

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE REQUEST OF DELTA NATURAL)	
GAS COMPANY, INC. FOR)	
PERMANENT APPROVAL OF ITS)	CASE NO. 2001-197
WEATHER NORMALIZATION)	
ADJUSTMENT TARIFF)	

O R D E R

On June 20, 2001, Delta Natural Gas Company, Inc. (“Delta”) filed a request to have its Weather Normalization Adjustment Clause (“WNA”) made permanent prior to the conclusion of the 3-year trial period authorized by the Commission in Case No. 99-176.¹ On July 27, 2001, Delta responded to the Commission Staff’s July 13, 2001 information request. On August 29, 2001, the Attorney General (“AG”) filed his comments on Delta’s request.

BACKGROUND

In Case No. 99-176, the Commission approved Delta’s WNA on an experimental basis for a period of 3 years, subject to review and possibly to be made permanent thereafter. Delta proposes that its WNA be implemented on a permanent basis in order to help it obtain new permanent financing. Market conditions are currently favorable for Delta to replace its existing short-term line of credit with long-term debt and equity financing. Delta and its potential investment bankers are both concerned about the potential for volatility in its earnings absent the continuation of its WNA on a permanent basis. Although a permanent WNA does not address all the concerns regarding Delta’s

¹ Case No. 99-176, An Adjustment of the Rates of Delta Natural Gas Company, Inc., Order dated December 27, 1999.

earnings, Delta believes that it reduces those concerns. Delta reported that its WNA mechanism worked as anticipated during the past two heating seasons by mitigating drastic fluctuations in both customers' rates and Delta's earnings, resulting in net savings to customers of \$275,600.

The AG expresses concern that Delta's WNA tariff was approved on a pilot basis in Delta's last rate case wherein the Commission allowed a Return on Equity ("ROE") of 11.6 percent. Although the Commission agreed that the implementation of a WNA would normally justify the approval of a lower ROE, it acknowledged that Delta's eroded financial condition justified the higher ROE. With the increase in gas prices experienced by ratepayers this past winter, the AG asserts that the Commission should not allow Delta the higher ROE without considering the stabilizing effect of the WNA on Delta's earnings and financial condition.

The AG also points out that Delta considers itself to be in competition with Kentucky Utilities Company ("KU"). He argues that Delta's gas rates, which are higher because the non-gas portion reflects an unduly high ROE, will hamper Delta's ability to compete with KU. The AG believes this may contribute to future financial problems for Delta if customers elect to convert to all electric homes. Therefore, the AG requests that the Commission impose reporting and review requirements on Delta with the goal of periodically reviewing its financial condition and requiring a reduction in its allowed ROE to a level commensurate with the adoption of a permanent WNA as soon as Delta's financial health permits.

SUMMARY

While the Commission understands the concerns expressed by the AG, Delta has an opportunity to reduce its financing costs by refinancing its existing short-term

debt with more favorable long-term financing. Since the financial community recognizes weather as an element that affects a gas distribution company's earnings, the Commission finds it appropriate to consider the impact of making the WNA permanent and allowing Delta to continue the opportunity to earn its allowed ROE. While the current WNA has improved Delta's earnings situation, the Commission does not find that Delta's situation has improved enough to justify lowering its ROE. The Commission finds it appropriate to look at the long-term costs of Delta's financial condition to the consumer as well as at any immediate cost. The Commission agrees with the AG that Delta's financial condition should periodically be reviewed. We do not, however, find it necessary to impose additional reporting requirements upon Delta since the annual reports filed with the Commission provide the information necessary to review its earning levels. The Commission will continue to review Delta's earnings levels and ROE to determine Delta's financial situation.

IT IS THEREFORE ORDERED that Delta's WNA is approved on a permanent basis effective as of the date of this Order.

Done at Frankfort, Kentucky, this 28th day of September, 2001.

By the Commission

ATTEST:


Executive Director