COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE ELECTRONIC	**)**	
APPLICATION OF NAVITAS KY NG, LLC	**)**	
FOR AN ALTERNATIVE RATE FILING	**)**	**Case No. 2025-00332**
PURSUANT TO 807 KAR 5:076	**)**	

DIRECT TESTIMONY OF TALHA A. SHEIKH

FEBRUARY 10, 2026

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Talha A. Sheikh. I am a Director at ScottMadden, Inc. ("ScottMadden"). My business address is 2626 Glenwood Ave # 480, Raleigh, NC 27608.

Q. ON WHOSE BEHALF ARE YOU APPEARING TODAY?

A. I am appearing on behalf of Navitas KY NG, LLC ("Navitas" or "the Company").

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL EXPERIENCE.

A. I have ten years of consulting experience in the energy utility industry. I joined ScottMadden in 2015 as an Associate Consultant and was eventually promoted to Director in 2022. I have supported the development of numerous studies for electric, gas, water, and wastewater utilities related to revenue requirements, rate design, class cost of service, and cash working capital / lead-lag. These studies have been filed as part of rate case filings across several jurisdictions in the United States.

I hold a bachelor's degree in business administration from the Institute of Business Administration, Karachi, and a master's degree in business administration from the University of South Carolina.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE COMMISSIONS IN REGULATORY PROCEEDINGS?

A. Yes. My qualifications and testimony experience are included in **Exhibit TAS-1**.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to sponsor the development of the Company's Class Cost of Service study ("COSS"), and rate design. Additionally, my testimony includes

a review of the reasonableness of the cost allocation methodology utilized by Navitas Utility Corporation ("NUC") to assign the costs of providing service to the Company.

Specifically, my Direct Testimony includes discussion on: (a) proposed changes to Company's rate schedules, (b) the development of COSS, (c) the proposed revenue targets, rate design, and customer bill impacts for each rate class; (d) the proposed phased-in rates; (e) the proposed consolidation of rates, and (f) a review of the Company's cost allocation methodology.

Q. ARE YOU SPONSORING SCHEDULES?

A. Yes. I am sponsoring the following schedules:

Exhibit TAS-1: Summary of my qualifications and experience.

Exhibit TAS-2: Summary results of the COSS study.

Exhibit TAS-3: Workpapers supporting the COSS study.

Exhibit TAS-4: Workpapers supporting the class revenue targets.

Exhibit TAS-5: Workpapers supporting the Company's proposed rates with customer bill impacts.

The above schedules were prepared by me or under my direction.

Q. HOW IS THE REST OF YOUR TESTIMONY ORGANIZED?

A. The rest of my testimony is organized into the following sections:

Section II: Summary of Testimony

Section III: Proposed Changes to Rate Structure

Section IV: Class Cost of Service Study Methodology and Results

Section V: Proposed Rate Design and Bill Impacts

Section VI: Cost Allocation Methodology

Section VII: Conclusion

II. SUMMARY OF TESTIMONY

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED CHANGES TO ITS RATE SCHEDULES.

A. The Company currently serves customers under two rate schedules: Residential and Commercial. In this proceeding, the Company proposes to expand its rate design to include three additional customer classes, Agriculture, Base Industrial, and Mutually Curtailable Industrial ("MCI"), resulting in a total of five customer classes. As discussed in this testimony, the approach to developing the new classes is consistent with industry practices and with guidance provided by NARUC.

The proposed five customer classes are evaluated as part of the Company's COSS. As discussed in this testimony, the COSS identified material differences in the cost of service of each class. These cost differences support the establishment of separate rate schedules that would more closely align each customer class's rates with their underlying cost of service.

Q. PLEASE SUMMARIZE THE RESULTS OF COSS.

A. The results of the COSS are presented in Figure 1 (below). The Figure shows variation in the unit cost of service on a 'per customer' and 'per CCF' basis across the proposed rate classes.

Figure 1: Unit Revenue Requirement by Proposed Rate Classes

Rate Class	Class Revenue Requirements $ per Customer	$ per CCF
Clinton Residential	$ 1,222	$ 38.8
Clinton Commercial	$ 1,704	$ 4.6
Clinton Base Industrial	$ 4,111	$ 3.8
Clinton Mutually Curt. Industrial	$ [redacted]	$ [redacted]
Clinton Agriculture	$ 8,849	$ 10.6
Floyd-Johnson Residential	$ 1,204	$ 29.9
Floyd-Johnson Commercial	$ 1,421	$ 19.6

The Figure shows there is variation in the cost of service across the different rate classes.

The results generally support consolidation of rates across counties as the differences in class cost of service are not significant across the same class of customers.

The results also support separate rates for Industrial and Agriculture customer classes as there are differences in class cost of service between commercial, industrial and agriculture classes.

The results of the COSS also provide an indication of each rate class's contribution towards its cost of service under current rates. Figure 2 (below) provides a comparison of each class's current base rate revenues and the class cost of service.

Figure 2: Current Class Revenues vs. Class Cost of Service

Rate Schedule	Current Rate Revenues	Class Cost of Service	Deficiency / (Surplus) %	Required Increase / (Decrease) %
Clinton County - Residential	$ 22,474	$ 113,759	$ 91,284	406.2%
Clinton County - Commercial	106,398	102,675	(3,724)	-3.5%
Clinton County - Base Industrial	74,072	63,718	(10,354)	-14.0%
Clinton County - Mutually Curt. Industrial	[redacted]	[redacted]	93,221	157.8%
Clinton County - Agriculture	24,144	61,944	37,800	156.6%
Floyd & Johnson Counties - Residential	263,983	604,093	340,110	128.8%
Floyd & Johnson Counties - Commercial	35,003	61,815	26,812	76.6%
Total System	$ [redacted]	$ [redacted]	$ 575,149	98.3%
Residential - Consolidated	286,457	717,851	431,394	150.6%
Commercial - Consolidated	141,402	164,489	23,088	16.3%

The Figure shows that all classes, except the base industrial and commercial class, currently under-contribute towards their class cost of service. For example, the Clinton County residential class under-contributes towards its class cost of service by more than 400.0 percent, while the Clinton County base industrial class over-contributes towards its class cost of service by approximately 14.0 percent.

The results of the COSS study support a movement toward a more equitable rate structure where each class's rates move closer to cost-based rates.

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED CHANGES TO ITS RATES.

A. The Company is proposing the following:

1. The Company proposes that the emergency interim base rates approved by the Commission[1] remain effective through 2026 to avoid multiple rate changes and rate confusion for the customers.

[1] Case No. 2025-00332, Order (Issued December 22, 2025)

- The Commission approved an approximately 74.0 percent rate increase in base rates for the Company, effective January 1, 2026.
- The emergency interim rates included base rate increases for Clinton County residential rates and all non-residential rates (Commercial, Industrial, and Agriculture).
- The interim rates also included a slight decrease in Floyd and Johnson counties' residential rates.

