

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION  
TO DELTA NATURAL GAS COMPANY, INC.

Delta Natural Gas Company, Inc. (Delta), pursuant to 807 KAR 5:001, shall file with the Commission an electronic version of the following information. The information requested is due on January 3, 2025. The Commission directs Delta to the Commission's July 22, 2021, Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the

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<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Delta shall make timely amendment to any prior response if Delta obtains information that indicates the response was incorrect or incomplete when made or, though correct or complete when made, is now incorrect or incomplete in any material respect.

For any request to which Delta fails or refuses to furnish all or part of the requested information, Delta shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied and scanned material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Delta shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Delta's responses to Commission Staff's First Request (Staff's First Request), Item 1. The request asked for the gas schedules in comparative form. Delta provided all Excel files individually, not in a comparative form. Provide the gas schedules in comparative form, one file with multiple tabs for each schedule, in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.

2. Refer to the Application. Explain in greater detail how an allocated expense for a tax study equates to an extraordinary, unexpected utility expense.
3. Refer to the Application. Describe the benefit of the tax study to Delta and its customers.
4. Refer to the Application. Delta stated that depreciation expense increased approximately 30 percent between this application and its last rate adjustment. Provide specific reasons for this increase, in light of the fact that Delta requested, and the Commission approved, updated depreciation rates in the last proceeding.
5. Provide the cost allocation manual for Delta as well as the cost allocation manuals for PNG and Essential.
6. Provide the Transmission Integrity Management Program (TIMP) plan for Delta.
7. Provide the Distribution Integrity Management Program (DIMP) plan for Delta, if different than the TIMP.
8. Refer to the Direct Testimony of Johnathan Morpew (Morpew Direct Testimony), page 5, lines 12-17. Provide the referenced "Post Incident Analysis" investigation format. If not a written procedure, provide the forms associated with the analysis.
9. Refer to Morpew Direct Testimony, page 6, lines 20-23. Provide Delta's expense to comply with 811 requirements, by month, for the years 2019-2024.
10. Refer to the Morpew Direct Testimony, page 11. Refer also to the responses to Staff's First Request, Item 25.

a. Provide the cost impact of transitioning from Honeywell American meter base with Itron 100 ERT modules to the Intelis 250 meter with an integrated ERT module.

b. Provide the attachments contained in response to Staff's First Request, Item 25 in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.

c. Explain the absence of "New Meter" or "Meter Install" projects in the 2024 and 2025 Construction Projects schedules, given that only 32,000 of the 40,000 meter have been replaced.

11. Refer to the Morphew Direct Testimony, pages 9-10.

a. Confirm that Phase I of the high pressure distribution pipeline project consists of constructing the first 9.3 miles of the total 16.6 mile pipeline. If not confirmed, explain.

b. Confirm that Phase II consists of constructing the remaining 7.3 miles, and that Phase II is expected to be contracted in early 2025. If not confirmed, explain.

c. If 11(b) is not confirmed, provide the corrected number of remaining miles that will be contracted in Phase II.

12. Provide the current lost and unaccounted for natural gas (LAUF), by month, for the year 2024 through December 2024.

13. Provide any union contracts finalized since 2021, excluding the one provided in response to Staff's First Request, Item 37.

14. Provide the number of employees that are considered union employees and the number of non-union employees.

15. Compare each benefit provided by Delta to union employees vs. non-union employees. If a benefit is provided pursuant to a union contract that is not provided to non-union employees, note that in the response. Include in the response the contribution percentage for employer and employee.

16. Refer to the Direct Testimony of John Brown (Brown Direct Testimony), page 12, line 4.

a. Identify the location of each office Delta closed.

b. Describe what Delta did with the location upon closure of the office.

Include in the response the disposition of the property.

c. Describe how customers were notified of these closures and any alternatives offered for in person interaction.

17. Refer to Brown Direct Testimony, page 12, lines 8-11.

a. Provide the contract with the contractor for construction services.

b. Describe how the construction services contractor assists in securing competitive rates from vendors.

c. Confirm that Delta was allowed to choose its own contractor for these services. If not confirmed, explain how the contractor was chosen.

18. Refer to Brown Direct Testimony, page 13, lines 18-21 and page 14, lines 1-10.

a. Provide the cost justification for each nonrecurring charge discussed.

b. Confirm that the tasks are done in the course of the normal business day. If not confirmed, explain why not.

19. Refer to the Direct Testimony of Larry Feltner (Feltner Direct Testimony), pages 21-23. Explain how Delta can reconcile the Cost of Service Study with the proposed allocation in Delta's application.

20. Refer to Feltner Direct Testimony, pages 26, lines 7-12. Explain why the farm tap class should receive a reduction in the delivery charge.

21. Refer to Feltner Direct Testimony. Explain why no consideration was given to separating the classes individually and reflecting the cost of service study more accurately.

