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APR 25 2014

PUBLIC SERVICE
COMMISSION

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April 25, 2014

HAND DELIVERED

Hon. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40601

Re: Delta Natural Gas Company, Inc.
Case No. 2013-00365

Dear Mr. Derouen:

We enclose for filing an original and ten copies of the rebuttal testimony of Matthew D. Wesolosky on behalf of Delta Natural Gas Company, Inc. in the above-captioned case. Thank you in advance for your assistance.

Sincerely,

Robert M. Watt, III

rmw:rmw

Enclosures

cc: Mr. John B. Brown (w/o encl.)
Counsel of Record (w/encl.)

005522.147995/4204785.1

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APR 25 2014

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DELTA NATURAL)
GAS COMPANY, INC. FOR AN ORDER)
DECLARING THAT IT IS AUTHORIZED)
TO CONSTRUCT, OWN AND OPERATE)
A COMPRESSED NATURAL GAS)
STATION IN BERA, KENTUCKY)

CASE NO.
2013-00365

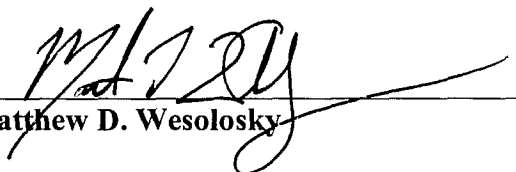
REBUTTAL TESTIMONY OF
MATTHEW D. WESOLOSKY

Filed: April 25, 2014

VERIFICATION

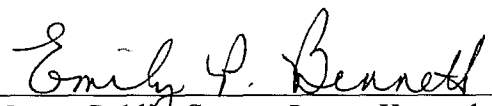
STATE OF KENTUCKY)
)
COUNTY OF CLARK)

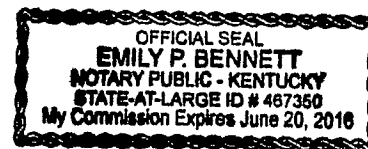
The undersigned, Matthew D. Wesolosky, being duly sworn, deposes and says he is Vice President - Controller of Delta Natural Gas Company, Inc., that he has personal knowledge of the matters set forth in the following testimony, and the answers contained therein are true and correct to the best of his information knowledge and belief.


Matthew D. Wesolosky

Subscribed and sworn to before me by Matthew D. Wesolosky, this the 23rd day of April 2014.

My Commission Expires: 6/20/2016


Notary Public, State at Large, Kentucky



1 **Q. Please state your name, position and business address.**

2 A. My name is Matthew D. Wesolosky. I am Vice President - Controller of Delta Natural
3 Gas Company, Inc. ("Delta"). My business address is 3617 Lexington Road, Winchester,
4 Kentucky 40391. I submitted direct testimony in this proceeding on November 22,
5 2013, which contained a statement of my qualifications, experience, job responsibilities
6 and previous testimony before the Commission.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to rebut the arguments made by David Mrowzinski on
9 behalf of Interstate Gas Supply, Inc. ("IGS") and Clean Energy Fuel Corp. ("Clean
10 Energy"). He recommends that the Commission not approve Delta's proposed
11 compressed natural gas fueling station ("CNG Station") and disputes Delta's estimate of
12 the cost to construct and operate the proposed CNG Station. He is also opposed to
13 ownership of the CNG Station by Delta and its inclusion in Delta's rate base. Mr.
14 Mrowzinski provides no support for his proposed cost numbers. His argument about the
15 rate treatment of Delta's proposed CNG Station is flawed.

16 **Q. What is Mr. Mrowzinski's position on the cost to construct Delta's proposed CNG
17 Station?**

18 A. In his testimony, he says that he does not have sufficient information to determine if
19 Delta's testimony about the cost to construct the station is reasonable. Nevertheless, he
20 says that in his experience costs tend to run over when constructing stations, particularly
21 when it is the first station being constructed by a particular entity. The company Delta
22 has chosen to construct the CNG Station is in the business of constructing stations and
23 this will not be its first station. Moreover, when Delta asked IGS for information about

