

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA)	
NATURAL GAS COMPANY, INC. FOR AN)	CASE NO.
ADJUSTMENT OF ITS RATES AND A)	2021-00185
CERTIFICATE OF PUBLIC CONVENIENCE AND)	
NECESSITY)	

ORDER

On January 12, 2022, Delta Natural Gas Company, Inc. (Delta) filed a motion, pursuant to KRS 278.400, for clarification of the Commission’s January 3, 2022 final Order in this proceeding (Final Order) that, among other things, approved a general rate increase and ordered modifications to the Stipulation and Recommendation (Stipulation) between Delta and the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General)—the only intervenor in this proceeding. Although filed as a motion for clarification, the pleading is in the nature of a motion for rehearing and will be addressed as such. The Attorney General did not file a response to Delta’s motion for rehearing. On January 27, 2022, the Commission granted Delta’s motion for rehearing and issued a procedural schedule. Pursuant to the procedural schedule, Delta responded to one round of discovery from Commission Staff. This matter now stands submitted for a decision.

LEGAL STANDARD

KRS 278.400, which establishes the standard of review for motions for rehearing, limits rehearing to new evidence not readily discoverable at the time of the original

hearings, to correct any material errors or omissions, or to correct findings that are unreasonable or unlawful. A Commission Order is deemed unreasonable only when “the evidence presented leaves no room for difference of opinion among reasonable minds.”¹ An Order can only be unlawful if it violates a state or federal statute or constitutional provision.²

By limiting rehearing to correct material errors or omissions, and findings that are unreasonable or unlawful, or to weigh new evidence not readily discoverable at the time of the original hearings, KRS 278.400 is intended to provide closure to Commission proceedings. Rehearing does not present parties with the opportunity to relitigate a matter fully addressed in the original Order.

DELTA’S MOTION FOR REHEARING

Delta requested and was granted rehearing on two issues regarding modifications to the Stipulation.

Adjustment to Utilize Rate Base Instead of Capitalization

The Final Order modified the Stipulation to reduce Delta’s revenue requirement by \$208,375, to use rate base to calculate Delta’s base rates.³ Delta claimed that the revenue requirement in the Stipulation is based on rate base because the Stipulation and supporting testimony states that the revenue requirement is calculated using rate base.⁴ Delta argued that the revenue requirement in the Stipulation is already computed

¹ *Energy Regulatory Comm’n v. Kentucky Power Co.*, 605 S.W.2d 46 (Ky. App. 1980).

² *Public Service Comm’n v. Conway*, 324 S.W.3d 373, 377 (Ky. 2010); *Public Service Comm’n v. Jackson County Rural Elec. Coop. Corp.*, 50 S.W.3d 764, 766 (Ky. App. 2000); *National Southwire Aluminum Co. v. Big Rivers Elec. Corp.*, 785 S.W.2d 503, 509 (Ky. App. 1990).

³ Final Order at 5–6.

⁴ Motion for Clarification at 2.

utilizing rate base and as such the Commission's adjustment double-counted the effect, and erroneously reduces Delta's revenue requirement by \$208,375.⁵ Delta requested that the Commission rehear the Final Order and eliminate the modification regarding the use of rate base as this adjustment was fully captured in the Stipulation.⁶ Delta argued that it has calculated the revenue requirement utilizing the rate base through the entirety of the proceeding including the Stipulation.⁷

Nicholasville Pipeline Rights-of-Way (ROWs)

The Final Order included a modification to the Stipulation to remove ROWs for the proposed Nicholasville Pipeline because Delta withdrew its Certificate of Public Convenience and Necessity request due to filing deficiencies.⁸ Delta argues that the adjustment, a rate base reduction of \$1,084,251 and a revenue requirement reduction of \$103,374, was erroneous because it used the test-period ending balance and not the 13-month average, which is appropriate for forecasted test periods.⁹ Delta stated that it provided a post-hearing data request response that calculated the revenue requirement reduction necessary to remove the Nicholasville Pipeline ROW based on the 13-month average, a base rate reduction of \$541,850 and a revenue requirement reduction of \$49,358.¹⁰ Delta requested rehearing to correct this adjustment.

⁵ Motion for Clarification at 4.

⁶ Motion for Clarification at 4.

