

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**ELECTRONIC APPLICATION OF DELTA)
NATURAL GAS COMPANY, INC. FOR) CASE NO. 2020-00108
APPROVAL OF COST ALLOCATION)
MANUAL**

APPLICATION

Delta Natural Gas Company, Inc. (“Delta”), pursuant to 807 KAR 5:001, Section 14 and the commitments made in Case No. 2018-00369, hereby respectfully requests approval from the Public Service Commission (“Commission”) of a revised Cost Allocation Manual. In support of its application, Delta states as follows:

1. Delta’s post office address, principal office, and place of business are located at 3617 Lexington Road, Winchester, Kentucky 40391. Delta’s full name is Delta Natural Gas Company, Inc. Delta can be reached at the email address of counsel set forth below.

2. Delta is a Kentucky corporation that was incorporated on October 7, 1949 and is currently in good standing under the laws of Kentucky.

3. Delta is a utility engaged in the natural gas business. Delta purchases, sells, stores, and transports natural gas in Bath, Estill, Montgomery, Menifee, Madison, Powell, Garrard, Jackson, Lee, Bourbon, Jessamine, Rowan, Bell, Knox, Whitley, Laurel, Clay, Leslie, Fayette, Fleming, Clark, Robertson, and Mason Counties, Kentucky.

4. On March 13, 2019, the Commission approved the indirect acquisition of Delta by Aqua America, Inc. (“Aqua”) in Case No. 2018-00369, subject to commitments agreed to by Delta

and Aqua in the proceeding.¹ Aqua is now known as Essential Utilities, Inc. (“Essential”) to better reflect the range of services it provides.

5. In Case No. 2018-00369, Delta committed to seek approval from the Commission if Delta wished to modify its current Cost Allocation Manual. Delta is proposing revisions to its Cost Allocation Manual that are necessary to reflect the indirect ownership of Essential.

6. Delta is providing a copy of the Cost Allocation Manual and the revisions proposed thereto, which is attached as Exhibit 1.

WHEREFORE, Delta Natural Gas Company, Inc. respectfully requests that the Public Service Commission enter an order approving the Cost Allocation Manual.

¹ *In the Matter of: Electronic Joint Application of Aqua America, Inc., SteelRiver Infrastructure Fund North America LP, SteelRiver LDC Investments LP, LDC Parent LLC, LDC Funding LLC, LDC Holdings LLC, PNG Companies, LLC, Peoples Gas KY LLC, and Delta Natural Gas Company, Inc. for Approval of an Acquisition of Ownership and Control of PNG Companies LLC and Delta Natural Gas Company, Inc.* (Case No. 2018-00369) (Ky. PSC March 13, 2019).

Dated March 31, 2020

Respectfully submitted,

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s/Monica H. Braun
Counsel for Delta Natural Gas Company,
Inc.

CERTIFICATE OF COMPLIANCE

In accordance with 807 KAR 5:001, Section 8(7), this is to certify that Delta's March 31, 2020 electronic filing is a true and accurate copy of the documents being filed in paper medium; that the electronic filing has been transmitted to the Commission on March 31, 2020; and that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding;

s/Monica H. Braun
Counsel for Delta Natural Gas Company,
Inc.

EXHIBIT 1

**Delta Natural Gas Company, Inc.
 Cost Allocation Manual
 KRS 278.2205**

(2) (a) A list of regulated and nonregulated divisions within the utility

Delta Natural Gas Company, Inc. (“Delta” or “the Company”) is a regulated utility and has no divisions.

(2) (b) A list of all regulated and nonregulated affiliates of the utility to which the utility provides services or products and where the affiliates provide nonregulated activities as defined in KRS 278.010(21).

