

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA	)	CASE NO.
NATURAL GAS COMPANY, INC. FOR	)	2021-00326
ISSUANCE OF INDEBTEDNESS	)	

ORDER

On August 27, 2021, Delta Natural Gas Company, Inc. (Delta) submitted an application for the issuance of indebtedness through long-term intercompany notes in an amount up to \$26 million to be issued on or before December 31, 2021, and for an amount up to \$40 million on or before December 31, 2023. On August 30, 2021, the Commission rejected the filing as deficient because Delta did not provide the interest rate for the proposed December 31, 2023 issuance. On August 30, 2021, Delta withdrew its initial request and refiled a revised application requesting authority to issue only the proposed \$26 million indebtedness on or before December 31, 2021. On August 31, 2021, a letter was issued finding that the revised application met the minimum filing requirements and the deficiencies were cured. Delta responded to one request for information.<sup>1</sup> There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

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<sup>1</sup> Delta's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Sept. 24, 2021).

## LEGAL STANDARD

KRS 278.300 requires Commission approval before a utility may “issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person.”<sup>2</sup> The legal standard contained in KRS 278,300(3) establishes the scope of Commission review, stating:

The Commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and process thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

## PROPOSED FINANCING

Delta is a wholly owned subsidiary of PNG Companies LLC (PNG) and PNG is a wholly owned indirect subsidiary of Essential Utilities, Inc. (Essential). The proposed indebtedness is in the form of a promissory note between Delta and PNG (PNG Promissory Note), with a term not to exceed 30 years and an anticipated interest rate of 3.10 percent, which is expected to be issued on or before December 31, 2021.<sup>3</sup> PNG will obtain the funds from Essential pursuant to a promissory note between PNG and Essential (Essential Promissory Note). The purpose of the proposed indebtedness is to refinance a portion of Delta’s short-term debt and to rebalance Delta’s capital structure to

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<sup>2</sup> KRS 278.300(1).

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

be in line with its projections.<sup>4</sup> Unexecuted drafts of the PNG Promissory Note<sup>5</sup> and the Essential Promissory Note<sup>6</sup> were provided in the application. Delta states that Essential will issue the underlying debt in the external debt markets and that the interest rates and maturity dates will form the basis of the Essential Promissory Note.<sup>7</sup> A portion of the issuance expenses incurred by Essential will also be allocated to Delta and are projected to be approximately 1.00 percent of the principal allocation amount, but will not exceed 2.00 percent.<sup>8</sup>

Delta's short-term debt balance as of August 31, 2021, was \$19.5 million.<sup>9</sup> The balance of the \$26 million is intended to fund Delta's cash needs through 2022, including projected short-term debt increases.<sup>10</sup> According to Delta, the debt may be issued in more than one issuance and the 3.10 percent interest rate is anticipated for each issuance.<sup>11</sup> Delta's capital structure will not be materially impacted, because the new long-term debt will replace current, short-term debt.<sup>12</sup> Delta does not anticipate a need for additional evidences of indebtedness prior to 2023.<sup>13</sup>

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<sup>4</sup> *Id.*

<sup>5</sup> Application, Exhibit 1.

<sup>6</sup> Application, Exhibit 2. *See also* Application, paragraph 6. The PNG Promissory Note and the Essential Promissory Note are expected to be similar.

<sup>7</sup> Application, paragraph 6.

<sup>8</sup> *Id.*, paragraph 7.

<sup>9</sup> Delta's Response to Staff's First Request, Item 2(a).

<sup>10</sup> *Id.*, Item 2(b-c).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*, Item 2(d). Delta also stated that it plans an equity infusion if necessary to maintain its target capital structure.

<sup>13</sup> *Id.*, Item 2(b-c).

## DISCUSSION AND FINDINGS

The Commission finds that Delta satisfied the legal standards established in KRS 278.300 to issue indebtedness through long-term intercompany notes. The legal standard set forth in KRS 278.300(3) is (1) whether the financing is for a lawful object within the utility's corporate purpose; (2) whether the financing is necessary or appropriate for the proper performance by the utility of its service to the public; and (3) whether the approval of financing will impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose. The Commission finds that the filing satisfies the legal standard of KRS 278.300(3) for the following reasons: (1) the refinancing meets the lawful object of Delta's purpose to provide adequate, efficient and reasonable service<sup>14</sup> as short-term debt is used to finance immediate capital projects and then is converted to long-term debt to maintain a viable capital structure; (2) the refinancing is an appropriate option for Delta to pursue because of the current low interest rate environment and it supports a viable capital structure; and (3) the refinancing will not impair Delta's ability to provide service because the proceeds will be used exclusively for the purposes of refinancing existing short-term debt. No other aspects of operations or finances will change.

The Commission notes that approval of this financing does not lead to approval of Delta's capital structure and the balances of the long-term debt, short-term debt, and equity and reserves that evaluation for a base rate case.

After consideration of the evidence of record and being sufficiently advised, the Commission further finds that:

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<sup>14</sup> KRS 278.030(2).

1. The proposed indebtedness is for lawful objects within the corporate purposes of Delta; is necessary and appropriate for and consistent with the proper performance by the utility 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 shall execute its note as security for the proposed loan in the manner described in its application.

3. The proceeds from the proposed loan should be used only for the lawful purposes set out in Delta's application, including paying interest, attorney fees, and closing costs.

IT IS THEREFORE ORDERED that:

1. Delta is authorized to issue long-term debt as described in its application in an amount up to \$26 million.

2. The proceeds from the transaction authorized herein shall be used only for the lawful purposes set out in the application.

3. Delta shall, within 30 days from the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein; the price paid, the proceeds of such issuances, the interest rate, costs or gains from the use of hedging agreements; and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. Delta shall also file documentation showing the quotes that it relied upon to determine the lowest interest rate.

4. Any documents filed in the future pursuant to ordering paragraph 3 herein shall reference this case number and shall be retained in the utility's post-correspondence file.

5. This case is closed and removed from the Commission's docket.

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.

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By the Commission

ENTERED  
OCT 26 2021 rCS  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2021-00326

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