2. The Company proposes that the 2027 rates be generally informed by the results of the COSS, balanced with bill impact and rate continuity considerations. In addition, the Company proposes that the 2027 rates be established for the Company's proposed five rate schedules.
   - The results of the COSS study support a movement toward a more equitable rate structure where each class's rates move closer to cost-based rates. However, the proposed movement toward cost-based rates was balanced with other guiding principles, such as customer bill impact considerations.
   - Accordingly, the Company proposes a 20.0 percent movement of current class revenues towards each class's cost of service.
   - The Company's proposed revenues result in a reduction in non-residential rates and an increase in residential rates.
3. The Company proposes that the increases in residential rates be phased-in over a four-year period (2027-2030). The Company proposes to implement the reduction in commercial rates in 2027.

4. The Company proposes that any shortfall in revenues during the 2027-2030 period be recovered over five years, starting 2031. The shortfall in revenues would be recovered from all rate classes, in proportion to proposed class revenues.
5. The Company proposes to set separate rates for base industrial and agriculture customers. The current rates for these classes are the same as commercial customer rates. The Company's COSS study results support establishing distinct rates for these classes as the class cost of service varies across commercial, industrial, and agriculture customer classes.
6. The Company proposes full consolidation of rates across its Clinton, Floyd, and Johnson counties, effective 2027.[2] The Company's COSS study results generally support rate consolidation as the class cost of service for a rate class is similar across the Company's service territory.
7. Lastly, the Company proposes to establish a separate rate schedule 'Mutually Curtailable Industrial' effective 2027.
   - The MCI rate schedule would include high-usage customers whose loads are curtailable and that have the ability to switch between fuels (i.e., natural gas and propane) based on pricing considerations. There is currently one customer that qualifies for this rate schedule. The Company has necessary equipment installed on the customer's site to allow the Company to curtail the customer's usage.

[2] The Company's current Floyd County and Johnson County rates are already consolidated.

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED CLASS REVENUE INCREASES.

A. The proposed revenue increases for each class, compared to the interim base rate revenues, is presented in Figure 3 (below).

Figure 3: Interim Base Revenues vs. Proposed Base Revenues

Rate Schedule	Interim Rate Revenues	Proposed Revenues	Proposed Increase / (Decrease) %
Clinton County - Residential	$ 37,213	$ 58,403	56.9%
Clinton County - Commercial	273,013	189,317	-30.7%
Clinton County - Base Industrial	187,073	130,245	-30.4%
Clinton County - Mutually Curt. Industria	[redacted]	[redacted]	-18.6%
Clinton County - Agriculture	62,185	50,689	-18.5%
Floyd & Johnson Counties - Residential	229,616	539,580	135.0%
Floyd & Johnson Counties - Commercial	76,555	67,890	-11.3%
Total System	$ [redacted]	$ [redacted]	14.0%
Residential - Consolidated	266,828	597,983	124.1%
Commercial - Consolidated	349,568	257,207	-26.4%

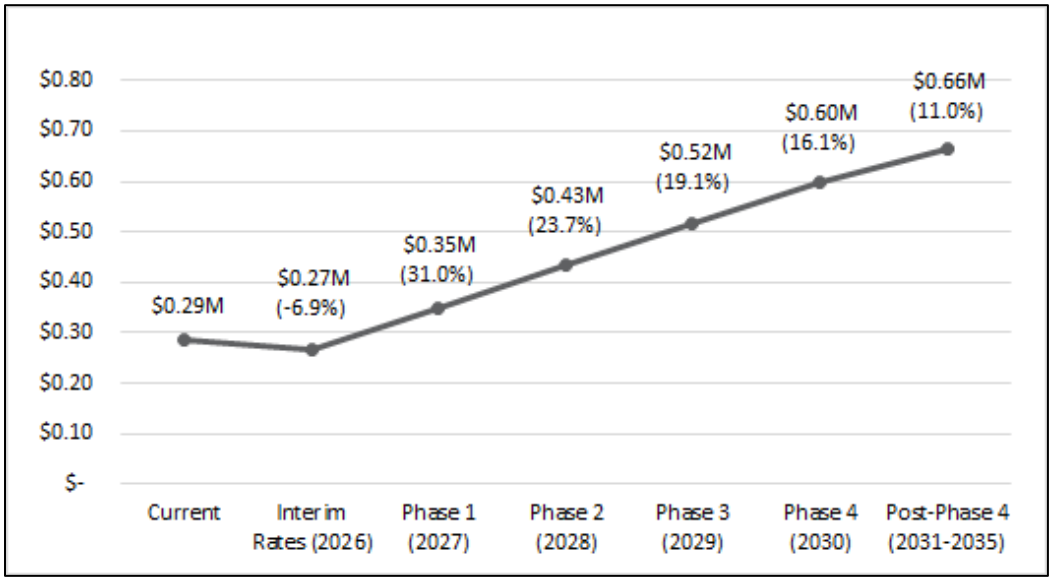
The Figure shows that the consolidated residential revenues are proposed to increase by 124.1 percent, while non-residential revenues are proposed to decrease in the range of 20.0 percent to 30.0 percent. In consideration of bill impacts and rate continuity, the Company is proposing that the total revenue increase for residential class be implemented gradually over four phases. The shortfall in revenues is proposed to be recovered over five years after the implementation of phase 4.

Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED PHASED-IN RESIDENTIAL REVENUE INCREASES.

A. The phased-in rate revenues for residential class are illustrated in Figure 4 (below).

Figure 4: Residential Revenue Phase-in Schedule

($ Million, Year-over-Year % Increase)



The Figure shows that the residential rates are proposed to gradually increase over four years (2027-2030). In addition, the Figure shows that the Company is proposing an additional revenue increase of approximately 11.0 percent in 2031 to recover the revenue shortfall expected to occur during the 2027-2030 period.

The Company prepared customer bill impacts to evaluate the impact of the proposed base rate changes. Overall, the proposed base rates will increase the monthly bill in 2027 for a Clinton County residential customer using 26 CCF per month by $10.50 per month and for a Floyd/Johnson County residential customer using 34 CCF per month by $11.88 per month.

III. RATE STRUCTURE

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED CHANGES TO THE CURRENT RATE CLASSES.

A. The Company currently serves customers under two rate schedules: Residential and Commercial. In this proceeding, the Company proposes to expand its rate design to include three additional customer classes, Agriculture, Base Industrial, and Mutually Curtailable Industrial, resulting in a total of five customer classes.