22. Refer to Feltner Direct Testimony, page 27, lines 5-9. Provide a detailed explanation of the proposed delivery charge for the Interruptible Service Class.

23. Refer to Feltner Direct Testimony, page 28, lines 11-22 and page 29, line 1.

a. Provide the name of the supplier who may allow direct connection to the nearby interstate pipe and bypass Delta service.

b. Provide the distance to the closest pipeline.

c. Confirm that that special contracts allow for revision pursuant to the application's proposals. If not confirmed, explain what Delta will have to do in order to amend the special contracts.

24. Refer to Direct Testimony of Jeffrey Wernert (Wernert Direct Testimony). Confirm that the lead lag study included non-cash items and balance sheets. If not confirmed, explain.

25. Refer to Direct Testimony of Paul Moul (Moul Direct Testimony). Confirm that Delta did not exclude any outliers in the return on equity evaluation. If Delta did exclude an outlier, identify all excluded outliers, and explain why they were excluded.

26. Refer to the Moul Direct Testimony, pages 4 and 5, and Attachment PRM-3. The sample size of the Gas Group of proxy companies does not contain at least one relevant proxy. Explain why PNG Companies, LLC is not present in the Gas Group.

27. Presume equally sized water utilities have similar characteristics as gas companies.

a. Explain why it is not reasonable to include water companies along with the gas companies as an additional proxy group of companies.

b. If it is not reasonable to include water utilities in the proxy group, compare and contrast the specific attributes of water utilities with those current Gas Group proxies that renders them unsuitable for use as proxies.

28. Refer to the Moul Direct Testimony, page 7, lines 1-15.

a. Explain the percentage of Delta's annual revenue at risk due to by-pass, by industrial and/or transportation customers.

b. For each customer who could plausibly by-pass Delta, include in the response the distance from an interstate pipeline that could be used for by-pass, whether the pipeline is within the customer's facility footprint, and a breakdown of customer revenue derived from transportation service only.

c. Explain whether Delta currently has any industrial or transportation customers by-passing its system.

d. Explain whether Delta has had any industrial or transportation customers by-pass its system in either 2022 or 2023, and if so, include in the response an estimate of the load and revenue lost.

e. Explain whether Delta uses storage fields to store gas for third parties. Include in the response if any transportation customers utilize storage.

f. Explain whether witness Moul agrees that natural gas is a preferred choice of many energy intensive industries and whether this dampens the competitive risk.

29. Refer to the Moul Direct Testimony, page 16, lines 17-13, page 17, lines 1-18, and Attachment PRM-6.

a. Explain how Delta obtains its debt capital financing. If the debt capital comes solely from its parent, explain how the parent obtains its debt capital and then transfers that to Delta or any other wholly owned affiliate.

b. Explain whether the short term debt belongs to Delta or Peoples KY. If the short term debt belongs to Delta, explain why it is not included in the capital structure.

c. Explain whether the Amortization of Issuance expense is being financed and considered debt and whether any of these expenses are attributable to Delta.

30. Refer to the Moul Direct Testimony, pages 19-20, and to Attachment PRM-7. Provide an explanation for each of the three methods utilized to make a forward adjustment to the dividend yield, and the strengths and shortfalls of each method.

31. Refer to the Moul Direct Testimony, page 20, lines 1-2 and lines 10-11.



- a. Explain how the month end stock prices were adjusted.
- b. Provide the average three, six, and twelve month dividend yields using the average monthly stock price as opposed to the adjusted month end stock prices.
- c. Provide further explanation as to how the historic six month average dividend yield is a better selection of current capital costs rather than the three month average yield. Include in the explanation how the historic three month yield does not avoid spot yields, but the six month average yield does.

32. Refer to the Moul Direct Testimony, page 26, lines 4-10. Refer also to Attachment PRM-8.

- a. The average of the three earnings per share growth estimates from IBES/First Call, Zacks, and Value Line is 6.13 percent. Provide further explanation of why 6.25 percent is reasonable.
- b. Provide an updated growth rate calculation including dividend per share growth rates.
- c. Explain and provide support for the statement that DCF growth rates should not be established by mathematic formulation.
- d. Explain how the midpoint of the growth rate forecasts was determined.

33. Refer to the Moul Direct Testimony, pages 31, 36, and 41. Explain whether Delta was aware that the Commission has previously rejected portions of applications

seeking adjustments for company size, flotation cost, and leverage adjustments for ratemaking purposes.<sup>2</sup>

34. Refer to the Moul Direct Testimony, page 36, lines 20-21 and page 37, lines 1-5. Provide support that the beta values published by Value Line are not formulated on the basis of book-value capital structure.

