DELTA NATURAL GAS COMPANY, INC.
CASE NO. 2021-00185

COMMISSION STAFF FIRST REQUEST FOR INFORMATION ON REHEARING
DATED FEBRUARY 3, 2022

1. Refer to the Stipulation and Recommendation, page 3, Section 1.1, and Section 1.2(C), and Exhibit 1.

a. Provide support for the statement that the revenue requirement increase of $5,645,767 is calculated using the rate base method.

b. Identify the line item which accounts for the difference between capitalization and rate base. Provide the detailed calculation of this amount in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

Response:

a. Delta has calculated the revenue requirement deficiency utilizing the rate base method throughout this proceeding, including in the Stipulation Agreement. Please see the attached Excel file, which shows the calculation of the revenue requirement increase, per the Stipulation Agreement, of $5,645,767.

   Note that the return included in the calculation of the revenue deficiency was $9,100,631.

   The return is calculated by taking the rate base, in the amount of $134,688,776 as shown on Section 1.2(c) of the Stipulation Agreement, times the average weighted cost of capital of 6.756785 percent, to yield $9,100,631.

   See the attachment provided in response to Item 3(b) for the calculation of the 6.75678 percent weighted cost of capital utilizing the 9.3 percent return on equity per the Stipulation Agreement.

b. As the Commission's January 3, 2022 Order states on page 7, rate base and capitalization were $136,735,989 and $138,921,564, respectively, as filed, resulting in capitalization being $2,185,575 in excess of rate base. See the attachment for the detail of each line item shown in Exhibit 1 of the Stipulation and Recommendation and how each line item impacted rate base, capitalization, the return and revenue deficiency.

   The exhibit shows the calculation of the $134,688,776 rate base amount as disclosed in the Stipulation and Recommendation and the related $138,807,077 capitalization amount after

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the adjustments agreed to in the Stipulation and Recommendation. See a. above for the calculation of return of $9,100,631 based on rate base. Had the return been calculated on capitalization ($4,118,301 higher than rate base at the time of the Stipulation and Recommendation), the return would have been $9,378,916, raising the revenue requirement by $278,285.

Sponsoring Witness: John B. Brown

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2. Refer to Delta's response to Commission Staff's Post-Hearing Request for Information (Staff's Post-Hearing Request), Item 1, Exhibit, Tab Exhibit, line 16 and Tab Supporting Schedule, line 22. Confirm that the rate base reduction to remove Nicholasville right-of-way acquisition costs is $541,850.

Response:

Confirmed.

Delta's Motion For Clarification, dated January 12, 2022, Section 2 Nicholasville Pipeline Rights-of Way, contains a more complete explanation of the computation of the $541,850 thirteen month average shown on the Tab Supporting Schedule, row 22 referred to above, than was contained in the Response to Item 1, also referred to above.

Sponsoring Witness: John B. Brown

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3. Refer to Delta's response to Staff's Post-Hearing Request, Item 1, Exhibit, Tab Supporting Schedule.

a. Confirm that Delta's as filed pre-tax weighted average cost of capital is 9.53 percent. If confirmed, explain why Delta effectively calculated this adjustment using a pre-tax weighted average cost of capital of approximately 9.00 percent.

b. Explain why a rate base adjustment would impact the cost of capital.

c. Confirm that the reduction in the 13-month average rate base to remove the Nicholasville pipeline right-of-way acquisition costs of $541,850 produces a revenue requirement reduction of $51,661, using Delta's as filed pre-tax weighted average of 9.53 percent. If this cannot be confirmed, explain and provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

Response:

a) Delta is unable to confirm the 9.53 percent pre-tax weighted average cost of capital but acknowledges that the 6.756785 percent weighted average cost of capital Delta used in calculating this adjustment is equivalent to an approximate 9.00 percent pre-tax rate, assuming the statutory rate of 24.95 percent. Delta used the equity rate per the Stipulation Agreement (9.3 percent) compared to the equity rate as filed of 10.95 percent, which would explain why the rate used to determine the impact of this adjustment was considerably lower than the rate as filed.

b) While a rate base adjustment does not impact the cost rates themselves, the calculation of the weighted cost of capital also includes the debt-to-equity ratio. Because Delta's model calculates the revenue requirement using the rate base method (see Response #1), any time rate base changes, revenue requirement changes, which flows to net income and finally equity. The change to equity will alter the debt-to-equity ratio which alters the weighted cost of capital. See the attached spreadsheet that shows the instances of the model just prior to and after the removal of the right of way costs.

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The attached spreadsheet shows a slight decrease in the weighted cost of capital (0.00028%) due to the reduction in rate base. The reduction in rate base reduced equity by $15,463. This reduction in equity increased the debt to equity ratio by 0.00538%, thus slightly decreasing the weighted cost of capital since the debt rate is lower than the equity rate.

c) Delta is unable to confirm Staff's calculation of 9.53%, but for expediency, Delta supports the calculated revenue requirement reduction of $51,551 to remove the Nicholasville pipeline right-of-way acquisition costs of $541,850.

Sponsoring Witness: John B. Brown