Under current rates, the commercial, agriculture, and industrial rates are the same, as presented in Figure 5 (below).[3]

Figure 5: Proposed Rate Classes and Current Base Rates

Navitas KY NG, LLC Summary of Rates	Current Facility Charge	Commodity Charge
Clinton County - Residential	$ 8.00	$0.462
Clinton County - Commercial	$ 35.00	$0.362
Clinton County - Base Industrial	$ 75.00	$0.362
Clinton County - Mutually Curtailable Industrial	$ 75.00	$0.362
Clinton County - Agriculture	$ 35.00	$0.362
Floyd & Johnson Counties - Residential	$ 15.00	$0.860
Floyd & Johnson Counties - Commercial	$ 15.00	$0.860
Floyd & Johnson Counties - Base Industrial	$ 15.00	$0.860
Floyd & Johnson Counties - Agriculture	$ 15.00	$0.860

The Figure shows that Clinton County Commercial, Industrial, and Agricultural customers are all charged the same Commodity Charge. The Figure also shows that the Floyd and Johnson Counties' rates are the same across residential, commercial, agricultural, and industrial customers.

[3] While the testimony discusses the rates by county due to the current tariff rate schedules, as set forth in the Company's Application, the Company seeks to consolidate all rates across its service areas in the Commonwealth.

Q. WHAT WERE THE GUIDING PRINCIPLES FOR DEVELOPING THE NEW RATE CLASSES?

A. The guiding principles to expand the Company's rate classes are consistent with the industry practices. For example, the NARUC Gas Distribution Rate Design Manual discusses the development of rate classes as follows:

> "In order to design rates, it is first necessary to divide the utility's customers into various rate classes. This is done by defining rate classes according to certain characteristics which are common to all members of the class. The specific factors used to define rate classes will depend upon the characteristics of the customer population and the goals to be achieved. Factors which have been used to define rate classes include: (1) size, (2) customer type, (3) type of usage, (4) interruptible or firm service, (5) load factor, and (6) alternate fuel capability. Some of these, such as size, are relatively obvious, though others may require some elaboration."[4]

The NARUC Manual further states:

> "In determining which factors to use in setting rate classes, it is necessary to consider the objectives to be achieved. In theory, utility rates could be designed for only a single rate class. However, an appropriate division of customers into rate classes can achieve a variety of goals, including economic efficiency, fairness and equity, reflection

[4] NARUC Gas Distribution Rate Design Manual, page 15-16

of costs, social needs, competitiveness, operating efficiency, business climate development, rate stability, conservation and political feasibility."[5]

Q. ARE THERE DIFFERENCES IN THE COMPANY'S CUSTOMERS' SIZE, TYPE, AND USAGE TO WARRANT ADDITIONAL RATE CLASSES?

A. Yes. The Company has various types of customers, such as commercial, industrial, agriculture, and curtailable industrial. These customers have differences in usage characteristics, as shown in Figure 6 (below).

Figure 6: Proposed Rate Classes and Customer Characteristics

Rate Schedule	Number of Customers	% of Customers	Annual Throughput (CCF)	% of Usage	Avg. Monthly Use / Customer
Clinton County - Residential	93	12.9%	29,304	3.4%	26
Clinton County - Commercial	60	8.3%	224,015	25.7%	310
Clinton County - Base Industrial	16	2.1%	166,082	19.0%	893
Clinton County - Mutually Curt. Industrial	1	0.1%	[redacted]	18.4%	[redacted]
Clinton County - Agriculture	7	1.0%	58,575	6.7%	697
Floyd & Johnson Counties - Residential	502	69.5%	201,939	23.2%	34
Floyd & Johnson Counties - Commercial	44	6.0%	31,597	3.6%	61
Total Company	722	100.0%	[redacted]	100.0%	
Residential - Consolidated	595	82.4%	231,243	26.5%	32
Commercial - Consolidated	104	14.4%	255,612	29.3%	205

The Figure shows the Company serves approximately 722 customers, of which 82.40 percent are Residential, and the remaining are Commercial, Industrial, and Agricultural. The Figure also shows customer usage by rate class based on the test year period January 1, 2024 through December 31, 2024.

The Figure shows there is significant variation in usage per customer among the rate classes. For example, the Figure shows that the Commercial customers use, on

[5] Id., page 17

average, 310 CCF per month. In contrast, the industrial and agriculture customers use, on average, 893 CCF per month and 697 CCF per month respectively. In effect, the industrial customers use approximately 3.0 times more than commercial customers, and agricultural customers use approximately 2.0 times more than commercial customers. The Figure also shows that the Company has one curtailable industrial customer that uses, on average, [redacted] per month.

These usage differences warrant treatment of these customers as distinct rate classes, consistent with the NARUC guidelines quoted above.

Q. ARE THERE DIFFERENCES IN THE COMPANY'S CUSTOMERS' LOAD FACTORS AND SERVICE CHARACTERISTICS TO WARRANT ADDITIONAL RATE CLASSES?

A. Yes. The Company's customers' load factors and service characteristics vary. For example, the residential and commercial customers have lower load factors (i.e., lower summer usage, higher winter usage), while industrial customers have higher load factors (i.e., steady usage levels through the years). In addition, the Company's mutually curtailable industrial customer has alternative fuel options available. These differences in load factors and service characteristics warrant treatment of these customers as distinct rate classes, consistent with the NARUC guidelines quoted above.

Specifically, Figure 7 (below) demonstrates the distinct load characteristics in terms of both the timing and concentration of usage throughout the year. This seasonal variation is presented as 'monthly usage as a percentage of annual usage' in Figure 7 below.

Figure 7: Monthly Usage as a Percentage of Annual Usage[6]