35. Refer to the Moul Direct Testimony, pages 36-37 and 41.

a. Explain the time period and which stock index serves as the basis for the Value Line adjusted beta values.

b. Explain the time period and basis for Yahoo Finance beta calculations and why they could not also be included in the analysis.

c. Provide an update to the calculation found on Page 41 of the Moul Direct Testimony using unlevered Value Line beta values and including adjusted Yahoo Finance beta values. If Yahoo Finance beta values are unadjusted, provide the formula for adjusting the beta values.

36. Refer to the Moul Direct Testimony, page 39, lines 8-20. Refer also to Attachment PRM-13, page 1. Provide the reasoning for using both the “low” and “average” interest rate environments to calculate market return and yield on long term government bonds rather than solely the “average” interest rate environment.

37. Refer to the Moul Direct Testimony, page 39, lines 16-19, and Attachment PRM-14. For the Value Line based forecasted market premium, explain how the Dividend

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<sup>2</sup> Case No. 2021-00185, *Electronic Application of Delta Natural Gas Company, Inc. for an Adjustments of its Rates and a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 3, 2022), final Order at 15.

Yield and the Median Appreciation potential were either derived or were found in a Value Line publication. If published by Value Line, provide a copy of the publication.

38. Refer to Direct Testimony of Azeez Odusanya (Odusanya Direct Testimony), page 7, lines 18-21.

a. Describe the responsibilities of the Controller position, beyond reviewing allocations.

b. Explain how much time, by hours per month, is spent reviewing the allocations from PNG.

c. Describe the process for objecting to a particular allocation from PNG.

d. Describe the process for objecting to an allocation that flowed through from Essential.

39. Refer to the Direct Testimony of William Packer (Packer Direct Testimony), page 5, lines 17-24. List all other utilities, in particular gas utilities, that Delta is referencing when stating that “the use of a GRCF is a long-standing practice in calculating the revenue requirement and is necessary to calculate the adjustment to income taxes, which vary in direct . . . requirement.”

40. Refer to the Packer Direct Testimony, page 9, lines 20-23.

a. Provide the most recent wage study for Delta.

b. Explain whether employee compensation is equal to or better than the 50<sup>th</sup> percentile of the market with or without consideration of “at-risk” pay.

41. Refer to the Packer Direct Testimony, pages 10-11.

a. Provide the test-year amount of payments under Delta's long term incentive plan, short term incentive plan, and Achievement Awards.

b. Explain how the short term incentive plan metrics are used to fund the plan and determine the payout amounts.

c. Explain how the long term incentive compensation plan is used to fund the plan and determine the payout amounts.

d. Explain whether Achievement Awards are ever rewarded based on financial performance measures.

42. Refer to the Packer Direct Testimony, pages 12 and 13. Confirm that current employees do not participate in both a defined benefit plan and 401(k) matching. If this cannot be confirmed, identify the position titles, and provide the test year amount of 401(k) matching contributions provided to employees who participate in a defined benefit plan.

43. Refer to Delta's responses to Staff's First Request, Item 39.

a. Explain the increase in Merit Compensation for Corporate Officers from zero percent in 2023 to a projected 3 percent and 2 percent in 2024 and 2025, respectively.

b. Explain the decrease in Merit Compensation for Non-Exempt Employees from 161,300 in 2023 to a projected 21,926 in 2024.

44. Refer to Delta's responses to Staff's First Request, Item 41, and DELTA\_APP\_TAB60.

a. Provide the attachments contained in Item 41 in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.

b. Reconcile the discrepancy for Total Employee Benefits and Total Labor Dollars for the base period ending February 2025.

45. Refer to Confidential Tab 60 page 3 of 3. Provide an explanation of what is meant by non-regulated bonus amount.

46. Explain the personal nature, pursuant to KRS 61.878(1)(a), of the Confidential response to Staff's First Request, Item 54, Tab 55.



Linda C. Bridwell, PE  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED DEC 16 2024

cc: Parties of Record

Case No. 2024-00346

\*Angela M Goad  
Assistant Attorney General  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Delta Natural Gas Company, Inc.  
3617 Lexington Road  
Winchester, KY 40391

\*Emily S. Childress  
STOLL KEENON OGDEN PLLC  
300 West Vine Street  
Suite 2100  
Lexington, KENTUCKY 40507-1801

\*John B Brown  
Chief Financial Officer  
Delta Natural Gas Company, Inc.  
3617 Lexington Road  
Winchester, KY 40391

\*Lawrence W Cook  
Assistant Attorney General  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Mary Ellen Wimberly  
STOLL KEENON OGDEN PLLC  
300 West Vine Street  
Suite 2100  
Lexington, KENTUCKY 40507-1801

\*Michael West  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Monica Braun  
STOLL KEENON OGDEN PLLC  
300 West Vine Street  
Suite 2100  
Lexington, KENTUCKY 40507-1801