1 cost overruns at stations owned or operated by IGS, it objected, claiming the question
2 was “overly vague and overly burdensome” and then stated that it does not have
3 information regarding cost overruns for each station.¹ IGS only owns three stations and
4 operates one other station. Mr. Mrowzinski’s experience consists of, at most,
5 constructing three stations and his resume² indicates that he has been “responsible for the
6 successful design and construction of *all IGS CNG stations while remaining in budget* [emphasis
7 added].” When requested to explain why Delta’s estimated construction costs are
8 insufficient for Mr. Mrowzinski to determine if they are reasonable, he stated that there
9 might be site preparation costs and costs to extend a pipeline to the station.³ There is a
10 line item in Wesolosky Exhibit I, which details the cost of construction for site
11 preparation. So those costs are included in the estimate. Delta will not be required to
12 make any pipeline extensions to provide gas to the CNG Station.

13 **Q. In its response to AG 1-19, IGS said that it recently hired a sales representative**
14 **whose territory includes Kentucky. How does Delta’s efforts to attract customers to**
15 **its proposed CNG Station compare to IGS’s plan?**

16 A. Delta chose the Berea location because of its significant presence in Berea and Madison
17 County. Delta has a district office in Berea and the proposed station will be located at
18 Delta’s Berea service center. In addition, Delta’s President, CEO and Chairman of the
19 Board, Glenn Jennings, is a long time resident of Berea. He served as a city
20 councilperson in Berea for several terms and is presently a member of the Board of Berea
21 College. Mr. Jennings has been discussing the possibility of selling CNG to fleets in the

¹ IGS Response to Delta 1-26(b).

² IGS Response to Delta 1-16, IGS Request for Document Production 2.

³ IGS Response to Delta 1-25.

1 area with city and school management personnel. We believe that Mr. Jennings can more
2 effectively attract customers than IGS's "one recent hire whose territory is Kentucky."

3 **Q. What is Mr. Mrowzinski's position on operating costs for the station?**

4 A. He claims that Delta has underestimated the operating costs of the CNG Station by
5 omitting certain costs. He said that I should have included electric compression costs,
6 state and federal road taxes, maintenance for the compressor, natural gas transportation
7 costs and credit card transaction merchant fees and sets forth what he believes these costs
8 to be.⁴ When asked by Delta how he came up with these cost figures, IGS objected to the
9 question, claiming it was "overly burdensome, overly broad and overly vague."⁵ There is
10 no answer to Delta's question in the IGS response; instead IGS advised Delta to refer to
11 tariffs, tax statutes and the like. Mr. Mrowzinski says that he does not have any work
12 papers, source documents, spread sheets or other documents utilized to determine the
13 costs in his testimony. In addition, Mr. Mrowzinski claims that the incremental cost to
14 purchase natural gas vehicles, rather than gasoline vehicles, should be included as part of
15 the cost to construct the CNG Station.⁶ When asked the basis for this statement, Mr.
16 Mrowzinski said, "Further, including the incremental vehicle costs in the CNG station
17 project costs will give a more accurate reflection of the true cost of the CNG station
18 project to Delta ratepayers."⁷ Vehicle costs are not part of construction costs and should
19 not be treated that way. It is no surprise that Mr. Mrowzinski had no answer to Delta's
20 request that he provide citations to the Uniform System of Accounts or Generally
21 Accepted Accounting Principles in his response.

⁴ Mrowzinski Testimony at 7-8.

⁵ IGS Response to Delta 1-22.

⁶ Mrowzinski Testimony at 10.

⁷ IGS Response to Delta 1-24(a).

1 **Q. Did you fail to consider electric compression costs, state and federal road taxes,**
2 **maintenance for the compressor, natural gas transportation costs and credit card**
3 **transaction merchant fees in performing your analysis?**

4 A. No. In Delta's response to AG 1-59, I stated that the \$2.00 price at the pump would be
5 adjusted for the state and federal road taxes. With respect to the electricity required to
6 compress the natural gas, this is considered in the \$20,000 of operating costs as noted in
7 my testimony, Mr. Morpew's Testimony, Delta's responses to PSC 1-8 and AG 1-88.
8 The \$20,000 is also inclusive of maintenance. Mr. Brown clearly states⁸ that the station
9 will be charged a transportation rate. However, the transportation rate charged to the
10 station is not explicitly stated in the Wesolosky Exhibits since Delta is applying one
11 hundred percent of the margin from each sale as a contribution towards the revenue
12 requirement. Credit card fees are not mentioned, but like taxes would be added to the
13 sales price.