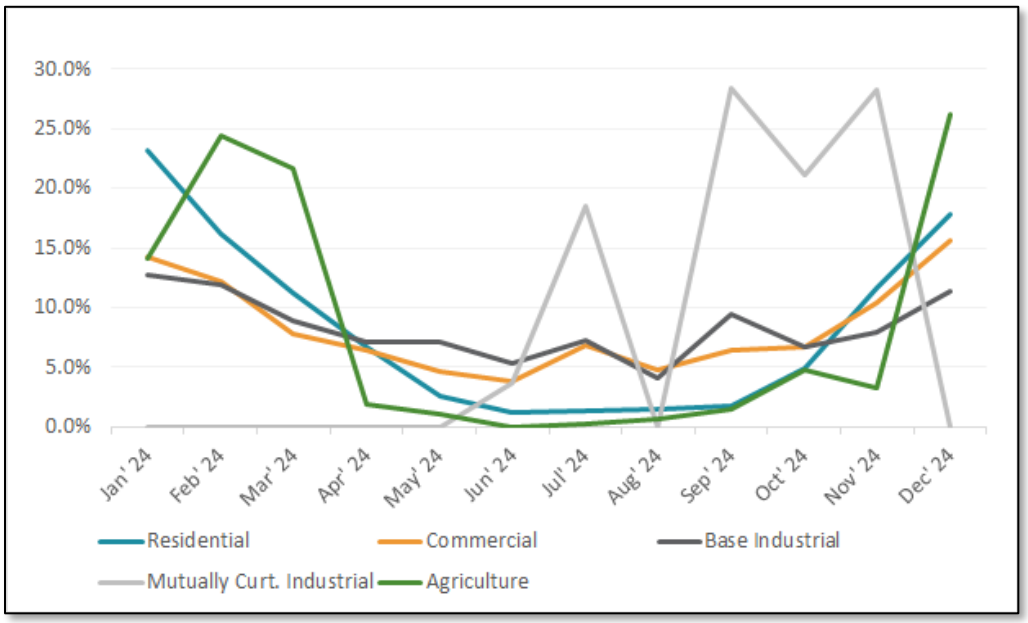


Figure 7 shows that residential, commercial, and agricultural customers' usage exhibits higher winter season usage, reflecting heating demands. Industrial customers have relatively stable loads year-round, indicating lower sensitivity to seasonal conditions. In addition, the curtailable industrial customer's usage exhibits significant variations due to the customer switching between fuel options (natural gas and propane).

These differences in how customers utilize the system drive their respective cost allocations. Classes with more prominent seasonal peaks place greater demand for system capacity during peak usage periods and are therefore assigned a relatively larger share of demand-related costs. In contrast, classes with flatter, more consistent usage patterns reflect more efficient use of system infrastructure and are allocated costs accordingly. Lastly, customers whose service can be curtailed during peak demand

[6] For readability, Clinton, Floyd, and Johnson counties' customer classes are combined.

period, such as the high-usage curtailable industrial customer, are not assigned demand-related costs.

IV. CLASS COST OF SERVICE STUDY

Q. PLEASE DESCRIBE THE PURPOSE OF THE COSS.

A. The purpose of a Class Cost of Service Study ("COSS") is to allocate a utility's total cost of service among its rate classes based on how each class uses the utility system. The COSS sponsored in this testimony applies standard allocation principles to assign costs using appropriate factors (reflecting cost-causation) such as peak demand, energy usage, and number of customers. The resulting cost of service for each class reflects its relative contribution to overall system costs.

This approach is well established in industry literature.[7] The results of the COSS are summarized in **Exhibit TAS-2**.

Q. HOW WAS THE COSS DEVELOPED?

A. The COSS was developed using a spreadsheet model prepared specifically for this filing. The model assigns the Company's rate base and expenses to each rate class using a three-step process:

1. **Functionalization:** Assigning costs into functional categories, such as production, transmission, and distribution.
2. **Classification**: Assigning costs based on underlying cost drivers such as customer peak demands, energy usage, or customer-related requirements.

[7] NARUC Gas Distribution Rate Design Manual, Chapter II

3. **Allocation**: Assigning costs to each rate class using appropriate allocation factors (reflecting cost-causation) such as peak demand, energy usage, or customer count, and aligned with the prior functionalization and classification steps.

Workpapers supporting the assignment of each rate base and expense item are presented in **Exhibit TAS-3**.

Q. WHAT DATA WAS USED TO PREPARE THE COSS?

A. The COSS was developed using data from the test year period January 1, 2024 through December 31, 2024. The underlying data is the same as filed by the Company in Case No. 2025-00332.

The inputs can be grouped into three main categories:

- Class-specific data, such as number of customers, usage, and revenues by rate class.
- System data, such as distribution mains data to develop mains classification study (discussed later in the testimony).
- Cost-of-service data, such as plant and operating expenses. Operating expenses include operating and maintenance ("O&M") expenses, depreciation, and taxes other than income.

A. FUNCTIONALIZATION

Q. PLEASE DESCRIBE THE FUNCTIONALIZATION PROCESS USED IN THIS COSS.

A. Functionalization separates rate base and expense items into operational components that include production, transmission, distribution, and customer service. The functionalization process in the COSS followed the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts.

B. CLASSIFICATION

Q. PLEASE DESCRIBE THE CLASSIFICATION PROCESS USED IN THIS COSS.

A. Classification separates rate base and expense items into categories based on underlying cost drivers, specifically, whether the costs are incurred to meet demand requirements, deliver energy, or serve customers.

In this COSS, costs were classified into the following categories:

- Customer-related: Costs related to providing customers with access to the gas system and delivering ongoing services such as meter reading and billing.
- Demand-related: Costs incurred to meet peak demands (such as peak day or design day requirements).
- Energy or Commodity-related: Costs that vary with the volume of gas purchased or transported.

Some costs were assigned entirely to one category. For example, customer records and collections costs were classified as customer-related only. Other costs, such as distribution mains, were classified as both demand-related and customer-related.

Q. WHAT APPROACH WAS USED TO CLASSIFY DISTRIBUTION MAINS?

A. The classification of costs associated with distribution mains is consistent with the design and function of the distribution mains system, which: 1) provides customers with access to the gas system, regardless of their usage, and 2) addresses customers' peak demand requirements. Accordingly, distribution mains are classified as both customer- and demand-related by conducting a zero-intercept study.

This approach is well-recognized in industry practices and literature. For example, the NARUC Gas Manual states:

> "One argument for inclusion of distribution related items in the customer cost classification is the 'zero or minimize size main theory.' This theory assumes that there is a zero or minimum size main necessary to connect the customer to the system and thus affords the customer an opportunity to take service as he so desires.
>
> … The zero-inch main method would allocate the cost of a theoretical main of zero-inch diameter to the customer function, and allocate the remaining costs associated with mains to demand." [8]

Q. WHAT IS THE ZERO-INCH OR ZERO-INTERCEPT METHOD?

A. The zero-inch or zero-intercept method represents the cost of connecting customers to the distribution system with a hypothetical "zero-size" main. The method is based on a regression analysis that examines the relationship between distribution main sizes and their average costs. The regression analysis yields an intercept that represents the average cost of a theoretical zero-inch distribution main, or a distribution main that

[8] NARUC Gas Distribution Rate Design Manual, pp. 22-23

serves no demand. Zero-inch main costs are classified as customer, while costs in excess of the zero-inch main costs are classified as demand.

Q. HOW WAS THE ESTIMATED COST OF A ZERO-INCH MAIN DETERMINED?

A. The estimated cost of a zero-inch main was based on a regression analysis of distribution main sizes and their average costs. The regression analysis yields an intercept that represents the average cost ($ per foot) of a theoretical zero-inch distribution main. Multiplying the average cost of a zero- inch main by the actual number of feet in the system yields a theoretical cost of a system comprised of zero-inch mains. The customer portion of distribution mains was calculated as the ratio of the cost of a zero-inch main to the total cost of all mains.

