

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

**In the Matter of:**

**ELECTRONIC APPLICATION OF DELTA )  
NATURAL GAS COMPANY, INC. FOR AN )  
ADJUSTMENT OF ITS RATES AND A )  
CERTIFICATE OF PUBLIC )  
CONVENIENCE AND NECESSITY )**

**CASE NO. 2021-00185**

**STIPULATION TESTIMONY OF  
JOHN B. BROWN  
PRESIDENT  
DELTA NATURAL GAS COMPANY, INC.**

**Filed: November 9, 2021**

1 **Background**

2 **Q. Please state your name, position, and business address.**

3 A. My name is John B. Brown. My business address is 3617 Lexington Road, Winchester,  
4 Kentucky 40391. I am employed by Delta Natural Gas Company, Inc. (“Delta”) as  
5 President.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to discuss why the Stipulation and Recommendation  
8 (“Stipulation”) reached by the parties in this proceeding produces fair, just, and reasonable  
9 rates, terms, and conditions for all of Delta’s customers and to recommend the Commission  
10 approve the Stipulation.

11 **Q. Please summarize Delta’s Application in this proceeding.**

12 A. Delta last filed for an increase in base rates in April 2010. While Delta’s prudent financial  
13 management allowed Delta to delay requesting an increase in rates for more than a decade,  
14 a rate increase is necessary at this time. Delta requested an approximately 18.6%, or  
15 \$9,135,170 increase in its annual revenue. Delta utilized a forecasted test period in this  
16 case comprised of a base period ending August 31, 2021, and a forecasted period ending  
17 December 31, 2022. Delta also requested a Certificate of Public Convenience (“CPCN”)  
18 in this proceeding for a pipeline to provide redundancy and capacity to Delta’s  
19 Nicholasville and Wilmore systems.

20 **Overview of Stipulation**

21 **Q. Are you familiar with the Stipulation filed in this proceeding?**

22 A. Yes. I was involved in the negotiation of the underlying settlement and the preparation  
23 and filing of the Stipulation.

24 **Q. Who are the parties to the Stipulation?**

1 A. Delta and the Attorney General, by and through his Office of Rate Intervention (“AG”) are  
2 signatories to the Stipulation. The AG is the only intervenor in this case.

3 **Q. Please describe the Stipulation negotiation process.**

4 A. The Stipulation is the product of extensive negotiations by the parties to this case. The first  
5 settlement discussions were held on October 28, 2021. A second settlement meeting was  
6 held on November 4, 2021. In between these meetings, Delta shared calculations with the  
7 AG to support settlement calculations and the AG presented a counteroffer to further  
8 narrow the issues and find appropriate compromises. Commission Staff attended the  
9 November 4<sup>th</sup> settlement meeting to gain an understanding of the negotiation process and  
10 assist in clarifying issues.

11 **Q. Why were the parties amenable to entering into the Stipulation?**

12 A. The parties recognize that the settlement process can promote administrative efficiency. A  
13 fully litigated rate case is time consuming and expensive for all parties involved. The  
14 Stipulation is the product of extensive negotiations by the parties to this case. Delta and  
15 the AG reached a settlement that they believe represents fair, just, and reasonable rates that  
16 minimize the impact to customers while providing Delta with sufficient rates to allow it to  
17 operative safely and reliably.

18 **Q. Are you providing certain documents used in the negotiation process as exhibits to  
19 your testimony?**

20 A. Yes. As I described in my rebuttal testimony, Delta filed its Base Period Update on October  
21 14, 2021. The Update included a limited number of adjustments and corrections that were  
22 largely disclosed during the discovery process. During the negotiation process, Delta

1 shared a calculation of the formula error and tax adjustment. I have attached these  
2 calculations as Exhibits JB-1 and JB-2, respectively.

3 **Q. In light of the Stipulation, are there any proposals set forth in Delta's Application**  
4 **that are not resolved?**

5 A. No. The Stipulation resolves all of the outstanding issues raised in Delta's rate application  
6 submitted on May 28, 2021.

