta was unable to provide adequate supporting documentation or calculations supporting this significant estimated increase in affiliate expenses for the base and forecasted test period, it was not possible to arrive at a specific calculated adjustment. Therefore, Mr. Ostrander removed 50% of Delta’s estimated forecasted affiliate expenses of \$1,107,762, for an adjustment of \$553,881, to arrive at a 50/50 sharing of these costs between Delta and its customers. It is fairly common to use a 50/50 split of disputed costs between a utility and its customers (from a policy perspective) when specific documentation is not available to arrive at a more precise adjustment. Delta was unable to meet a reasonable burden of proof to support the significant increase in estimated affiliate expenses of \$618,518 from 2020 to the forecasted test period, and was unable to show the related benefit to customers.

Delta appeared to be operating without any documented or apparent problems in 2020 when it was incurring Essential affiliate expenses of \$489,244. However, Delta proposes to more than double these affiliate expenses to an estimated level of \$1,107,762 for the forecasted test period, and Delta was unable to quantify and identify the related specific benefits and improved services to Delta and its customers. Also, Delta was unable to quantify and identify any offsetting efficiencies to Delta or its customers that would accompany the increased affiliate expenses during the base period and forecasted test period.

Therefore, a 50/50 split between the utility and its customers regarding the estimated affiliate expenses of \$1,107,762 for the base and forecasted test period is reasonable.

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

20. Refer to the Ostrander Testimony, page 52, lines 6–12. Explain why the recommended adjustment removes 50 percent of the increase in medical and dental benefit costs and provide the basis for the 50 percent reduction.

RESPONSE:

Mr. Ostrander’s testimony (page 53, lines 21 to 27 and page 54, lines 1 to 22, explains that it does not appear that Delta is in compliance with the Commission’s standard and related thresholds for employee contribution levels for health, vision, and dental plans. However, Mr. Ostrander did not have information to perform a precise calculation of the impact of this adjustment, so he removed 50% of the increase in medical and dental benefit costs as a proxy, or placeholder, adjustment. However, Mr. Ostrander believes it is important to bring this issue to the Commission’s attention, and he would recommend that additional information and calculations be provided by Delta so that a more precise calculation of this adjustment can be performed. In this case, a more precise calculation of the impact of meeting Commission compliance on this issue would be in the best interest of all parties – rather than using this general placeholder adjustment.

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

21. Refer to the Ostrander Testimony, page 66, lines 3–5.
- a. Explain why additions should be included for 2021 that exceed those reasonably expected to be completed by Delta.

RESPONSE:

It was not Mr. Ostrander’s intent to allow plant additions in rate base that are greater than those expected to be completed by Delta. Mr. Ostrander removed \$5,827,055 (and allowed \$10,000,000) of the \$15,827,055 forecasted plant additions for the period April 1 to December 31, 2021, and he removed all of the \$7,783,091 (on a 13-month average basis) forecasted plant additions from January 1 to December 31, 2022.

Mr. Ostrander estimated that \$10,000,000 of the \$15,827,055 total forecasted plant additions (from April 1 to December 31, 2021) would be completed, and that the remaining \$5,827,055 would remain uncompleted and should be removed from rate base. However, if Mr. Ostrander’s estimate is not correct, then all uncompleted forecasted plant additions should be removed from rate base related to the April 1 to December 31, 2021 time period.

Mr. Ostrander’s testimony (page 66 line 3 through page 70, line 13) explains how difficult and challenging it will be for Delta to complete construction of \$15,827,055 (for the period April 1 to December 31, 2021) based on actual year-to-date construction and historical experience. Therefore, it would be necessary to true up Mr. Ostrander’s plant additions adjustment for the period April 1 to December 31, 2021, based on actual results and the amount of uncompleted plant.

- b. Explain why all of the 2022 forecasted additions should be removed.

RESPONSE:


Please see Mr. Ostrander’s testimony (page 66, lines 8 to 11 through page 71, line 7). Mr. Ostrander summarizes (page 66, lines 8 to 11) that is even more difficult to justify the \$16.0 million of forecasted CapEx spending for 2022, because this potential spending is too remote from the test period, none of these amounts have been spent to date, there is no reasonable level of certainty regarding this spending, and the entire amount is not considered to be known and measurable (and is certainly not used and useful at this time).

AFFIDAVIT

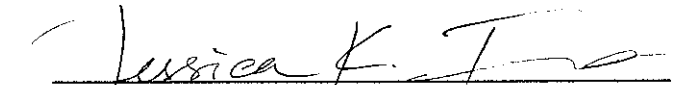
STATE OF GEORGIA)

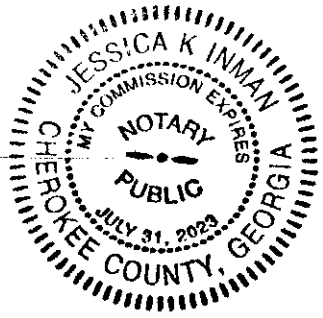
COUNTY OF FULTON)

RICHARD A. BAUDINO, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.


Richard A. Baudino

Sworn to and subscribed before me on this
20th day of October 2021.


Notary Public



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

Case No. 2021-00185

AFFIDAVIT OF BION OSTRANDER

State of Kansas)
)
)

Bion Ostrander, being first duly sworn, states the following:

The prepared Data Request Responses, Schedules and Exhibits attached thereto constitute the testimony of Affiant in the above-styled case. Affiant states that he would give the answers set forth in the Testimony if asked the questions propounded therein. Affiant further states that, to the best of his knowledge, information and belief his statements made are true and correct. Further affiant saith naught.

Bion Ostrander

Bion Ostrander

SUBSCRIBED AND SWORN to before me this 26th day of October, 2021

Cynthia L Moore

NOTARY PUBLIC

My Commission Expires: 4-3-2024