Q. WHAT WERE THE RESULTS OF THE ZERO-INCH METHOD?

A. The results of the zero-inch method show the customer portion of the mains investment is 43.45 percent, as shown in Figure 8 (below).

Figure 8: Results of Zero-Inch Method

Zero-Intercept Analysis	Total Footage	Zero-Intercept $ per Foot	Estimated System Cost
Zero Size System	530,915	$ 4.74	$ 2,518,349
Total System Cost			$ 5,796,173
Zero Size System %			**43.45%**

The Figure shows the estimated cost of zero-inch plastic mains was $4.74 per foot. Multiplying the estimated cost of a zero-inch main by the actual number of feet in the system yielded a theoretical cost of a system comprised of zero-inch mains of $2.52 million. The customer portion of distribution mains was calculated as the

ratio of the cost of zero-inch mains to the estimated cost of the mains system of $5.79 million. The remaining portion is classified as demand.

Q. PLEASE DISCUSS CLASSIFICATION OF O&M EXPENSES.

A. O&M expenses were classified in a manner similar to their respective plant items. For example, Maintenance of Mains (Account 887) was allocated based on the classification of Distribution Mains plant (Account 376). O&M expenses not directly associated with one of the classification categories, such as administrative and general expenses, were classified through a composite classifier based on related costs.

C. ALLOCATION

Q. PLEASE DESCRIBE THE ALLOCATION PROCESS USED IN THIS COSS.

A. Allocation assigns rate base and expense items to each rate class using allocators that reflect cost causation. The approach used in this COSS is based on how costs are incurred to serve each rate class.

The COSS in this filing reflected two types of allocators.

1. Class determinants: Class characteristics, such as number of customers, usage, and revenues by rate class.
2. Internal: Composite of how other costs are allocated.

Q. WHAT PROCESS WAS USED TO DEVELOP THE DEMAND ALLOCATOR?

A. The demand allocator is based on each customer class's design day demands. Under this method, system costs are allocated to all classes based on the magnitude of their

design day usage. The approach is recognized by NARUC as an accepted method for allocating demand-related costs.[9]

Q. WHAT APPROACH WAS USED TO ALLOCATE O&M EXPENSES TO EACH RATE CLASS?

A. O&M costs were allocated using factors that reflect the cost drivers of each activity and, where applicable, match the allocation of the related plant. Demand-related O&M, such as system operations and maintenance of mains, was allocated utilizing the allocation of mains plant. Customer-related O&M, such as customer account costs, was allocated based on the number of customers.

Administrative and General ("A&G") expenses were allocated based on the nature of the underlying cost. O&M-related A&G was assigned using non-A&G O&M expenses. Plant-related A&G was allocated based on total plant in service.

Q. DID THE COMPANY DIRECTLY ASSIGN ANY COSTS TO THE MUTUALLY CURTAILABLE INDUSTRIAL CLASS?

A. Yes. The Company's MCI customer is served through a designated distribution main. The designated main also serves a few customers who would be served under the proposed Base Industrial rate. Accordingly, the costs of the designated distribution main are assigned primarily to Schedule MCI with a portion also assigned to Schedule Base Industrial.

[9] NARUC Gas Distribution Rate Design Manual. p. 27

Q. WHAT WERE THE RESULTS OF THE COMPANY'S COSS?

A. The results of the COSS provide an indication of each rate class's contribution towards its cost of service under current rates. Figure 9 (below) provides a comparison of each class's current base rate revenues and the class cost of service.

Figure 9: Current Class Revenues vs. Class Cost of Service

(Figure 2 Replicated)

Rate Schedule	Current Rate Revenues	Class Cost of Service	Deficiency / (Surplus) %	Required Increase / (Decrease) %
Clinton County - Residential	$ 22,474	$ 113,759	$ 91,284	406.2%
Clinton County - Commercial	106,398	102,675	(3,724)	-3.5%
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Commercial - Consolidated	141,402	164,489	23,088	16.3%

The Figure shows that all classes, except the Base Industrial and Commercial class, currently under-contribute towards their class cost of service. For example, the Clinton County residential class under-contributes towards its class cost of service by more than 400.0 percent, while the Clinton County Base Industrial class over-contributes towards its class cost of service by approximately 14.0 percent.

Q. IS THERE VARIATION IN THE COST OF SERVICE ACROSS THE DIFFERENT RATE CLASSES?

A. Yes, there is variation in the cost of service across the different rate classes, as shown in Figure 10 (below). The Figure shows variation in the unit cost of service on a 'per customer' and 'per CCF' basis across the rate classes.

Figure 10: Unit Revenue Requirement by Rate Class

(Figure 1 Replicated)

Rate Class	Class Revenue Requirements $ per Customer	$ per CCF
Clinton Residential	$ 1,222	$ 38.8
Clinton Commercial	$ 1,704	$ 4.6
Clinton Base Industrial	$ 4,111	$ 3.8
Clinton Mutually Curt. Industrial	$ [redacted]	
Clinton Agriculture	$ 8,849	$ 10.6
Floyd-Johnson Residential	$ 1,204	$ 29.9
Floyd-Johnson Commercial	$ 1,421	$ 19.6

The Figure shows the Residential cost of service is approximately $1,200 on a per customer basis. By comparison, the Industrial and Agriculture class cost of service is approximately $4,100 per customer and $8,800 per customer, respectively.

The figure also shows variation in class cost of service on a $ per CCF basis. For example, the Residential cost of service is between $29.0 per CCF to $39.0 per CCF. By comparison, the Base Industrial and Agriculture class cost of service is $3.8 per CCF and $10.6 per CCF, respectively.

The results generally support consolidation of rates across counties as the differences in class cost of service are not significant across the same class of customers. The results also support separate rates for Industrial and Agriculture customer classes as there are differences in class cost of service between commercial, industrial and agriculture classes.

V. RATE DESIGN AND BILL IMPACT ANALYSES

Q. WHAT PRINCIPLES WERE USED TO GUIDE THE PROPOSED RATE DESIGN?

A. The proposed rate design was guided by several principles common throughout the industry, including: (a) rates should recover the overall cost of providing service; (b) rates should be fair, minimizing inter- and intra-class inequities to the extent possible; and (c) base rate changes should be tempered by rate continuity concerns.[10]

Because these principles can conflict, the rate design process also includes a level of judgment to balance these principles.

Q. HOW WERE THE PRINCIPLES APPLIED IN THE PROPOSED RATE DESIGN?

A. First, rates were designed to recover the overall annual cost of service. This was done by developing customer and energy charges based on test year bills and usage that recover the Company's overall cost of service.

Rates were also designed to improve equity across customer classes. This was done by setting rates that move the Company's rates closer to cost-based rates and help improve equity across customer classes.