### 7 Revenue Requirement

8 **Q. What revenue requirement does the Stipulation establish for Delta's operations?**

9 A. The parties agreed to a revenue requirement increase of \$5,645,767. This reduces Delta's  
10 proposed revenue requirement increase from its filed position of \$9,135,170, a decrease of  
11 nearly \$3.5 million. The Stipulation's revenue requirement represents 61.8% of Delta's  
12 original ask and an overall revenue increase of 11.1%. Delta's original request represented  
13 a \$12.34 increase in the average residential monthly bill of \$59.48. The Stipulation reduces  
14 the increase amount to \$5.58 on the average monthly bill. After the updated GCR rate,  
15 which was approved by the Commission on October 22, 2021, and the rates agreed to in  
16 the Stipulation, the average customer bill will be \$67.09, an increase of 9.1%. Given that  
17 Delta has not had a base rate increase in over ten years, the overall increase amounts to  
18 approximately *fifty cents per year* for residential customers, which is well below ordinary  
19 inflationary pressures.

20 **Q. Should the Commission approve the Stipulation revenue requirement increase?**

21 A. Yes. The new revenue requirement is the result of arm's-length negotiation and represents  
22 a significant change from the position Delta originally took in these proceedings. Delta  
23 believes the compromise the parties reached on revenue requirement and all other issues in  
24 this proceeding are fair, just, and reasonable, and warrant Commission approval.

1 **Q. Please summarize how the Stipulation calculates the proposed revenue requirement**  
2 **increase.**

3 A. The Stipulation's proposed revenue requirement increase is calculated as shown in the table  
4 below. The calculations begin with Delta's proposed revenue requirement, followed by  
5 adjustments for corrections and updates recognized in the Base Period Update and items  
6 conceded as a matter of settlement.

<b>Item</b>	<b>Revenue Requirement</b>
Filed Revenue requirement increase	9,135,170
To correct operating income formula	197,644
Tax adjustments	(1,027,568)
Non-recurring IT	(279,837)
Pension actuarial update	(383,604)
SERP expense	(241,514)
Remove AP in prepaids and CWIP	(13,552)
Affiliate payroll	(60,302)
Estimated rate case expense increase	91,413
Lobbying and dues	(2,225)
Add Uncollectible and PSC fees	8,446
Reset cash working capital to 0	(195,498)
Reclassify 1.76% debt from LT to ST	(49,201)
Reduce ROE from 10.95% to 9.3%	(1,533,605)
Revenue requirement increase after stipulated adjustments	<b>5,645,767</b>

7

8 **Q. Please describe the ROE reduction in the table above.**

9 A. The parties agreed for the purposes of this base rate proceeding that a return on equity of  
10 9.30% is reasonable for Delta's operations. Using a 9.30% return on equity reduces Delta's  
11 proposed revenue requirement increase by \$1,533,605. The parties believe the 9.30%  
12 represents a fair and reasonable compromise and is in line with returns on equity the  
13 Commission has approved recently for similarly situated utilities.

14 **Q. In addition to the adjustments from Delta's Base Period Update and the ROE**  
15 **reduction, please describe the further reductions to the revenue requirement increase.**

1 A. In the spirit of settlement, the parties agreed to reduce Delta's requested revenue  
2 requirement increase to reset cash working capital to \$0 and reclassify 1.76% of debt from  
3 long-term to short-term. In the past, Delta has generally used the 1/8<sup>th</sup> method for  
4 calculating its cash working capital, but at Commission Staff's direction initiated a lead/lag  
5 study in discovery. The lead/lag study produced a negative cash working capital amount,  
6 which is indicative of Delta's strong cash management practices. For the purposes of  
7 settlement only, Delta agreed to decrease its cash working capital calculation to \$0, which  
8 reduces the revenue requirement increase by \$195,498. Further, for settlement purposes  
9 only, Delta agreed to reclassify 1.76% of long-term debt to short-term debt. The parties  
10 also recognized that Delta made multiple concessions in its Base Period Update based on  
11 suggestions from the AG's witness.