⁷ Delta's response to Commission Staff's Rehearing Request for Information (Staff's Rehearing Request) (filed Feb. 17, 2022), Item 1(a).

⁸ Final Order at 6.

⁹ Motion for Clarification at 4-5.

¹⁰ Motion for Clarification at 5. See Delta's response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request) (filed Dec. 3, 2021), Item 1.

DISCUSSION AND FINDINGS

Adjustment to Utilize Rate Base Instead of Capitalization

The Attorney General's witness Bion Ostrander argued that Delta's application was filed using capitalization to calculate the return portion of base rates and recommended an adjustment to use rate base.¹¹ Delta did not address this adjustment in its discovery, rebuttal testimony, or post-hearing brief. The Stipulation stated that "the stipulated revenue requirement increase provided above for Delta's operations reflect that return on equity as applied to Delta's *rate base and capital structure . . .*" and "the revenue requirement is calculated on a rate base method in the amount of \$134,688,776."¹² Although Delta argued that it has utilized the rate base throughout the proceeding, its application return component was not based on rate base or capitalization, but was lower than the return from either. The Stipulation included an adjustment to raise the return to utilize rate base.¹³ The Commission finds that Delta has adequately explained that the return component from the Stipulation was calculated using the rate base method; therefore the modification to the Stipulation was unnecessary and is reversed, which results in an increase in Delta's revenue requirement of \$208,375.

Nicholasville Pipeline ROWs

Although Delta did correctly provide the 13-month average of the Nicholasville Pipeline ROW in its supporting calculations,¹⁴ in every other instance where Delta

¹¹ Direct Testimony of Bion C. Ostrander (filed Sept. 27, 2021) at 9.

¹² Stipulation (filed Nov. 9, 2021) at 3. Emphasis added.

¹³ Stipulation Testimony of John B. Brown (filed No. 9, 2021) at 3 and Rebuttal Testimony of John B. Brown (filed Nov. 5, 2021) at 3. This adjustment was simply referred to as a "formula error" by Delta.

¹⁴ Delta's response to Staff's Post-Hearing Request, Item 1, Attachment 1, Tab "Supporting Schedule."

referenced the test-year amount of the ROW costs included in rate base Delta provided the ending period balance.¹⁵ The Commission finds that Delta has established good cause to correct the adjustment to remove the Nicholasville Pipeline's ROWs based on the 13-month average, which results in an increase in Delta's revenue requirement of \$51,713.

Revenue Requirement Summary

The overall impact of these adjustments is a revenue requirement increase of \$260,088. A summary of the Commission's adjustments to the Stipulation on rehearing is included in Appendix A.

IT IS THEREFORE ORDERED that:

1. The Commission's January 3, 2022 Order is amended to reflect the modifications discussed in this Order.
2. The rates and charges as set forth in Appendix B to this Order are approved as fair, just and reasonable rates for Delta, and these rates and charges are approved for service rendered on and after the date of entry of this Order.
3. Within 20 days of the date of this Order, Delta shall file with the Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates, charges, and modifications approved or as required herein and reflecting their effective date and that they were authorized by this Order.

¹⁵ See Delta's responses to Commission Staff's Second Request for Information, Item 15(b) (filed July 28, 2021); Delta's response to Commission Staff's Third Request for Information, Item 7 (filed Sept. 8, 2021); the Rebuttal Testimony of Jonathan Morphew (filed Nov. 5, 2021) at 1, which discusses Mr. Ostrander's proposed adjustments to Delta's plant in service, uses a 13-month average for other plant additions but the ending period balance for the Nicholasville pipeline; and Delta's response to Staff's Post-Hearing Request, Item 1, Attachment 1, Tab "Exhibit."

4. All other provisions of the Commission's January 3, 2022 Order that are not in conflict with the terms of this Order shall remain in effect.