Finally, pricing stability was considered in setting both class revenue targets and individual rates. The objective was to minimize abrupt changes in customer bills. This objective was considered in setting the revenue targets, proposed rates, and proposed phased implementation of rates.

[10] *See* Bonbright, James, Danielsen, Albert, and Kamerschen, David. "Principles of Public Utility Rates." Public Utilities Reports, Inc. pp. 377-407 (2nd Ed. 1988).

A. INTERIM RATES

Q. IS THE COMPANY PROPOSING TO MAINTAIN THE COMMISSION-APPROVED INTERIM RATES THROUGH 2026?

A. Yes. The Company believes that the Commission's approved emergency interim rates should be maintained through 2026 to avoid multiple rate changes and rate confusion for the customers.

The Commission approved an approximately 74.0 percent rate increase in base rates for the Company, effective January 1, 2026. The interim rates included base rate increases for Clinton County residential rates, all non-residential rates (Commercial, Industrial, and Agriculture). The interim rates included a slight decrease in Floyd and Johnson counties' residential rates.

B. PROPOSED REVENUES

Q. WHAT WAS THE REVENUE REQUIREMENT USED TO SET THE REVENUE TARGETS FOR EACH RATE CLASS?

A. The base rate revenue requirement used as a starting point to set the revenue targets for each rate class was $1.16 million. The base rate revenues of $1.16 million exclude gas costs and revenue offsets from the Company's other revenue sources (such as interest income).

Q. WHAT PROCESS WAS USED TO SET REVENUE TARGETS FOR EACH RATE CLASS?

A. The Company's process to set revenue targets was as follows:

First, the Company identified what each class's revenues would be under a full movement to cost-based rates. This approach aligns each class's revenue responsibility with its cost of service. While this approach moves toward equitable rates, it can create significant bill impacts for classes currently under-contributing towards their cost of service, such as the Residential class.

Second, the Company examined the outcome of applying a uniform system-average increase across all classes. This approach provides pricing stability and consistent percentage increases. However, the approach does not incorporate any cost-of-service considerations.

Third, to balance these competing considerations, the Company opted for a hybrid approach: a partial movement of 20.0 percent toward cost-based rates. This results in a gradual improvement in alignment between class revenues and class cost of service, while tempering customer impacts.

Figure 11 (below) illustrates the Company's approach.

Figure 11: Proposed Class Revenue Increase %

Proposed Base Rate Revenue Increase %	1. Cost-based Increase %	2. Uniform Increase %	3. Proposed Increase %
Clinton County - Residential	406.2%	98.3%	159.9%
Clinton County - Commercial	-3.5%	98.3%	77.9%
Clinton County - Base Industrial	-14.0%	98.3%	75.8%
Clinton County - Mutually Curt. Industrial	157.8%	98.3%	110.2%
Clinton County - Agriculture	156.6%	98.3%	109.9%
Floyd & Johnson Counties - Residential	128.8%	98.3%	104.4%
Floyd & Johnson Counties - Commercial	76.6%	98.3%	94.0%

The Figure shows, for example, if rates were moved fully to cost-based levels, the Clinton County Residential class would require a 406.2 percent increase. Under a

uniform increase, the Clinton County residential class would receive a 98.3 percent increase. Under the Company's proposal, the Clinton County residential class would receive a 159.9 percent increase compared to current rates, reflecting a 20.0 percent movement toward cost-based rates.

The proposed revenue increase percentages (presented in Figure 11) vary when compared to the Commission-approved 2026 emergency interim rate revenues. The proposed revenue increases for each class, compared to the interim base rate revenues, is presented in Figure 12 (below).

Figure 12: Interim Base Revenues vs. Proposed Base Revenues

(Replicated Figure 3)

Rate Schedule		Interim Rate Revenues		Proposed Revenues	Proposed Increase / (Decrease) %
Clinton County - Residential	$	37,213	$	58,403	56.9%
Clinton County - Commercial		273,013		189,317	-30.7%
Clinton County - Base Industrial		187,073		130,245	-30.4%
Clinton County - Mutually Curt. Industria		[redacted]		[redacted]	-18.6%
Clinton County - Agriculture		62,185		50,689	-18.5%
Floyd & Johnson Counties - Residential		229,616		539,580	135.0%
Floyd & Johnson Counties - Commercial		76,555		67,890	-11.3%
Total System	$	[redacted]			14.0%
Residential - Consolidated		266,828		597,983	124.1%
Commercial - Consolidated		349,568		257,207	-26.4%

The Company's revenue target setting process is presented in **Exhibit TAS-4**.

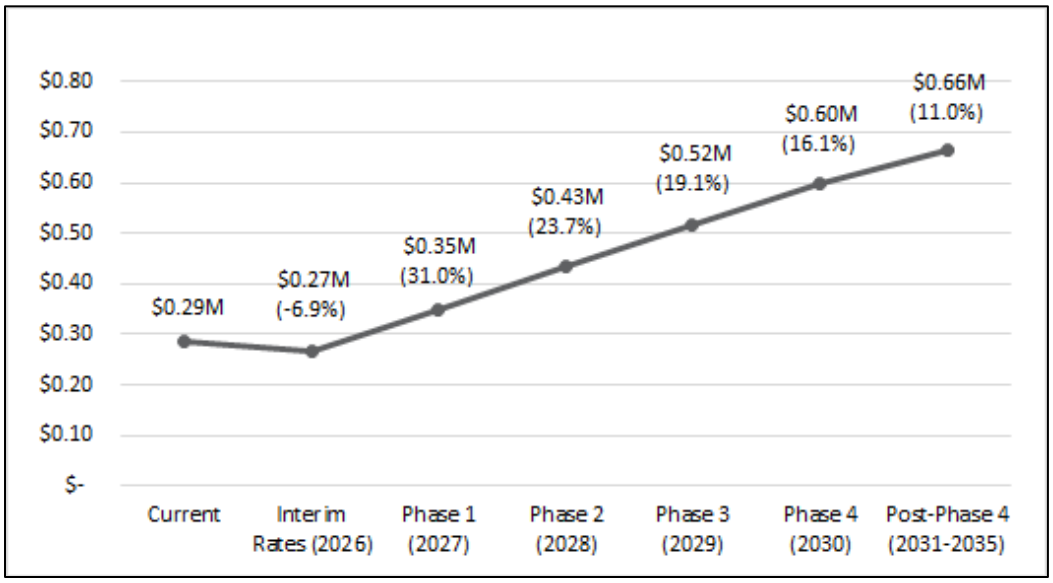
C. PHASED RATE IMPLEMENTATION

Q. IS THE COMPANY PROPOSING PHASED IMPLEMENTATION OF RATES?

A. Yes. In consideration of bill impacts and rate continuity, the Company is proposing that the total revenue increase for residential customers be implemented gradually over four phases. The shortfall in revenues is proposed to be recovered over five years after the implementation of phase 4. The phased-in rates revenues for residential class are illustrated in Figure 13 (below).

