

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA	)	CASE NO.
NATURAL GAS COMPANY, INC. FOR ISSUANCE	)	2024-00353
OF INDEBTEDNESS	)	

ORDER

On December 27, 2024, Delta Natural Gas Company, Inc. (Delta) filed an application for the issuance of indebtedness through long-term intercompany notes in an amount up to \$34 million to be issued on or before June 2025. Delta responded to one request for information.<sup>1</sup> There are no intervenors in this case. The matter is submitted to the Commission for a decision based upon the evidentiary record.

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> 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

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<sup>1</sup> Delta’s Response to Commission Staff’s First Request for Information (Staff’s First Request) (filed Jan. 28, 2025).

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

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).<sup>3</sup> The proposed indebtedness is in the form of a promissory note between Delta and PNG (PNG Promissory Note), to be issued in two tranches.<sup>4</sup> The first tranche (Tranche 1) would be in the amount of \$15.11 million, a term not to exceed seven years, and an anticipated interest rate of 4.01 percent.<sup>5</sup> The second tranche (Tranche 2) would be in the amount of \$18.89 million, a term not to exceed 27 years, and an anticipated interest rate of 5.40 percent.<sup>6</sup> PNG will obtain the funds from Essential pursuant to a promissory note between PNG and Essential (Essential Promissory Note).<sup>7</sup> The purpose of the PNG Promissory Note is to refinance a portion of Delta's short-term debt that was borrowed to finance capital expenditures and to rebalance Delta's capital structure to be in line with its projections.<sup>8</sup> Unexecuted drafts of the PNG Promissory Note<sup>9</sup> and the Essential

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<sup>3</sup> Application at paragraph 4.

<sup>4</sup> Application at paragraph 5.

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

<sup>6</sup> Application at paragraph 5.

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

<sup>8</sup> Application at paragraph 5.

<sup>9</sup> Application, Exhibit 1

Promissory Note<sup>10</sup> were provided in the application. Delta stated that Essential will issue the underlying debt in the external debt markets, and the interest rates and maturity dates will form the basis of the Essential Promissory Note and, in turn, the basis for the interest rates and maturity dates of the PNG Promissory Note.<sup>11</sup> A portion of the issuance expenses incurred by Essential will also be allocated to Delta and are projected to be between 1 percent and 2.5 percent of the principal allocation amount.<sup>12</sup>

Delta's short-term debt balance as of December 31, 2024, was \$19.2 million.<sup>13</sup> Delta stated that the \$34 million in new debt would be sufficient to support its proposed capital structure in the current application for a general rate adjustment.<sup>14</sup>

### DISCUSSION AND FINDINGS

Having reviewed the record, the Commission finds that Delta satisfied the legal standards established in KRS 278.300 to issue indebtedness through long-term intercompany notes. The Commission notes that the refinancing meets the lawful object of Delta's purpose to provide adequate, efficient and reasonable service<sup>15</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. The Commission also notes that the refinancing allows Delta to incur debt in the external debt markets at competitive market rates and

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<sup>10</sup> Application, Exhibit 2.

<sup>11</sup> Application at paragraph 6.

<sup>12</sup> Application at paragraph 7.

<sup>13</sup> Delta's Response to Staff's First Request, Item 3a.

<sup>14</sup> Delta's Response to Staff's First Request, Item 3c; Case No. 2024-00346, *Electronic Application of Delta Natural Gas Company, Inc. For An Adjustment of Gas Rates* (filed Nov. 25, 2024).

<sup>15</sup> KRS 278.030(2).

prices, thereby supporting a viable capital structure. The Commission does not believe, based on the evidence, the refinancing will 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 represent an approval of Delta's overall capital structure and the authorized balances of long-term debt, short-term debt, and equity at any time. The Commission reserves that evaluation and review of capital structure is only appropriate in an application for a general rate adjustment.

IT IS THEREFORE ORDERED that:

1. Delta is authorized to issue long-term debt as described in its application in an amount up to \$34 million, issued in two tranches in the amounts of \$15.11 million and \$18.89 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, 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.

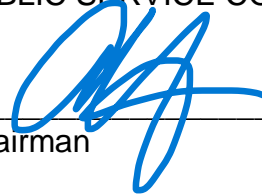
4. Any documents filed in the future pursuant to ordering paragraph 3 herein shall reference this case number and shall be retained in the post-case correspondence file.

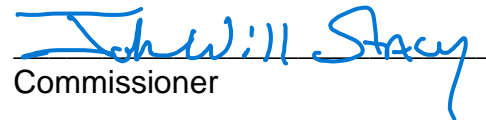
5. This case is closed and removed from the Commission's docket.


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.

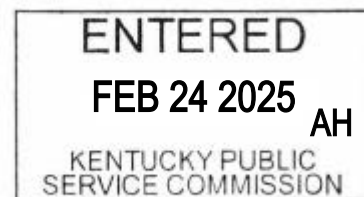
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PUBLIC SERVICE COMMISSION

  
Chairman

  
Commissioner

  
Commissioner



ATTEST:

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