

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

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

**APPLICATION**

Applicant, Delta Natural Gas Company, Inc. (“Delta”), pursuant to KRS Chapter 278 and the applicable sections of 807 KAR Chapter 5, hereby applies to the Kentucky Public Service Commission (“Commission”) for authority to adjust its gas rates and for a Certificate of Public Convenience and Necessity (“CPCN”) to construct a pipeline that will provide the Nicholasville portion of Delta’s system with a second source of supply.

Delta’s Notice of Intent to File a Rate Application, required by 807 KAR 5:001, Section 16(2), stated that the Application would be supported by a fully forecasted test period, was filed with the Commission on April 28, 2021, was provided to the Attorney General of Kentucky, Office of Rate Intervention, and is attached hereto at Tab 7 of the Filing Requirements.

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 attests that it is currently in good standing under the laws of Kentucky.

3. Delta is a utility engaged in the natural gas business and is a wholly owned subsidiary of PNG Companies LLC. 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, Mason, Lawrence, Johnson, Martin, Magoffin, Floyd, Pike, Perry, Knott, and Letcher Counties, Kentucky.

4. This Application constitutes notice to the Commission pursuant to KRS 278.180(1) of the changes proposed to be made to Delta's gas rates.

5. Pursuant to 807 KAR 5:001 Section 8, on April 28, 2021, Delta filed with the Commission notice of its intent to use electronic filing procedures in this proceeding.

#### **Adjustment of Gas Rates**

6. In accordance with the provisions of KRS 278.180 and 278.190, Delta requests Commission approval of a change in existing rates, terms, conditions, and tariffs for gas service. Delta proposes to change its existing rates and tariffs to those rates and charges set forth in the proposed tariff attached hereto at Tab 4 of the Filing Requirements. A comparison of the present and proposed rates and charges is attached hereto at Tab 5 of the Filing Requirements.

7. To continue providing safe and reliable service, Delta has invested substantial capital to maintain and upgrade its facilities since its last rate case, which was over a decade ago (Case No. 2010-00116) and will continue do so during the forecasted test period. Although Delta has operated efficiently, which has allowed Delta to defray a rate increase, a rate increase is necessary at this time.

8. The proposed adjustments in gas rates will result in an increase in revenues of \$9,135,170 million, or approximately 18.6 percent per year, for the forecasted test period compared to the operating revenues for the forecasted test period under existing rates.

9. The monthly residential bill increase due to the proposed gas base rates will be 20.7 percent, or approximately \$12.34, for a customer using 3.8 Mcf of gas (the average monthly consumption of a Delta residential customer). These calculations include the expiration of the Tax Cuts and Jobs Act Surcredit.

**Support for Change in Existing Rates and Tariffs**

10. In accordance with KRS 278.180, KRS 278.190 and 807 KAR 5:001 Section 16(1)(b)(1), Delta states that the requested change in existing rates, terms, conditions, and tariffs is required to enable Delta to continue providing safe and reliable service to its customers, and to afford Delta a reasonable opportunity to earn a fair return on its property used to provide that service while attracting necessary capital at reasonable rates. Delta's current rates and tariffs are inadequate for those purposes. Therefore, as explained in more detail in the verified testimony and exhibits identified below, the requested change in existing rates is required.

11. Delta supports its request for a change in its existing rates and tariffs with the verified testimony and exhibits of the following persons:

- (a) John B. Brown, Delta's President, and chief officer of Kentucky operations
- (b) Jonathan Morpew, Delta's Director of Operations
- (c) Andrea Schroeder, Delta's Controller
- (d) William Packer, Essential's Vice President, Rates and Regulatory Accounting
- (e) William Steven Seelye, Managing Partner of The Prime Group, LLC
- (f) Paul Moul, Managing Consultant, P. Moul & Associates

12. Delta further supports its request for a change in its existing rates and tariffs with the following exhibits complying with the requirements of 807 KAR 5:001, Sections 14, 16, and 17:

<b>Tab No.</b>	<b>Filing Requirement</b>	<b>Description</b>
1	807 KAR 5:001 Section 14	Application requirements
2	807 KAR 5:001 Section 16(1)(b)(1)	A statement of the reason the adjustment is required.
3	807 KAR 5:001 Section 16(1)(b)(2)	A certified copy of a certificate of assumed name or a statement that such a certificate is not necessary.
4	807 KAR 5:001 Section 16(1)(b)(3)	New or revised tariff sheets
5	807 KAR 5:001 Section 16(1)(b)(4)	Comparison of current and proposed tariffs
6	807 KAR 5:001 Section 16(1)(b)(5)	Statement that notice has been given with a copy.
7	807 KAR 5:001 Section 16(2)	Notice of Intent
8	807 KAR 5:001 Section 16(6)(a)	Statement regarding requirements
9	807 KAR 5:001 Section 16(6)(b)	Forecasted adjustments shall be limited to the 12 months immediately following the suspension period.
10	807 KAR 5:001 Section 16(6)(c)	Capitalization and net investment rate base shall be based on a 13-month average for the forecasted period.
11	807 KAR 5:001 Section 16(6)(d)	No revisions to forecast
12	807 KAR 5:001 Section 16(6)(e)	Commission may require alternative forecast
13	807 KAR 5:001 Section 16(6)(f)	Reconciliation of the rate base and capital
14	807 KAR 5:001 Section 16(7)(a)	Written testimony
15	807 KAR 5:001 Section 16(7)(b)	Most recent capital construction budget
16	807 KAR 5:001 Section 16(7)(c)	Description of all factors used to prepare forecast period
17	807 KAR 5:001 Section 16(7)(d)	Annual and monthly budgets
18	807 KAR 5:001 Section 16(7)(e)	Attestation by utility's chief officer
19	807 KAR 5:001 Section 16(7)(f)	Major construction projects constituting 5% or more of annual construction budget
20	807 KAR 5:001 Section 16(7)(g)	Construction projects constituting less than 5% of annual construction budget
21	807 KAR 5:001 Section 16(7)(h)	Financial forecast for each of 3 forecasted years included in capital construction budget
22	807 KAR 5:001 Section 16(7)(h)(1)	Operating income statement

23	807 KAR 5:001 Section 16(7)(h)(2)	Balance sheet
24	807 KAR 5:001 Section 16(7)(h)(3)	Statement of cash flows
25	807 KAR 5:001 Section 16(7)(h)(4)	Revenue requirements necessary to support the forecasted rate of return
26	807 KAR 5:001 Section 16(7)(h)(5)	Load forecast including energy and demand (electric)
27	807 KAR 5:001 Section 16(7)(h)(6)	Access line forecast (telephone)
28	807 KAR 5:001 Section 16(7)(h)(7)	Mix of generation (electric)
29	807 KAR 5:001 Section 16(7)(h)(8)	Mix of gas supply (gas)
30	807 KAR 5:001 Section 16(7)(h)(9)	Employee level
31	807 KAR 5:001 Section 16(7)(h)(10)	Labor cost changes
32	807 KAR 5:001 Section 16(7)(h)(11)	Capital structure requirements;
33	807 KAR 5:001 Section 16(7)(h)(12)	Rate base
34	807 KAR 5:001 Section 16(7)(h)(13)	Gallons of water projected to be sold (water)
35	807 KAR 5:001 Section 16(7)(h)(14)	Customer forecast (gas, water)
36	807 KAR 5:001 Section 16(7)(h)(15)	Sales volume forecasts - cubic feet (gas)
37	807 KAR 5:001 Section 16(7)(h)(16)	Toll and access forecast of number of calls and number of minutes (telephone)
38	807 KAR 5:001 Section 16(7)(h)(17)	A detailed explanation of any other information provided
39	807 KAR 5:001 Section 16(7)(i)	Most recent FERC or FCC audit reports
40	807 KAR 5:001 Section 16(7)(j)	Prospectuses of most recent stock or bond offerings
41	807 KAR 5:001 Section 16(7)(k)	Most recent FERC Form 1 (electric), FERC Form 2 (gas), or and PSC Form T (telephone)
42	807 KAR 5:001 Section 16(7)(l)	Annual report to shareholders
43	807 KAR 5:001 Section 16(7)(m)	Current chart of accounts
44	807 KAR 5:001 Section 16(7)(n)	Managerial Reports
45	807 KAR 5:001 Section 16(7)(o)	Budget variance reports
46	807 KAR 5:001 Section 16(7)(p)	SEC filings
47	807 KAR 5:001 Section 16(7)(q)	Independent auditor's annual opinion report
48	807 KAR 5:001 Section 16(7)(r)	Quarterly reports to the stockholders
49	807 KAR 5:001 Section 16(7)(s)	Depreciation study
50	807 KAR 5:001 Section 16(7)(t)	List all commercial or in-house computer software, programs, and models

