

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)	CASE NO. 2021-00185
CONVENIENCE AND NECESSITY)	

DELTA NATURAL GAS COMPANY, INC.’S MOTION FOR CLARIFICATION

Delta Natural Gas Company, Inc. (“Delta”), pursuant to KRS 278.400, submits its Motion for Clarification regarding three issues related to the Commission’s January 3, 2022 Order in this proceeding. The three issues are: (1) the adjustment regarding rate base and capitalization; (2) the adjustment regarding the removal of costs related to the Nicholasville pipeline right-of-way; and (3) resetting the Conservation/Energy Program Cost Recovery Component (“CEPRC”) to zero. In further support of this Motion, Delta respectfully states as follows:

1. Rate Base Adjustment

Delta filed an Application for an adjustment of its gas rates on May 28, 2021. On November 9, 2021, Delta and the only intervenor in the proceeding, the Attorney General of the Commonwealth of Kentucky, tendered a Stipulation and Recommendation (“Stipulation”) for the Commission’s review and approval that, if approved, would resolve all of the contested issues in the matter.

On January 3, 2022, the Commission issued an order (“Order”) finding that the Stipulation should be approved with several modifications. The first modification the Commission made to

the Stipulation pertains to utilizing rate base instead of capitalization to calculate the revenue requirement.¹ The Order notes that the Attorney General’s witness “recommended that Delta’s revenue requirement be based on rate base, instead of capitalization.”² The Order then states that “The Stipulation does not include this adjustment, although it does include two adjustments to rate base. The Commission finds that Delta’s revenue requirement should be based on rate base instead of capitalization,” and the Commission then decreased Delta’s revenue requirement by \$208,375 in attempting to perform this adjustment.³

Delta requests clarification regarding the Commission’s rate base adjustment because the revenue requirement in the Stipulation is based on rate base, instead of capitalization. As such, the Commission’s adjustment to rate base performed the adjustment twice and erroneously lowered Delta’s revenue requirement. Section 1.1(c) of the Stipulation states that:

(C) **Rate Base.** The Parties stipulate that the revenue requirement is calculated on a rate base method in the amount of \$134,688,776.

Mr. John Brown’s testimony in support of the Stipulation confirms this understanding:⁴

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.**

The Commission notes on page 4 of the Order that utilization of the rate base method was a term of the Stipulation.⁵

¹ *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) (Ky. PSC Jan. 3, 2022) at page 5.

² *Id.*

³ *Id.* at pages 5-6.

⁴ Brown Stipulation Testimony at 5.

⁵ Order at 4.

The fact that rate base was utilized in the Stipulation is also borne out in the calculation of the revenue requirement. Exhibit JB-1 to Mr. Brown’s testimony in support of the Stipulation notes that the rate base in Delta’s May 28, 2021 Application was \$136,735,989. From that value, the two adjustments highlighted in blue were made as part of the Stipulation, which results in the \$134,688,776 utilized in the Stipulation with any minor difference due to rounding:

Delta 2021 Rate Case				Stipulation Exhibit 1			
Stipulated Revenue Requirement and Adjustments							
Post Filing Version	Amount	Adjustment Line Item	Tax Impact	Revenue Requirement Impact	Net Reduction Addressed by AG	Net Increase Requested by Delta	Net Proposed Reduction
AS FILED			2,512,596	9,135,170			
01 To Correct Operating Income Formula	148,331	Revenue	49,312	197,644		197,644	197,644
02 Tax Adjustments	(1,034,152)	Taxes	(1,034,152)	(1,027,568)	(1,027,568)		(1,027,568)
03 Non-Recurring IT	(275,508)	Operating Expense	(1,080)	(279,837)	(279,837)		(279,837)
04 Pension Actuarial Update	(377,671)	Operating Expense	(1,480)	(383,604)	(383,604)		(383,604)
05 SERP Expense	(237,779)	Operating Expense	(932)	(241,514)	(241,514)		(241,514)
06 Remove AP in Prepaids and CWIP	(131,383)	Rate Base	(3,381)	(13,552)	(13,552)		(13,552)
07 Affiliate Payroll	(59,370)	Operating Expense	(233)	(60,302)	(60,302)		(60,302)
08 Estimated Rate Case Expense Increase	90,000	Operating Expense	353	91,413		91,413	91,413
09 Lobbying and Dues	(2,191)	Operating Expense	(9)	(2,225)	(2,225)		(2,225)
10 Add Uncollect and PSC to GU	8,446	Taxes	8,446	8,446	8,446	-	8,446
Subtotal			1,529,440	7,424,071	(2,000,156)	289,057	(1,711,099)
11 Reset cash working capital to 0	(1,893,053)	Rate Base	(48,980)	(195,498)	(195,498)		(195,498)
12 Reclassify 1.76% debt from LT to ST	(51,230)	Interest	508	(49,201)	(49,201)		(49,201)
13 Reduce return on equity from 10.95% to 9.3%	(1,149,378)	Return on Rate Base	(384,226)	(1,533,605)	(1,533,605)		(1,533,605)
14 Increase GCR to current rate	1,514,037	Gas Cost	-	-	-		-
Total			1,096,742	5,645,767	(3,778,460)	289,057	(3,489,403)
				61.8%			38.2%