Figure 13: Residential Revenue Phase-in Schedule (Replicated Figure 3)

($ Million, Year-over-Year % Increase)



The Figure shows that the residential rates are proposed to gradually increase over four years (2027-2030). In addition, the Figure shows that the Company is proposing an additional revenue increase of approximately 11.0 percent in 2031 to recover the revenue shortfall expected to occur during the 2027-2030 period. It should be noted that the Company is not seeking to recover any carrying costs associated with the shortfall in revenues.

D. RATE CONSOLIDATION

Q. IS THE COMPANY PROPOSING CONSOLIDATION OF RATES?

A. Yes. The Company is proposing to consolidate its Clinton County, Floyd County, and Johnson County rates.[11] The Company's rate consolidation proposal is consistent with the Commission's approved interim rates and is generally supported by the Company's class cost of service study results, as discussed earlier.

E. PROPOSED RATES

Q. HOW WERE THE PROPOSED RATES DEVELOPED FOR EACH RATE CLASS?

A. For each rate class, proposed rates were designed to recover the full class revenue target. Customer charges were increased generally in proportion to the proposed revenue increase for each class, while maintaining reasonable alignment with customer-related costs and bill impact considerations. The remaining revenue requirement was recovered through commodity charges.

The development of rates by each class are presented in **Exhibit TAS-5**.

Q. IS THE COMPANY PROPOSING ANY CHANGES TO ITS COMMERCIAL RATES IN FLOYD AND JOHNSON COUNTIES?

A. The rates for Floyd County and Johnson County currently include only a commercial class rate. However, for the reasons discussed in this testimony, the Company proposes creating Base Industrial and Agriculture rate classes in addition to the commercial

[11] The Company's current Floyd County and Johnson County rates are already consolidated.

class. Since there are no industrial and agricultural customers in these two counties, the COSS study could not be performed for these classes. As a result, the Company is proposing to set these rates to be the same as Clinton County industrial and agricultural rates, which is consistent with the unified rate structure. As discussed earlier, the class cost of service results for Clinton County customer classes support distinct rates for commercial, base industrial, and agriculture customer classes.

Q. WHY IS THE COMPANY PROPOSING SEPERATE RATES UNDER THE MUTUALLY CURTAILABLE INDUSTRIAL RATE SCHEDULE?

A. The Company is proposing a separate rate schedule for its high usage customers whose loads are curtailable and that have the ability to switch between fuels (i.e., natural gas and propane) based on pricing considerations. There is currently one customer that qualifies for this rate schedule.

The customer included in the rate schedule is unique in several ways, such as:

1. The customer, on average, uses [redacted] per month, which is 19 times more than a typical Base Industrial customer which uses 697 CCF per month. The usage differences were presented in Figure 6 earlier in the testimony.
2. The customer has the ability to switch between fuels (i.e., natural gas and propane) based on market pricing considerations.
3. The customer usage is curtailable based on a mutual agreement between the Company and the customer. The Company has necessary equipment installed on the customer's site to allow the Company to curtail the customer's usage.

These unique features warrant development of a separate rate schedule for such high usage curtailable customers.

F. CUSTOMER BILL IMPACTS

Q. HAVE YOU EXAMINED THE IMPACT OF THE PROPOSED RATES ON CUSTOMER BILLS?

A. Yes. As shown in **Exhibit TAS-5**, the Company prepared customer bill impacts to evaluate the impact of the proposed base rate changes. The customer bill impacts evaluate a range of customer usage within each rate class. The customer bill impacts were prepared in two ways: 1) comparison of proposed and current base rates, and 2) comparison of proposed and total rates, which include base rates plus other surcharges (such as the PGA rate).

Overall, the proposed base rates will increase the monthly bill in 2027 for a Clinton County residential customer using 26 CCF per month by $10.50 per month and for a Floyd/Johnson County residential customer using 34 CCF per month by $11.88 per month.

VI. COST ALLOCATION METHODOLOGY

Q. IS THE COMPANY PRESENTING A REVIEW OF THE COST ALLOCATION METHODOLOGY UTILIZED BY NAVITAS UTILITY CORPORATION TO ASSIGN INDIRECT COSTS TO THE COMPANY?

A. Yes. The Company retained ScottMadden to review the reasonableness of the cost allocation methodology utilized by NUC to assign the costs of providing service to the Company.

As discussed in this testimony, the review found that NUC's cost allocation method is generally reasonable for assignment of its indirect costs to the Company. Specifically, ScottMadden's review found that NUC's cost allocation methodology is consistent with cost allocation principles outlined by NARUC and appropriately reflects the underlying cost drivers of the allocated indirect costs.

Q. PLEASE PROVIDE AN OVERVIEW OF NAVITAS UTILITY CORPORATION.

A. NUC provides services as the operator for its affiliate Local Distribution Companies ("LDC") owned by Navitas Assets, LLC, a sister company. The Company is one of the LDCs served by NUC. Examples of services provided by NUC include financial and regulatory reporting, tax planning and reporting, financial planning, internal audit, purchasing, field labor, customer service, customer billing, human resource and labor expertise, benefit plans, corporate communications, safety and risk management, shareholder services, and executive management services. To support these services,

there are general costs associated with administration and information technology ("IT") that also need to be allocated and billed.[12]

Q. WHAT COSTS WERE ASSIGNED BY NUC TO THE COMPANY DURING THE TEST YEAR PERIOD?

A. NUC assigned $1.5858 million to the Company during the Test Year period (12 months ending December 2024). A breakdown of these costs is provided in Figure 14 (below).

Figure 14: Breakdown of Costs Assigned by NUC to the Company

Cost Breakdown	Costs ($ Million)	(%)
Direct Costs	$ 0.38	24.2%
Commodity Costs	$ 0.63	40.0%
Indirect Costs	$ 0.57	35.8%
Total Costs	$ 1.58	100.0%

The Figure shows that NUC directly assigns 24.2 percent of costs to the Company. The Direct costs include costs related to operations and maintenance of the Company's distribution system in Kentucky. In addition, the Direct costs include certain administration costs that directly relate to the Company.

The Figure also shows that 40.0 percent of costs assigned by NUC to the Company are related to gas supply costs (such as pipeline charges) for Kentucky and Tennessee operations. These costs are assigned to the Company based on the proportion of Kentucky natural gas sales compared to total Kentucky and Tennessee natural gas sales.

[12] Navitas Utility Corporation, Cost Allocation Manual, p. 2

Lastly, the Figure shows that 35.8 percent of the costs are indirect and are allocated to the Company. The nature of these costs and the cost allocation method are further discussed later in the testimony.