12 **Q. Does the Stipulation specifically detail the capital structure on which the revenue**  
13 **requirement is calculated?**

14 A. Yes. The parties agree that the capital structure on which the revenue requirement is  
15 calculated is: 51.72% equity, 46.52% long-term debt, and 1.76% short-term debt.

16 **Q. Is Delta calculating the revenue requirement using a rate base or capitalization**  
17 **method?**

18 A. The parties stipulate that the revenue requirement is calculated on a rate base method in the  
19 amount of \$134,688,776.

20 **Q. Does the Stipulation propose depreciation rates different than those Delta proposed?**

21 A. No. The parties stipulate to the use of depreciation rates proposed by Delta in its  
22 Application.

1 **Revenue Allocation and Rate Design**

2 **Q. Have the parties agreed to certain changes related to revenue allocation and rate**  
3 **design?**

4 A. Yes. The parties agree to the allocation of the increases in annual revenues and the rate  
5 design as shown in Stipulation Exhibit 2.

6 **Q. What specific changes do the parties agree to regarding the tariff?**

7 A. Delta is removing the “Change of Ownership” language in its Farm Tap tariff. Delta has  
8 also made other minor changes to the tariff that were disclosed during discovery. The  
9 updated tariff, showing the rates agreed to in the Stipulation, are attached to the Stipulation  
10 as Exhibit 3.

11 **Q. Do the parties agree to a residential customer charge in the Stipulation?**

12 A. Yes. As set forth in Stipulation Exhibit 2, the customer charge for residential service shall  
13 increase by \$3.30 from \$20.70 to \$24.00, which is a reduction from the original proposed  
14 customer charge of \$29.03.

15 **Treatment of Specific Issues**

16 **Q. Does the Stipulation also provide for the treatment of specific issues proposed in this**  
17 **proceeding beyond the increase to the revenue requirement?**

18 A. Yes. I discuss the Stipulation’s treatment of these specific issues in this section of my  
19 testimony.

20 **Q. Is Delta withdrawing its request for a CPCN to construct a pipeline?**

21 A. Yes. The Stipulation notes that Delta is withdrawing its request for a CPCN in this case.  
22 The withdrawal of the CPCN is without prejudice. As Delta explained in the Rebuttal  
23 Testimony of Jonathan Morphew, Delta is securing the plans and drawings for the project  
24 and expects to file a request for the CPCN in a separate proceeding by early 2022.

1 **Q. Does the Stipulation provide for Delta’s recovery of actual rate case expense?**

2 A. Yes. The parties agree that Delta should recover its actual rate case expense, to be  
3 determined by Delta’s final monthly update to be filed on or before December 15, 2021.  
4 The rate case expense will be amortized over a three-year period beginning on the effective  
5 date of the revised tariffs, without carrying charges.

6 **Q. Does the Stipulation accept Delta’s proposed changes to the Pipe Replacement  
7 Program?**

8 A. Yes. The parties to the Stipulation agree that the existing revenue requirement associated  
9 with Delta’s Pipe Replacement Program tariff will be rolled into and included in base rates  
10 and the Pipe Replacement Program charge shall be reset to \$0 upon the effective date of  
11 Delta’s new base rates. The parties agree that Delta’s proposed revisions to the tariff should  
12 be approved.

13 **Conclusion**

14 **Q. Have Delta and the AG agreed that the Commission should approve Delta’s  
15 Application in this proceeding, as modified by the Stipulation?**

16 A. Yes, Delta and the AG have agreed that, except as modified by the Stipulation, the  
17 Commission should approve Delta’s proposed rates, terms, and conditions in this  
18 proceeding. Delta and the AG believe the Stipulation is a fair, just, and reasonable  
19 resolution of all issues in this proceeding.

20 **Q. Do you have a recommendation?**

21 A. Yes. I recommend the Commission accept and approve the Stipulation without  
22 modification.

23 **Q. Does this conclude your testimony?**

24 A. Yes, it does.