51	807 KAR 5:001 Section 16(7)(u)	Amounts charged or allocated to it by an affiliate or general or home office
52	807 KAR 5:001 Section 16(7)(v)	Cost of Service Study
53	807 KAR 5:001 Section 16(7)(w)	Local exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as specifically directed by PSC.
54	807 KAR 5:001 Section 16(8)(a)	Jurisdictional financial summary for both base and forecasted periods
55	807 KAR 5:001 Section 16(8)(b)	Jurisdictional rate base summary for both base and forecasted periods
56	807 KAR 5:001 Section 16(8)(c)	Jurisdictional operating income summary for both base and forecasted periods
57	807 KAR 5:001 Section 16(8)(d)	Summary of jurisdictional adjustments to operating income
58	807 KAR 5:001 Section 16(8)(e)	Federal and state income tax summary
59	807 KAR 5:001 Section 16(8)(f)	Summary schedules for both base and forecasted periods of organization membership dues; initiation fees; expenditures for country club; charitable contributions; marketing, sales, and advertising; professional services; civic and political activities; employee parties and outings; employee gifts; and rate cases
60	807 KAR 5:001 Section 16(8)(g)	Analyses of payroll costs
61	807 KAR 5:001 Section 16(8)(h)	Computation of gross revenue conversion factor for forecasted period
62	807 KAR 5:001 Section 16(8)(i)	Comparative income statements, revenue statistics and sales statistics
63	807 KAR 5:001 Section 16(8)(j)	Cost of capital summary for both base and forecasted periods
64	807 KAR 5:001 Section 16(8)(k)	Comparative financial data and earnings measures
65	807 KAR 5:001 Section 16(8)(l)	Narrative description and explanation of all proposed tariff changes
66	807 KAR 5:001 Section 16(8)(m)	Revenue summary for both base and forecasted periods

67	807 KAR 5:001 Section 16(8)(n)	Bill comparison under present and proposed rates for all customer classes
68	807 KAR 5:001 Section 17	Notice Content

13. Delta acquired Peoples Gas Kentucky LLC (“PKY”) on April 1, 2021. PKY was a farm tap system formed in 2013 that did not maintain records in the same manner as Delta, a fully regulated local distribution company. To the extent that historical records for PKY exist, Delta is providing those to further augment Delta’s rate application. In certain instances, no such historical records exist. For example, for Tab Nos. 44 and 45, Delta is providing managerial reports and budget variance reports to comply with 807 KAR 5:001 Section 16(7)(n) and (o). Delta is providing historical information only for Delta’s operations and not for PKY because comparable data was not maintained by PKY. If the Commission determines that PKY records are necessary to comply with 807 KAR 5:001 Section 16(7)(n) and (o), or any other filing requirement for which historical information is not provided, Delta requests a deviation because all relevant documents have been provided to the extent they are available. Filing requirements that request forecasted information have been presented on a consolidated basis for the merged utilities.

14. As authorized by KRS 278.192(1), the Application for a general adjustment of gas rates is supported by a twelve-month (12) fully forecasted test period in accordance with 807 KAR 5:001, Section 16(1)(a)(2) with the forecasted test period ending December 31, 2022. The Application is supported by a base period consisting of the twelve (12) months ending August 31, 2021. As authorized by KRS 278.192(2), this base period begins not more than nine (9) months prior to the date of the filing of this Application, and is a period consisting of not less than six (6) months of historical data and not more than six (6) months of estimated data. Within forty-five (45) days after the last day of the base period, Delta will file the actual results for the estimated months of the base period as required by KRS 278.192(2)(b).

15. In support of its Application for a general adjustment of rates supported by a fully forecasted test period, Delta has presented its financial data for the forecasted period in the form of pro forma adjustments to the base period, has limited the forecasted adjustments to the forecasted period, and has based capitalization and net investment rate base on a thirteen-month average for the forecasted period, all as shown in Tabs 54-67.