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

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PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman

Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00185 DATED JUN 07 2022

Delta Natural Gas Company, Inc.
Summary of Revenue Requirement
Case No. 2021-00185
For the Forecasted Test Year Ended December 31, 2022
(\$ Millions)

	<u>Final Order</u>	<u>Rehearing</u>	<u>Difference</u>
Base Rate Increase Requested by Delta	9.135	9.135	-
Rate Base Adjustments			
Utilize Rate Base Instead of Capitalization	(0.208)	-	0.208
Adjust Excess ADIT per Delta's Correction	0.021	0.021	-
Remove Accounts Payable from Prepaids and CWIP	(0.014)	(0.014)	-
Set Cash Working Capital in Rate Base to \$0	(0.195)	(0.195)	-
Remove Nicholasville pipeline rights-of-way	(0.103)	(0.052)	0.052
			-
Operating Income Adjustments			
Remove SERP-Related Expense per Delta's Correction	(0.242)	(0.242)	-
Reduce Pension Expense per Delta's Correction	(0.384)	(0.384)	-
Reduce Income Tax Expense per TCJA per Delta's Correction	(1.028)	(1.028)	-
Reduce Dues Expense	(0.072)	(0.072)	-
Increase Rate Case Expense	0.106	0.106	-
Correct Operating Income Formula	0.198	0.198	-
Increase Gross-up Factor to Include Bad Debt and PSC Assessment	0.008	0.008	-
Remove Non-Regulated Payroll	(0.060)	(0.060)	-
Remove Non-recurring IT	(0.280)	(0.280)	-
Remove Long-term incentive plan related to financials	(0.040)	(0.040)	-
Net Change to Non-Recurring Charge Revenues	0.043	0.043	-
ROE and Capital Structure Changes			
Reclassify 1.76% debt from LT to ST	(0.049)	(0.049)	-
Reduce Return on Equity from 10.95%	(1.599)	(1.599)	-
Total Adjustments	<u>(3.898)</u>	<u>(3.638)</u>	<u>0.260</u>
Net Increase After Adjustments	<u>5.237</u>	<u>5.497</u>	<u>0.260</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00185 DATED JUN 07 2022

The following rates and charges are prescribed for the customers in the area served by Delta Natural Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

RATE SCHEDULES

RATES

	<u>Base Rate</u>	Gas Cost Recovery ¹ <u>Rate</u>	<u>Total Rate</u>
<u>RESIDENTIAL</u>			
Customer Charge	\$ 24.00		\$24.00
All Mcf	\$ 5.2539	\$ 5.3089	\$10.5628
<u>SMALL NON-RESIDENTIAL</u>			
Customer Charge	\$ 44.40		\$44.00
All Mcf	\$ 4.9739	\$ 5.3089	\$10.2828
<u>LARGE NON-RESIDENTIAL</u>			
Customer Charge	\$ 195.04		\$195.04
First 1–200 Mcf	\$ 5.3766	\$ 5.3089	\$10.6855
Next 201–1,000 Mcf	3.2307	5.3089	8.5396
Next 1,001–5,000 Mcf	2.1947	5.3089	7.5036
Next 5,001–10,000 Mcf	1.6743	5.3089	6.9832
Over 10,000 Mcf	1.4141	5.3089	6.7230
<u>INTERRUPTIBLE</u>			
Customer Charge	\$ 267.85		\$267.85
First 1–1,000 Mcf	\$ 1.7143	\$ 5.3089	\$ 7.0232
Next 1,001–5,000 Mcf	1.2857	5.3089	6.5946
Next 5,001–10,000 Mcf	0.8571	5.3089	6.1660
Over 10,000 Mcf	0.6428	5.3089	5.9517

¹ Current Gas Recovery Rate per Case No. 2021-00461, *Electronic Purchased Gas Adjustment Filing of Delta Natural Gas Company, Inc.* (Ky. PSC Jan. 21, 2022).

FARM TAP

Customer Charge	\$ 24.00		\$24.00
All Mcf	\$ 3.2110	\$ 5.3089	\$8.5199

OTHERS OFF SYSTEM TRANSPORTATION

Per 1,000 cubic feet, or per dekatherm	\$0.3142
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SPECIAL CONTRACTS

Special Contract 1	
Per Mcf	\$ 0.1331
Special Contract 2 and 3	
Block 1 per Mcf	\$ 0.6214
Block 2 per Mcf	\$ 0.3047
Block 3 per Mcf	\$ 0.0933

OTHER CHARGES

Collection Charge	\$5.00
Reconnection Charge	\$9.00
Farm Tap Installation Fee	\$150.00
Farm Tap Reconnection Fee	\$25.00
Farm Tap Turn-On Fee	\$25.00

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