14 **Q. Mr. Mrowzinski states that he estimates Delta's actual variable costs per GGE to be**
15 **approximately \$1.84. Do you agree with this estimate?**

16 A. Unfortunately, since Mr. Mrowzinski chose not to produce information responsive to the
17 data requests allowing corroboration of his statements, I cannot vouch for the accuracy of
18 his estimate. However, attached to this testimony as Wesolosky Rebuttal Exhibit I is a
19 press release from Kentucky Clean Fuels Coalition announcing the opening of a CNG
20 station in Lexington, Kentucky, by Clean Energy. The station will provide fuel, on a price
21 contract basis cost not to exceed \$1.21 per gasoline gallon equivalent. Although I do not
22 have sufficient evidence to judge the accuracy of Mr. Mrowzinski's variable cost
23 estimate, it is reasonable to conclude that Clean Energy would establish a sales price,

⁸ Brown Testimony at 11.

1 which at minimum, would be sufficient to provide for all variable costs with a
2 contribution towards the station's fixed costs.

3 **Q. Did Delta request IGS's actual experience with respect to the level of the costs Mr.**
4 **Mrowzinski says that Delta failed to include in its estimate of operating costs?**

5 A. Yes. Unfortunately, IGS objected to the questions and then claimed that it could not
6 provide the information, even though it only owns three stations.⁹

7 **Q. Mr. Mrowzinski claims that gas prices will be considerably higher than your**
8 **estimate. Do you agree?**

9 A. Rather than speculate as to what gas prices might be in the future, I utilized the known
10 and measurable price in effect at the time I filed my testimony. In response to
11 Commission Staff data requests, Mr. Mrowzinski said that his estimated gas price was
12 based on a ten year look back and referred the Commission Staff to the Energy
13 Information Administration website.¹⁰ Interestingly, there were four years in his estimate
14 during which the Henry Hub spot price was extraordinarily high and beginning in 2009
15 the Henry Hub spot price has been consistently below \$4.50 per MMBTU. In any event,
16 Delta would expect to adjust the price of CNG at the pump to reflect fluctuating natural
17 gas prices.

18 **Q. Do you agree with Mr. Mrowzinski that you used the incorrect conversion ratio in**
19 **your testimony?**

20 A. As stated on page 5 of my testimony, 1 GGE is the equivalent to 1.27 CCF, which agrees
21 with Mr. Mrowzinski's assertion. However, I made an error in my calculation and in
22 converting the per CCF price of natural gas to a per GGE price for natural gas, I made a

⁹ IGS Response to Delta 1-5.

¹⁰ IGS Response to Commission Staff 1-6 and 1-7.

1 clerical error and divided by 1.27 rather than multiply by 1.27. However, as previously
2 noted, the price at the pump would be adjusted for changes in the price of natural gas to
3 earn a reasonable contribution towards Delta's revenue requirement. Therefore, the error
4 has no impact on the overall station economics as the increased cost per CCF would not
5 impact the margin earned by the station.

6 **Q. Are Mr. Mrowzinski's characterizations of the rate treatment of the CNG Station**
7 **correct?**

8 A. No. Mr. Mrowzinski says that a "CNG Station built from the rate base is a threat to any
9 station that must [be] funded through private capital."¹¹ The proper explanation of the
10 rate treatment and impact of the CNG Station is set forth in Wesolosky Exhibit II. Delta
11 is a publicly traded corporation, like Clean Energy, and funds its operations through
12 private capital just as Clean Energy does. Additionally, Delta, like Clean Energy, utilizes
13 a combination of debt and equity in its capital structure and must generate sufficient cash
14 flows to pay for the cost of capital.