Delta and its affiliates Delta Resources, LLC, Delgasco, LLC, Enpro, LLC and Peoples Gas KY LLC, are wholly-owned by PNG Companies LLC and indirectly owned by Essential Utilities, Inc. and meet the definition in KRS 278.010(21)

(2) (c) A list of services and products provided by the utility, an identification of each as regulated or nonregulated, and the cost allocation method generally applicable to each category

<u>Services and Products</u>	<u>Activity Type</u>	<u>Cost Allocation Method</u>
Natural gas distribution	Regulated	Not allocated
Natural gas transportation	Regulated	Not allocated
Natural gas liquids	Non-regulated	Fully distributed cost allocation methodology consistent with Delta’s cost of service study.

(2) (d) A list of incidental, nonregulated activities that are subject to the provisions of KRS 278.2203(4)

Merchandise sales, labor service and other revenue.

(2) (e) A description of the nature of transactions between the utility and the affiliates.

Delta provides natural gas transportation to its affiliates Delta Resources, LLC, Delgasco, LLC and Enpro, LLC.
 PNG Companies LLC provides administrative, management and other services to Delta. Delta and Peoples Gas KY LLC are in close geographic proximity to one

another and can provide emergency and operational support to one another. Essential Utilities, Inc. is expected to provide administrative, management and other services to Delta, as well.

(2) (f) For each USoA account and subaccount, a report that identifies whether the account contains costs attributable to regulated operations and nonregulated operations. The report shall also identify whether the costs are joint costs that cannot be directly identified. A description of the methodology used to apportion each of these costs shall be included and the allocation methodology shall be consistent with the provisions of KRS 278.2203.

See Appendix I (attached) for Delta's chart of accounts. The chart of account structure is based on USoA guidelines. The utility incurs certain costs which are shared with the non-regulated affiliates such as labor, administrative costs, storage, natural gas liquids processing and interest. Such joint costs are allocated to the nonregulated affiliates using a fully distributed cost allocation methodology and recorded in account 9923000 - Admin & General - Outside Services Employed.

Updated: March 31, 2020 and submitted for KPSC approval.

Delta Natural Gas Company, Inc.
Cost Allocation Manual
KRS 278.2205

Appendix I

G/L Account	Description	
9403000	Depreciation Expense - Utility Plant	Joint
9404000	Amortization Expense - Utility Plant	Joint
9404100	Amort & Depl of Prod Nat Gas Land & Land Rights	Regulated
9404200	Amort & Depl of UG Storage Land & Land Rights	Regulated
9404300	Amortization Expense - Utility Plant - Gas	Joint
9408100	Taxes Other than Income Taxes - Utility Operating	Joint
9408200	Taxes Other than Income Taxes - Other Income & Ded	Joint
9409100	Income Taxes - Utility Operating Income	Regulated
9409200	Income Taxes - Other Income & Deductions	Regulated
9409300	Income Taxes - Extraordinary Items	Regulated
9410100	Provision for Deferred Income Taxes - Utility Op I	Regulated
9410200	Provision for Deferred Income Taxes - Other Inc/De	Regulated
9411100	Prov for Deferred Income Taxes-Credit, Utility Op	Regulated
9411109	Accretion Expense - Asset Retirement Obligation	Regulated
9411200	Prov for Deferred Income Taxes-Credit, Oth Inc/Ded	Regulated
9411600	Gains from Disposition of Utility Plant	Regulated
9415000	Revenues from Merchandising, Jobbing & Contract Work	Non-Regulated
9416000	Costs & Expenses of Merchandising, Jobbing & Contr	Non-Regulated
9418000	Nonoperating Rental Income	Non-Regulated
9419000	Interest & Dividend Income	Non-Regulated
9419100	Allowance for Other Funds Used During Construction	Non-Regulated
9421000	Miscellaneous Nonoperating Income	Non-Regulated
9421100	Gain on Disposition of Property	Non-Regulated
9421200	Loss on Disposition of Property	Non-Regulated
9426100	Other Income Deductions - Donations	Non-Regulated
9426200	Other Income Deductions - Life Insurance	Non-Regulated
9426300	Other Income Deductions - Penalties	Non-Regulated
9426400	Other Income Deductions - Civic/Political Activity	Non-Regulated
9426500	Other Income Deductions	Non-Regulated
9427000	Interest Expense - Long Term Debt	Regulated
9428000	Amortization of Debt Discount & Exp	Regulated
9430000	Interest on Debt to Associated Companies	Non-Regulated
9431000	Other Interest Expense	Joint
9432000	Allowance Borrowed Funds Used During Construction	Regulated
9434000	Extraordinary Income	Non-Regulated
9435000	Extraordinary Deductions	Non-Regulated
9753000	Nat Gas Prod/Gath Op - Field Lines Expenses	Regulated
9754000	Nat Gas Prod/Gath Op - Field Compressor Sta Exps	Regulated
9764000	Nat Gas Prod/Gath Maint - Field Lines	Regulated
9765000	Nat Gas Prod/Gath Maint - Fld Compres Sta Equip	Regulated
9787000	Products Extraction Maint - Pipe Lines	Regulated
9800100	Oth Gas Supply Op - Nat Gas Well-Head Purch Interc	Regulated
9801000	Oth Gas Supply Op - Nat Gas Field Line Pur	Regulated