Q. WHAT WERE THE GUIDING PRINCIPLES UTILIZED TO ASSESS THE REASONABLENESS OF NUC'S COST ALLOCATION?

A. The guiding principles, as outlined by NARUC, include:

1. To the extent practicable, costs should be assigned directly to the services or products that cause them.
2. For common costs that cannot be directly assigned, the primary cost driver should be identified and used to allocate those costs.
3. Indirect costs, including shared services, should be allocated using cost allocators that reasonably reflect how those costs are incurred and how they support utility operations.[13]

Q. IS NUC'S COST ALLOCATION TO THE COMPANY ALIGNED WITH THE NARUC PRINCIPLES?

A. Yes. First, as discussed earlier, NUC directly assigns costs to the Company to the extent possible. Specifically, 24.2 percent of the costs assigned to the Company are directly assigned. Second, commodity costs are assigned between Tennessee and Kentucky operations based on the primary cost driver (i.e., natural gas sales). And third, indirect costs are allocated using a cost allocation methodology that reasonably reflects how those costs are incurred.

[13] NARUC Guidelines for Cost Allocations and Affiliate Transactions. Access Link: http://pubs.naruc.org/pub/539BF2CD-2354-D714-51C4-0D70A5A95C65

Q. WHAT IS THE METHODOLOGY UTILIZED BY NUC TO ALLOCATE INDIRECT COSTS TO ITS AFFILIATE LDCS?

A. Indirect costs are allocated by NUC to its affiliate LDCs (including the Company) based on the so-called "Atmos KY Method." The Atmos KY Method consists of two factors: 1) Gross direct property, plant, and equipment ("PPE") in each jurisdiction as a percentage of the total PPE serviced by the NUC, and 2) Number of customers in each state as a percentage of the total customers serviced by NUC. The two factors are weighted equally in the calculation of Atmos KY allocation factor. [14]

Q. WHAT COSTS ARE ALLOCATED USING THE ATMOS KY ALLOCATION FACTOR?

A. The indirect costs, allocated using the Atmos KY factor, generally include costs associated with functions that support multiple operating companies and cannot be reasonably assigned on a direct basis.

A breakdown of indirect costs assigned to the Company is presented in Figure 14 (below).

[14] Navitas Utility Corporation, Cost Allocation Manual, p. 7

Figure 15: Breakdown of Indirect Costs Allocated to the Company[15]

Indirect Cost Categories	Costs $	Costs %
1. General Support Costs	**$ 294,595**	**52.0%**
920 Administration & Gen Sales	$ 229,048	40.4%
921 Office Supplies	$ 22,785	4.0%
926 Employee Benefits	$ 42,762	7.5%
2. Operations Costs	**$ 151,460**	**26.7%**
Pickups, Trucks, Equipment	$ 102,708	18.1%
Meters	$ 40,170	7.1%
Outside Services, Safety & Security	$ 8,582	1.5%
3. Plant-related Costs	**$ 69,753**	**12.3%**
924 Insurance	$ 50,153	8.9%
931 Rents	$ 8,963	1.6%
932 Maintenance of General Plant	$ 10,637	1.9%
4. Customer Service Costs	**$ 50,831**	**9.0%**
903 Customer Records & Collection	$ 23,593	4.2%
908 Customer Assistance	$ 27,148	4.8%
909 Info Advertising	$ 90	0.0%
Total Indirect Costs	**$ 566,640**	**100.0%**

The Figure shows that indirect costs can be generally categorized as follows:

1. **General Support Costs:** These costs include management salaries, healthcare benefits, and general office supplies. The costs are related to management support for operations and provision of customer service to NUC's affiliated LDCs. These costs comprise 52.0 percent of the total indirect costs.
2. **Operations Costs:** These costs include certain equipment costs as well as cost of meters. These costs are related to general support for operations and

[15] Cost categories developed based on ScottMadden analysis.

provision of customer service to NUC's affiliated LDCs. These costs comprise 26.7 percent of the total indirect costs.

3. **Plant-related Costs:** These costs include insurance, rent, and maintenance of general plant costs. These costs are related to general support for operations of NUC's affiliated LDCs. These costs comprise 12.3 percent of the total indirect costs.

4. **Customer Service Costs:** These costs include customer records and collection costs, and customer assistance costs. These costs are related to support for provision of customer service to NUC's affiliated LDCs. These costs comprise 9.0 percent of the total indirect costs.

Collectively, these costs support operations and provision of customer service for the LDCs.

Q. IS THE ATMOS KY METHOD REASONABLE FOR ALLOCATION OF THESE INDIRECT COSTS?

A. Yes. The costs described above are driven by each LDC's scale of operations and customer base served. The plant and customer components included in Atmos KY Method reflect these underlying cost drivers.

First, general support costs consist primarily of corporate management, administrative functions, and employee benefits that provide governance and oversight across all affiliated LDCs. These costs are driven by the overall scale of operations and the scope of the customer base served. The Atmos KY Method includes PPE that represents the size of utility operations and includes the proportion of customers that represent the level of support associated with serving customers.

Similarly, operations and plant-related indirect costs are largely driven by the extent of utility assets in service and the operational activity required for provision of customer service. The PPE and customer components included in the Atmos KY Method serve as a reasonable representation of the cost causation for these asset-driven indirect costs.

And lastly, customer service costs, such as customer records, billing, collections, and customer assistance, are driven primarily by the number of customers served. The customer-count component of the Atmos KY Method directly reflects this relationship.

By equally weighing plant and customer factors, the Atmos KY Method captures the operational and customer-driven nature of indirect costs.

Q. PLEASE SUMMARIZE THE FINDINGS OF SCOTTMADDEN'S REVIEW.

A. As discussed in this testimony, ScottMadden's review found that NUC's cost allocation methodology is consistent with NARUC principles and appropriately reflects cost causation. The review found that the Atmos KY Method reasonably reflects the underlying cost drivers of the allocated indirect costs.

VII. CONCLUSION

Q. Does this complete your direct testimony?

A. Yes.

VERIFICATION

I, Talha A. Sheikh, verify, state, and affirm that the Direct Testimony to which this Verification is appended is true and accurate to the best of my knowledge, information, and belief, formed after a reasonable inquiry.

Talha A. Sheikh
Director, ScottMadden, Inc.

STATE OF NORTH CAROLINA)
) ss:
COUNTY OF WAKE)

SUBSCRIBED AND SWORN TO before me on this the 6th day of FEB, 2026.

My commission expires: 12/18/2028

ID Number: 202335400187

[Seal]

Notary Public

MADHAVI BOMMAREDDY
NOTARY PUBLIC
Wake County
North Carolina
My Comm. Expires 12/18/2028