16. The testimony and exhibits to the Application demonstrate the rates, terms, conditions, and tariffs proposed for electric service are fair, just, and reasonable under KRS 278.030.

### **Reasons for Increase in Revenue Requirement**

17. Delta, through prudently managing its costs, has not sought an increase in its base rates since 2010. Based upon Delta's current and projected operations, however, Delta's existing rates will produce revenues in the forecasted test period that are approximately \$9,135,170 million less than those necessary to meet Delta's reasonable operating expenses and provide a reasonable rate of return. This revenue deficiency exists despite efforts to increase operational efficiencies and manage costs and is driven by necessary investments to provide safe and reliable service to its customers.

18. Since the test period in Delta's last rate case, rate base has increased by \$26,377,592, which is 24%. Utility plant in service has increased by \$102,228,282, which is 51%. Delta's depreciation expense has increased by 94% over the same period. The efficient management that allowed Delta to defray a rate increase for a decade manifests itself in comparing expenses over this same period, as Delta's operation and maintenance expenses only increased by 18%, which is well below even the general inflation rate. These metrics make clear that the primary driver of this rate increase is the need to accurately reflect the amount of assets that are used and useful in providing natural gas service to our customers.



## **Depreciation**

19. In support of this Application, Delta submits Mr. Steve Seelye's testimony and depreciation study he is sponsoring.

## **Certificate of Public Convenience and Necessity for Nicholasville Pipeline**

20. Pursuant to KRS 278.020(1) and 807 KAR 5:001, Section 15(2), Delta requests a CPCN to construct an approximately 17-mile pipeline that will provide a much-needed second source of supply to the largest concentration of Delta customers. As explained in Mr. Morpew's testimony, approximately 9,100 customers in the Nicholasville area are served by a single line. Should that line fail, thousands of customers would be without gas service. In addition to the reliability concerns, there are capacity constraints affecting a portion of the system because a portion of the single line is only 4-inch and 6-inch in diameter, leading to bottleneck issues in that area.

21. To solve these reliability and capacity concerns, Delta plans to construct an approximately 17-mile underground natural gas pipeline that would run from an interstate pipeline in Garrard County to Nicholasville in Jessamine County. The proposed pipeline will connect to the interstate pipeline through a new tap.

22. Delta does not yet have any permits for the project.

23. Mr. Morpew's testimony contains a full description of the proposed location and route of the proposed construction or extension, including a description of the manner of the construction.

24. There are no public utilities, corporations or persons with whom the proposed construction or extension is likely to compete.

25. Mr. Morpew's testimony contains a map to suitable scale showing the location or route of the proposed construction or extension, as well as a description of the plans and

specifications for the facilities. The map is being filed pursuant to a petition for confidential protection. Because the proposed line has not yet been fully engineered, no drawings, plans or additional specifications are available at this time, but Mr. Morpew's testimony provides material specifications and the manner of construction. Should a deviation be required from 807 KAR 5:001, Section 15(2)(d)(2), Delta respectfully requests same.

26. Delta does not project finance its projects and will finance the pipeline utilizing the general financing available to it.

27. The estimated annual cost of operation after the proposed facilities are placed into service is \$16,050. Mr. Morpew's testimony contains a further description of the annual cost of operation.

#### **Requested Relief**

**WHEREFORE**, Delta Natural Gas Company, Inc. respectfully requests the Kentucky Public Service Commission to enter an order:

1. Approving the revised tariff sheets at Tab 4 of the Filing Requirements;
2. Approving the expiration of the Tax Cuts and Jobs Act Surcredit;
3. Approving Delta's proposed depreciation rates;
4. Granting a Certificate of Public Convenience for the construction of a natural gas pipeline to provide a second feed into the Nicholasville, Kentucky portion of Delta's system; and
5. Granting all other relief to which Delta may be entitled.

Dated: May 28, 2021

Respectfully submitted,

*Monica H. Braun*

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**CERTIFICATE OF COMPLIANCE**

This is to certify that this May 28, 2021, electronic filing is a true and accurate copy of the same documents being filed in paper medium; that the electronic filing has been transmitted to the Commission May 28, 2021; that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means; and that the original copy of this filing in paper medium will be filed by hand-delivery with the Commission in accordance with the Commission's emergency procedures.

*Monica H. Braun*

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