9803000	Oth Gas Supply Op - Nat Gas Transm Line Pur	Regulated
9804000	Oth Gas Supply Op - Nat Gas City Gate Pur	Regulated
9805000	Oth Gas Supply Op - Other Gas Purchases	Regulated
9805100	Oth Gas Supply Op - Pur Gas Cost Adjustments	Regulated
9806000	Oth Gas Supply Op - Exchange Gas	Regulated
9807000	Oth Gas Supply Op - Purchased Gas Expenses	Regulated
9807100	Oth Gas Supply Op - Well Exps - Pur Gas	Regulated
9807500	Oth Gas Supply Op - Other Pur Gas Exps	Regulated
9808100	Oth Gas Supply Op - Gas Withdr from Storage-Debit	Regulated
9808200	Oth Gas Supply Op - Gas Deliv to Storage-Credit	Regulated
9810000	Oth Gas Supply Op - Gas Used Compr Sta Fuel-Credit	Regulated
9812000	Oth Gas Supply Op - Gas Used Other Util Ops-Credit	Regulated
9813000	Oth Gas Supply Op - Other Gas Suppl	Regulated
9814000	UG Storage Op - Supervision and Engineering	Regulated
9815000	UG Storage Op - Maps and Records	Regulated
9816000	UG Storage Op - Well Expenses	Regulated
9817000	UG Storage Op - Lines Expenses	Regulated
9818000	UG Storage Op - Compressor Station Expenses	Regulated
9819000	UG Storage Op - Compressor Station Fuel/Power	Regulated
9820000	UG Storage Op - Meas/Reg Station Expenses	Regulated
9821000	UG Storage Op - Purification Expenses	Regulated
9823000	UG Storage Op - Gas Losses	Regulated
9824000	UG Storage Op - Other Expenses	Regulated
9825000	UG Storage Op - Storage Well Royalties	Regulated
9826000	UG Storage Op - Rents	Regulated
9830000	UG Storage Maint - Supervision/Engineering	Regulated
9831000	UG Storage Maint - Structures/Improvements	Regulated
9832000	UG Storage Maint - Reservoirs and Wells	Regulated
9833000	UG Storage Maint - Lines	Regulated
9834000	UG Storage Maint - Compressor Station Equipment	Regulated
9835000	UG Storage Maint - Meas/Reg Station Equip	Regulated
9837000	UG Storage Maint - Other Equipment	Regulated
9843300	Other Storage Maint - Gas Holders	Regulated
9850000	Gas Transmission Op - Supervision/Engineering	Regulated
9851000	Gas Transmission Op - Sys Control & Load Dispatch	Regulated
9852000	Gas Transmission Op - Communication Sys Exps	Regulated
9853000	Gas Transmission Op - Compressor Sta Labor & Exps	Regulated
9856000	Gas Transmission Op - Mains Expenses	Regulated
9857000	Gas Transmission Op - Meas/Reg Sta Exps	Regulated
9858000	Gas Transmission Op - Transm/Compres Gas by Others	Regulated
9859000	Gas Transmission Op - Other Expenses	Regulated
9860000	Gas Transmission Op - Rents	Regulated
9861000	Gas Transmission Maint - Supervision & Engineerng	Regulated
9862000	Gas Transmission Maint - Structures/Improvements	Regulated
9863000	Gas Transmission Maint - Mains	Regulated
9864000	Gas Transmission Maint - Compressor Sta Equip	Regulated
9865000	Gas Transmission Maint - Meas/Reg Sta Equip	Regulated

