

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA NATURAL GAS) Case No.
COMPANY, INC. FOR AN ADJUSTMENT OF GAS RATES) 2024-00346

**ATTORNEY GENERAL’S RESPONSES TO DATA REQUESTS OF THE
KENTUCKY PUBLIC SERVICE COMMISSION STAFF**

The intervenor, the Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention (“AG”), submits the following responses to data requests of the Kentucky Public Service Commission Staff in the above-styled matter.

Respectfully submitted,

RUSSELL COLEMAN
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Certificate of Service and Filing

Pursuant to the Commission's Orders in Case No. 2020-00085, and in accord with all other applicable law, Counsel certifies that an electronic copy of the forgoing was served and filed by e-mail to the parties of record. Counsel further certifies that the responses set forth herein are true and accurate to the best of their knowledge, information, and belief formed after a reasonable inquiry.

This 12th day of March, 2025



Assistant Attorney General

AFFIDAVIT

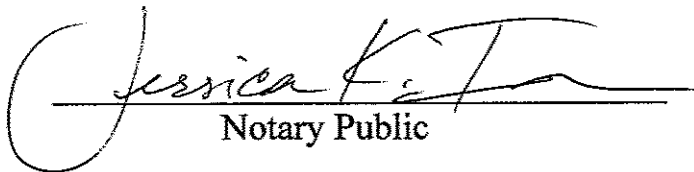
STATE OF GEORGIA)

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
18th day of March 2025.


Notary Public

Jessica K Inman
NOTARY PUBLIC
Cherokee County, GEORGIA
My Commission Expires 07/31/2027

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA NATURAL)
GAS COMPANY, INC. FOR AN ADJUSTMENT OF GAS)
RATES)

Case No.
2024-00346

AFFIDAVIT OF DAVID DITTEMORE

State of Tennessee)
)
)

David Dittimore, being first duly sworn, states the following:
The prepared Responses to Data Requests attached thereto constitute the direct testimony of Affiant in the above-styled case. Affiant states that he would give the answers set forth therein if asked the same questions. Affiant further states that, to the best of his knowledge, information and belief his statements made are true and correct. Further affiant saith naught.

David W. Dittimore
David Dittimore

SUBSCRIBED AND SWORN to before me this 11 day of March, 2025

Veronica Page
NOTARY PUBLIC

My Commission Expires: 05-02-27



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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 1
Page 1 of 1

Refer to the Direct Testimony of Richard Baudino (Baudino Direct Testimony) generally.

- a. Provide Exhibits RAB 2-4 in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.
- b. Confirm that no outliers were excluded from any analyses used to determine the Return on Equity (ROE) recommendation. If not confirmed, provide the analyses with outliers included, highlighting any previously excluded outliers.

RESPONSE:

- a. Please refer to the attached spreadsheet in response to this request.
- b. Confirmed. No outliers were excluded.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 2
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Refer to the Baudino Direct Testimony, page 17, lines 1–5. 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.

RESPONSE:

In this case, Mr. Baudino determined that a group of seven companies was a sufficiently representative sample on which to derive reliable and robust ROE estimates for Delta. This determination was based on his analysis of the data sources used and the results produced by the DCF and CAPM models.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 3
Page 1 of 1

Because water utilities have many similar characteristics to natural gas distribution companies, explain whether using water utilities as an indicator of the reasonableness of gas utility proxy group ROE estimates is appropriate and, if not, why not.

RESPONSE:

Water utilities have their own unique set of risks that set them apart from gas distribution companies. In this case, Mr. Baudino did not consider it appropriate to include water utilities in his proxy group for purposes of estimating the ROE for Delta.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 4
Page 1 of 1

Refer to the Baudino Direct Testimony, page 18, lines 22–24. Explain why the most reasonable period over which to estimate dividend yields is six months.