As a final assurance, Staff Hearing Data Request No. 5 required Delta to provide Delta’s capital structure for the proposed Stipulation. Delta’s response confirms the rate base value of \$134,688,776, which was lower than capitalization by \$4,118,302:

Delta Natural Gas Co., Inc.
 Capital Structure
 2021 Rate Case

	13 mo. Ave. <u>Pro Forma</u>	Ratios	Cost Rates	Weighted Cost of Capital	Return
Equity	71,789,187				
	-				
	-				
	-				
	<u>71,789,187</u>	51.72%	9.30%	4.810%	
Long Term Debt	64,574,886	46.52%	4.147%	1.929%	
Short Term Debt	<u>2,443,005</u>	1.76%	1.000%	0.018%	
	<u>138,807,078</u>	100%		6.76%	<u>9,378,896</u>
Rate Base	<u>134,688,776</u>			6.76%	<u>9,100,631</u>
Capitalization in Excess of Rate Base	\$ <u>4,118,302</u>				

Given that the revenue requirement in the Stipulation is already computed utilizing rate base, the Commission’s adjustment double-counted the adjustment, and erroneously reduces Delta’s revenue requirement by \$208,375. Delta respectfully requests that the Commission clarify its January 3, 2022 Order and eliminate the modification regarding the use of rate base, as such adjustment was fully captured in the Stipulation.

2. Nicholasville Pipeline Rights-of-Way

The Commission modified the Stipulation to remove the costs associated with the Nicholasville Pipeline rights-of-way because Delta has not yet filed or received approval for a CPCN.⁶ The Order states that the modification “results in a rate base reduction of \$1,084,251 and a revenue requirement reduction of \$103,374.”⁷ Delta respectfully states that the amount of the revenue requirement reduction is erroneous.

Consistent with the requirement of 807 KAR 5:001, Section 16(6)(c), Delta presented its rate base by estimating its total plant as of December 31, 2021, and then adding to that amount the

⁶ Order at 6-7.

⁷ *Id.* at 7.

estimated thirteen-month average additions during calendar year 2022, which is the forecasted test year. As the supporting schedule filed with Post-Hearing Request for Information Item No. 1 illustrates, the \$1,084,251 for rights-of-way was assumed to be added ratably throughout 2022. This averaging reduced the actual addition to rate base to \$541,850, as shown on the supporting schedule, or roughly half of the projected spend amount. Because the \$1,084,251 in rights-of-way costs only added \$541,850 to Delta's rate base, the reversal of the costs should be the identical amount.

As shown in that response to Post-Hearing Request for Information Item No. 1, the corresponding revenue requirement impact is \$49,358, which is less than the \$103,374 in the Order. Delta requests that the amount of the revenue requirement impacted by the Commission's disallowance of the right-of-way costs be clarified to reflect the amount of the removal as calculated by Delta's response to Item No. 1 of the Commission's Post-Hearing Data Requests.

3. Resetting CEPRC Rate to Zero

Delta passes the costs of its conservation and efficiency programs to residential customers through the tariffed CEPRC. Delta's conservation and efficiency programs were terminated by the Commission's June 28, 2018 Order in Case No. 2018-00029. Since that time, the only costs being passed through the CEPRC have been the remaining lost sales from prior conservation programs. The current CEPRC is \$.09180/Mcf.

Pursuant to Sheet No. 40 of Delta's tariff, the revenues for lost sales calculated for a twelve-month period shall be included in the CEPRC "until the implementation of new base rates pursuant to a general rate case." As such, the CEPRC rate should be set to 0/Mcf until such time as Delta were to propose and obtain approval of any new conservation or efficiency programs. Because the CEPRC will be reduced to 0/Mcf and Delta currently does not have any active programs that

trigger costs under this mechanism, Delta will have no further annual filings to make pursuant to the CEPRC. Delta requests clarification of the January 3, 2022 Order confirming that it has the authority to reset the CEPRC to 0/Mcf for residential customers.⁸

WHEREFORE, Delta respectfully requests that the Commission clarify its January 3, 2022 Order with respect to the three issues identified herein.

Dated: January 12, 2022

Respectfully submitted,



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⁸ When Delta filed its tariffs on January 12, 2022 implementing the rates ordered by the Commission in its January 3, 2022 Order, Delta included a \$0/Mcf CEPRC.

CERTIFICATE OF COMPLIANCE

In accordance with the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on January 12, 2022; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.

Marcia H. Braun