9866000	Gas Transmission Maint - Communication Equip	Regulated
9867000	Gas Transmission Maint - Other Equipment	Regulated
9870000	Gas Distribution Op - Supervision and Engineering	Regulated
9871000	Gas Distribution Op - Distrib Load Dispatching	Regulated
9872000	Gas Distribution Op - Compr Sta Labor & Expense	Regulated
9874000	Gas Distribution Op - Mains and Services Exps	Regulated
9875000	Gas Distribution Op - Meas/Reg Sta Exps-General	Regulated
9876000	Gas Distribution Op - Meas/Reg Sta Exps-Industrial	Regulated
9877000	Gas Distribution Op - Meas/Reg Sta Exps - CityGate	Regulated
9878000	Gas Distribution Op - Meter/House Reg Exps	Regulated
9879000	Gas Distribution Op - Customer Installations Exps	Regulated
9880000	Gas Distribution Op - Other Expenses	Joint
9881000	Gas Distribution Op - Rents	Regulated
9885000	Gas Distribution Maint - Supervision & Engineering	Regulated
9886000	Gas Distribution Maint - Structures/Improvements	Regulated
9887000	Gas Distribution Maint - Mains	Regulated
9888000	Gas Distribution Maint - Compressor Station Eq	Regulated
9889000	Gas Distribution Maint - Meas/Reg Sta Equip-Genl	Regulated
9890000	Gas Distribution Maint - Meas/Reg Sta Equip-Indus	Regulated
9891000	Gas Distribution Maint - Meas/Reg Sta Equip-CityGt	Regulated
9892000	Gas Distribution Maint - Services	Regulated
9893000	Gas Distribution Maint - Meters/House Regulators	Regulated
9894000	Gas Distribution Maint - Other Equipment	Regulated
9901000	Customer Accounts - Supervision	Regulated
9902000	Customer Accounts - Meter Reading Expenses	Regulated
9903000	Customer Accounts - Customer Records & Collections	Regulated
9904000	Customer Accounts - Uncollectible Accounts	Regulated
9907000	Customer Service/Info - Supervision	Regulated
9908000	Customer Service/Info - Customer Assistance	Regulated
9909000	Customer Service/Info - Info & Instructional Adver	Regulated
9910000	Customer Service/Info - Miscellaneous Expenses	Regulated
9911000	Sales Expense - Supervision	Regulated
9912000	Sales Expense - Demonstrating & Selling	Regulated
9913000	Sales Expense - Advertising Expense	Regulated
9916000	Sales Expense - Miscellaneous	Regulated
9920000	Admin & General - Salaries	Joint
9921000	Admin & General - Office Supplies & Expenses	Joint
9922000	Admin & General - Admin Exp Transferred - Credit	Joint
9923000	Admin & General - Outside Services Employed	Joint
9924000	Admin & General - Property Insurance	Joint
9925000	Admin & General - Injuries & Damages	Joint
9926000	Admin & General - Employee Benefits	Joint
9928000	Admin & General - Regulatory Commission Expenses	Joint
9930100	Admin & General - General Advertising Expenses	Joint
9930200	Admin & General - Miscellaneous Expenses	Joint
9931000	Admin & General - Rents	Joint
9932000	Admin & General Maint -Other General Plant -Gas	Joint

9999010	Balance Sheet Offset - FERC	Joint
9999020	Profit & Loss Offset - FERC	Joint