

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA )	
NATURAL GAS COMPANY, INC. FOR AN )	CASE NO.
ORDER AUTHORIZING THE ISSUANCE )	2017-00406
OF \$50,499,999.95 OF LONG TERM )	
DEBT )	

ORDER

On October 4, 2017, Delta Natural Gas Company, Inc. (“Delta”) filed an application seeking Commission authority to issue long-term debt to PNG Companies LLC (“PNG”) of \$50,499,999.95.<sup>1</sup> Commission Staff issued one Request for Information (“Staff’s First Request”) to which Delta provided responses. On November 13, 2017, a telephonic informal conference (“IC”) was held to discuss Delta’s supplemental responses to Staff’s First Request, and Delta filed additional clarifying information requested during the IC. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

In Case No. 2017-00125, the Commission approved the acquisition of Delta by PNG.<sup>2</sup> At the time of the merger’s closing, which occurred on September 20, 2017, Delta had an outstanding \$50,499,999.95 aggregate principal amount of 4.26 percent Senior Notes, Series A, due December 20, 2031 (“Existing Delta Notes”).<sup>3</sup> The Existing

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<sup>1</sup> Application, paragraph 6.

<sup>2</sup> Case No. 2017-00125, *Electronic Joint Application of PNG Companies LLC, Drake Merger Sub Inc., and Delta Natural Gas Company, Inc. for Approval of an Acquisition of Ownership and Control of Delta Natural Gas Company, Inc.* (Ky. PSC July 13, 2017).

<sup>3</sup> Application, paragraph 5.

Delta Notes were approved by the Commission in Case No. 2011-00409.<sup>4</sup> At the time of the merger's closing, PNG issued to the holders of the Existing Delta Notes new Series 2017-B Senior Secured Notes with the same terms and conditions as the Existing Delta Notes and Delta was released from its obligations to such holders.<sup>5</sup> Delta stated in its application that PNG issues debt for its subsidiaries at the PNG level to provide a more efficient and cost-effective means of raising capital across its subsidiaries.<sup>6</sup>

The financing proposed herein would come at no cost to Delta. The new financing replaces the Existing Delta Notes, is for the same amount and terms of the Existing Delta Notes, and will be available for the same purposes as the Existing Delta Notes.<sup>7</sup>

Delta provided a comparison of refinancing the Existing Delta Notes at a lower 3.44 percent interest rate, as opposed to its proposal to move the existing debt to PNG at the same 4.26 percent interest rate. While the comparison shows that Delta would save \$3,989,672.57 in interest expense by refinancing at the lower interest rate, the savings would be offset by a prepayment penalty of \$10,066,934, resulting in negative net present value cash flow of \$6,077,262.<sup>8</sup>

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<sup>4</sup> Case No. 2011-00409, *Application of Delta Natural Gas Company, Inc. for an Order Authorizing the Issuance of up to \$75,000,000 of Long-Term Debt.* (Ky. PSC October 31, 2011)

<sup>5</sup> Application, paragraph 5.

<sup>6</sup> Response to Staff's First Request, Item 1.

<sup>7</sup> Application, paragraphs 6–8.

<sup>8</sup> November 13, 2017 Supplemental Response to Staff's First Request, Item 4.

Delta Gas requested that it be allowed to continue amortizing any remaining unamortized debt expense from previous debt issuances over the life of any new or replacement long-term debt.<sup>9</sup> As of September 30, 2017, the amount of unamortized debt expense was \$2,483,261.<sup>10</sup>

The Commission has reviewed the proposed financing and finds Delta's proposal to be reasonable given PNG's practice of issuing debt for its subsidiaries at the PNG level and the fact that refinancing at a lower rate would produce a negative present value cash flow. The Commission also finds that Delta Gas should be allowed to continue amortizing any remaining unamortized debt expense from previous debt issuances over the life of any new or replacement long-term debt.

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The proposed long-term debt to PNG is for lawful objects within the corporate purposes of Delta, is necessary and appropriate for and consistent with the proper performance by Delta of its service to the public, will not impair its ability to perform that service, is reasonable, necessary and appropriate for such purposes and should be approved.

2. Delta's request to continue amortizing any remaining unamortized debt expense from previous debt issuances over the life of any new or replacement long-term debt is reasonable and should be approved.

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<sup>9</sup> Application, paragraph 7.

<sup>10</sup> Response to Staff's First Request, Item 2.

3. Within ten days of the execution of the new PNG loan documents, Delta should file with the Commission one copy in paper medium and an electronic version of the loan documents.

4. The proceeds from the proposed long-term debt should be used only for the lawful purposes set out in Delta's application.

IT IS THEREFORE ORDERED that:

1. Delta is authorized to issue long-term debt of \$50,499,999.95, as described in its application.

2. Delta shall execute the PNG loan documents as authorized herein.

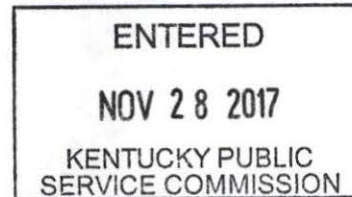
3. Delta is authorized to continue amortizing any remaining unamortized debt expense from previous debt issuances over the life of any new or replacement long-term debt.

4. Within ten days of the execution of the new PNG loan documents, Delta shall file with the Commission one copy in paper medium and an electronic version of the loan documents.

5. Any documents filed in the future pursuant to finding paragraph 3 shall reference this case number and shall be retained in the utility's general correspondence file.

6. Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission



ATTEST:

  
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