RESPONSE:

It has been Mr. Baudino's general practice to use a six-month period over which to estimate the dividend yield. A six-month period reasonably smooths out daily fluctuations in stock prices that could unduly influence the calculation of an average stock price and the associated dividend yield for a particular company or the proxy group as a whole. Please note that Mr. Baudino also presented the dividend yield for the proxy group for 1-month, 2-month, and 3-month periods. The difference between the lowest and highest dividend yield was only 8 basis points, or 0.08%.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 5
Page 1 of 1

Refer to the Baudino Direct Testimony, page 19, lines 10–12. Confirm that Yahoo! Finance forecasts still are currently unavailable. If not confirmed, provide an update to the Discounted Cash Flow (DCF) analyses including Yahoo! Finance consensus analysts' earnings growth forecasts.

RESPONSE:

Confirmed.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 6
Page 1 of 1

Refer to the Baudino Direct Testimony generally. Provide support for the use of S&P Capital IQ consensus analysts' forecasts of earnings growth in the DCF analyses.

RESPONSE:

S&P Capital IQ represents a platform that contains comprehensive market data and information on public company financials and is widely used in the industry. Like Zacks, S&P Capital IQ provides consensus analysts' forecasts of earnings growth for gas utilities. It is reasonable to assume that investors would use this data to formulate their growth expectations for the companies in the proxy group. These consensus analysts' earnings growth forecasts are also commonly presented in rate cases based on Mr. Baudino's experience.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 7
Page 1 of 1

Refer to the Baudino Direct Testimony generally. Provide a comparison of Yahoo! Finance and S&P Capital IQ as sources of analysts' forecasts for growth.

RESPONSE:

It is Mr. Baudino's understanding that Yahoo! Finance used to use Refinitiv and LSEG Data and Analytics to provide its consensus earnings growth forecasts. These estimates were also referred to as the Institutional Brokers Estimate System (IBES) growth rates. S&P Capital IQ gathers analysts long-term growth estimates itself and provides mean and median estimates as part of its services.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 8
Page 1 of 1

Refer to the Baudino Direct Testimony, page 20, lines 21–23. Explain why using an average of both the median and average values is better than relying on one or the other.

RESPONSE:

The median and average values are both measures of central tendency of a data set. Both can provide valuable information as to investors' overall earnings and dividend growth expectations for the proxy group of companies as a whole. Each of these measures may also have shortcomings that must be considered and evaluated by the analyst. For example, the median relies on one value, which is the middle value of the data set. This one value may or may not provide an accurate representation for the proxy group as a whole. Likewise, the average could be unduly influenced by extreme high or low values. In the final analysis, considering both the median and the average (mean) of the data set enhances the robustness of the analysis of dividend and earnings growth.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 9
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Refer to the Baudino Direct Testimony, page 26, lines 12–14. Explain the reasoning for using 20-year Treasury bonds to determine the Historical Market Risk Premium, when 30-year Treasury bonds were used as the risk-free rate.

RESPONSE:

The 20-Year Treasury Bond yield is used by Kroll as the risk-free rate in its Cost of Capital Navigator service. Mr. Baudino used the historical market risk premium as calculated by Kroll for his CAPM analysis in page 2 of Exhibit RAB-4. The 30-Year Treasury Bond yield is commonly used as a proxy for the risk-free rate in CAPM analyses, as it tends to be more stable than a short-term Treasury bill rate. Thus, Mr. Baudino used the 30-Year Treasury Bond yield as a proxy for the risk-free rate in his CAPM analysis.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 10
Page 1 of 1

Refer to the Baudino Direct Testimony, page 30, lines 9–16. Mr. Baudino states that he considered the six-month average of the 30-year Treasury bond yield, but “given the sharp rise in yield over the last few months”, ultimately decided to use the three-month average yield.

- a. Explain how using a shorter period, such as the three-month average, is reflective of long-term investor expectations.
- b. Explain how using a three-month average yield, especially considering the noted recent fluctuations, does not reflect more volatility than a longer period in the calculations.

RESPONSE:

- a. It was Mr. Baudino's judgement that the 3-month average Treasury Bond yield would be a better proxy for investor expectations going forward than the six-month average. The Treasury Bond yields from August to October 2024 ranged from 4.04% to 4.38%. It was Mr. Baudino's view based on Treasury yields when he prepared his testimony and analysis that it was unlikely that these lower yields would prevail going forward.
- b. There is less difference in the Treasury yields over the recent three month period (31 basis points) than the six-month period (81basis points). Please refer also to the response to part a. of this question.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO / Counsel as to Objection

QUESTION No. 11
Page 1 of 1

Refer to the Baudino Direct Testimony, page 31, lines 7–9. Provide an update to the Capital Asset Pricing Model (CAPM) analyses using the most recent data available.