15 **Q. If the Berea CNG station is approved by the Commission, does Delta intend to build**
16 **additional CNG stations within its service territory?**

17 A. No. Delta is proposing the Berea CNG Station as a pilot station. This pilot station would
18 provide both Delta and the Commission the opportunity to monitor the operations of a
19 utility-operated CNG Station to determine if the Commission should consider approving
20 additional stations in the future. Delta's rates would include the items set forth in
21 Wesolosky Exhibit II. Irrespective of the positions Mr. Mrowzinski and I have taken on
22 the adequacy of the variable cost estimates, the rate impact based on no sales of CNG is
23 minimal: \$0.004 per CCF. Therefore, as I said in my direct testimony, even if no sales of

¹¹ IGS Response to Delta 1-13.

1 CNG are made, the cost to each customer would be only \$2.24 per year. Delta's rates
2 will also reflect any revenue received from sales at the CNG Station, which will reduce or
3 completely offset that cost per customer.

4 **Q. Mr. Mrowzinski indicates at page 15 of his testimony that the "vast majority of**
5 **other states . . . prohibit NGDCs from recovering the cost of CNG station**
6 **infrastructure in their rate base." Is this statement consistent with Clean Energy's**
7 **assessment of the situation in its 2013 Form 10K?**

8 A. No. The following statement appears in the 2013 Form 10-K filed by Clean Energy with
9 the Securities and Exchange Commission:

10 Several natural gas utilities, including Pacific Gas and
11 Electric, operate public access CNG stations that compete with our
12 stations. In December 2012, the California Public Utilities
13 Commission approved a compression services tariff application by
14 the Southern California Gas Company, allowing the utility to offer
15 natural gas fueling infrastructure construction services that
16 compete with our offerings. In January 2014, Northwest Natural
17 was also granted a similar service tariff by the Oregon Public
18 Utilities Commission. In addition, utilities in several states,
19 including Michigan, Illinois, New Jersey, North Carolina,
20 Missouri, Maryland, Oregon, Washington, Kentucky and Georgia,
21 have made efforts to invest in the market for natural gas vehicle
22 fuels. Utilities have unique competitive advantages, including that
23 they typically have a lower cost of capital, substantial and
24 predictable cash flows, long-standing customer relationships,
25 greater brand awareness and large and well-trained sales and
26 marketing organizations.

27 **Q. Does this conclude your rebuttal testimony?**

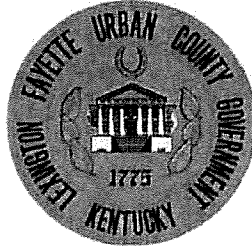
28 A. Yes.

29 005522.147995/4200682.4

WESOLOSKY REBUTTAL EXHIBIT I

Lexington Fayette Urban County Government Approves Natural Gas Fueling Station Project

April 15, 2014 | [Kentucky \(http://kentuckycleanfuels.org/category/kentucky/\)](http://kentuckycleanfuels.org/category/kentucky/)



A resolution accepting the response of Clean Energy to RFP no. 37-2013, and authorizing the mayor, on behalf of the urban county government, to execute an agreement with Clean Energy to establish a temporary natural gas fueling station and provide fuel, on a price contract basis cost not to exceed \$1.21 per gasoline gallon equivalent was approved April 10.

[Approval Document \(http://kentuckycleanfuels.org/wp-content/uploads/2014/04/Lex-Gov-Nat-Gas-.pdf\)](http://kentuckycleanfuels.org/wp-content/uploads/2014/04/Lex-Gov-Nat-Gas-.pdf)

Related News

- **LG&E and KU Adds Natural Gas Vehicle to Fleet**
(<http://kentuckycleanfuels.org/2014/03/lge-ku-adds-natural-gas-vehicle-fleet/>)
- **Carrollton Utilities Celebrates Natural Gas Fleet Additions**
(<http://kentuckycleanfuels.org/2013/09/carrollton-utilities-celebrates-natural-gas-fleet-additions/>)
- **Kentuckiana Cleanfuel Adding Second Location**
(<http://kentuckycleanfuels.org/2014/01/kentuckiana-cleanfuel-adding-second-location/>)
- **Lexington Releases Natural Gas RFP**
(<http://kentuckycleanfuels.org/2013/11/rfp-cng-fueling-services/>)

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[Kentucky Clean Fuel News](#)
(<http://kentuckycleanfuels.org/>)

National Clean Fuel News
(<http://kentuckycleanfuels.org/>)

News by Fuel Type

BIODIESEL
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