RESPONSE:

Objection. This question seeks new analysis from the OAG that Mr. Baudino did not conduct, and would inappropriately cause additional expenses to be incurred and beyond those budgeted by the OAG. Further, the question is vague and lacks specificity as to the updated inputs being sought by the Staff. Using the spreadsheet provided in response to Question 1, the Staff may insert updated data if it chooses to do so.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO / Counsel as to Objection

QUESTION No. 12
Page 1 of 2

Refer to the Baudino Direct Testimony, page 31, lines 7–18 and specifically, that the use of S&P Capital IQ beta values is a “new approach for me.”

- a. Provide a discussion of how the S&P Capital IQ beta values are calculated.
- b. Compare and contrast the S&P Capital IQ beta values to those provided in Value Line and Yahoo! Finance.
- c. Provide an explanation of the previous beta calculation method used by the witness, and why a different method is being used in this analysis.
- d. Explain whether the use of Yahoo! Finance adjusted beta values was considered in this analysis and, if the values were considered, explain why these values weren't included in the analysis.
- e. Provide the adjusted Yahoo! Finance beta values for the proxy group and provide an update to the analysis including these values.

RESPONSE:

a. According to S&P Capital IQ, its unadjusted betas, also known as raw levered betas, are derived from an ordinary least squares regression analysis using stock and benchmark index returns based on a monthly or weekly frequency and over a given period of time. For U.S. stocks the benchmark index is the Standard and Poor's 500. The 5-year Beta used by Mr. Baudino is calculated using a monthly regression.

b. According to Value Line's glossary:

“**Beta:** A relative measure of the historical sensitivity of the stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percentage changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.”

Mr. Baudino did not consider Yahoo! Finance betas and cannot provide information on their source, if they are adjusted, or how they are calculated.

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QUESTION No. 12
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- c. In past cases Mr. Baudino relied solely on the Value Line beta. Mr. Baudino added the S&P Capital IQ beta as an additional trusted source for beta this year in order to enhance the robustness and reliability of his CAPM analyses and results.
- d. Mr. Baudino did not consider Yahoo! Finance betas.
- e. Objection. This question seeks new analysis from the OAG which Mr. Baudino has not performed, and would inappropriately cause significant additional expenses to be incurred beyond those budgeted by the OAG. Further, it is inappropriate and burdensome for the Staff to seek additional analyses from the OAG's witness using data from Yahoo! Finance that the witness did not consider in his analysis. In addition, the Staff did not define what it meant by "adjusted" Yahoo! Finance betas. Staff can gather the requested information itself and perform updated analyses using the spreadsheet included in the response to Question 1.

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WITNESS / RESPONDENT RESPONSIBLE:
RICHARD A. BAUDINO

QUESTION No. 13
Page 1 of 1

Refer to the Baudino Direct Testimony, Exhibit RAB-2, page 2 of 3. Provide an explanation for the column "Arithmetic Mean."

RESPONSE:

In Exhibit RAB-4, page 2 of 3, "Arithmetic Mean" refers to the risk premium produced by subtracting the average historical returns on long-term Treasury Bonds, from the historical average returns on large company stocks.

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WITNESS / RESPONDENT RESPONSIBLE:
DAVID N. DITTEMORE

QUESTION No. 14
Page 1 of 1

Refer to the Direct Testimony of David Dittemore (Dittemore Direct Testimony), page 8, lines 11–18 and page 9, lines 1–4. Confirm that the testimony supports a rate of return recommendation from the Attorney General that rolls the Pipeline Replacement Program (PRP) revenues only into base rates. If not confirmed, explain the testimony since Delta requested that the PRP not be rolled into base rates.

RESPONSE:

Confirmed. The Attorney General's Office has agreed with Delta for purposes of this rate proceeding that PRP revenue be used as an offset to the revenue requirement and that the PRP surcharge would remain as a separate charge.