

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:)	
)	
APPLICATION OF DELTA NATURAL GAS)	CASE NO. 2021-00326
COMPANY, INC. FOR ISSUANCE OF)	
INDEBTEDNESS)	
)	

APPLICATION OF DELTA NATURAL GAS COMPANY, INC.

Pursuant to KRS 278.300, Delta Natural Gas Company, Inc. (“Delta”) submits this application for authorization to issue indebtedness through long-term intercompany notes issued on or before December 31, 2021. In support of this 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. Delta is a wholly-owned subsidiary of PNG Companies LLC (“PNG”). PNG is a wholly-owned indirect subsidiary of Essential Utilities, Inc. (“Essential”).

5. Delta is requesting authority to issue long-term indebtedness up to \$26 million in the form of a promissory note with PNG, a copy of which is attached as Exhibit 1. The term of the note is not expected to exceed 30 years. The purpose of the debt is to refinance a portion of Delta's short-term debt that has been borrowed to finance capital expenditures on a temporary basis at favorable rates and to rebalance Delta's capital structure to be in line with its projections. The new long-term debt is expected to be issued on or before December 31, 2021, at an anticipated interest rate of 3.10%, which is substantially more favorable than any of Delta's currently outstanding long-term debt rates.

6. PNG will obtain the funds described in the preceding paragraph to be lent to Delta from Essential, pursuant to a promissory note between PNG and Essential ("Essential Promissory Note"). The full terms and conditions of the Essential Promissory Note are expected to be similar to the form of the PNG Promissory Note provided as Exhibit 2. Essential will issue the underlying debt in the external debt markets at competitive market rates and prices. The interest rates and maturity dates of long-term debt issued by Essential shall form the basis for the interest rate and maturity date under the Essential Promissory Note, which in turn will establish the interest rate and maturity date for the note. Essential is following generally accepted debt placement procedures to ensure market-based interest rates and terms to be issued pursuant to the Essential Promissory Note. Therefore, the interest rates associated with the note will be reasonable in light of the market coupon rates.

7. A portion of the unamortized debt issuance expenses incurred by Essential will be allocated to Delta. The issuance costs that will be allocated to Delta are expected to be approximately 1% of the principal allocation amount and will not exceed 2% of the principal allocation.

8. Exhibit 3 to this Application contains the financial exhibit required by 807 KAR 5:001, Section 18(2)(a), as described by 807 KAR 5:001, Section 12. It also contains information required by 807 KAR 5:001, Section 18(2)(b).

9. Delta has no outstanding mortgages.

10. No contracts have been made for the disposition of any of the securities which Delta proposes to issue, or for the proceeds of such sale.

11. Other requirements of the Commission's regulations regarding this Application, 807 KAR 5:001, Section 18, including (1)(c) regarding the amount and kind of notes, etc., (1)(d) regarding the use to be made of the proceeds, (1)(e) regarding the intended construction use of the proceeds, and (1)(f) regarding the obligations being refunded have been supplied in the preceding paragraphs of this Application.

WHEREFORE, Delta respectfully requests authority to issue indebtedness through long-term intercompany notes issued on or before December 31, 2021 in the amount and form described herein.

Dated: August 30, 2021

Respectfully submitted,

/s/Monica H. Braun

Monica H. Braun
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Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000
Fax: (859) 253-1093
monica.braun@skofirm.com

Counsel for Delta Natural Gas Company, Inc.

CERTIFICATE OF COMPLIANCE

In accordance with 807 KAR 5:001, Section 8 and the Public Service Commission's Order of July 22, 2021 in Case No. 2020-00085, I certify that this document was electronically transmitted to the Public Service Commission on August 30, 2021 and that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding.

/s/Monica H. Braun

Counsel for Delta Natural Gas Company, Inc.

INTERCOMPANY PROMISSORY NOTE

No. 202X-

XXX__,202_

\$ _____

For Value Received, DELTA NATURAL GAS COMPANY, INC., corporation formed under the laws of the state of Kentucky (the "Borrower"), hereby promises to pay to the order of PNG COMPANIES LLC or registered assigns (the "Lender"), a limited liability company formed under the laws of the State of Delaware, the principal sum of XXX MILLION XXX THOUSAND AND XXX DOLLARS (\$ _____), together with interest (computed on the basis of a 360 day year of twelve 30-day months) on the unpaid balance thereof at the rate per annum from the date hereof as noted on Exhibit A.

Payments of principal of and interest on this Note are to be made in lawful money of the United States of America at the principal office of the Lender in Bryn Mawr, Pennsylvania or at such other place as the Lender shall have designated by written notice to the Borrower.

This Note is subject to optional prepayment, in whole or in part, from time to time, at a redemption price of 100% or the principal amount prepaid, plus accrued interest thereon. Prepayments of this Note shall be noted on Exhibit B. attached hereto and made a part hereof; provided that the failure of the Lender to make any such recordation shall not limit or otherwise affect the obligations of the Borrower hereunder.

The Borrower represents that (a) it has full power and authority, not restricted by any law or governmental regulation, to execute and deliver this Note and to perform hereunder; (b) this Note evidences its valid and legally binding obligation, enforceable in accordance with its terms; and (c) its execution, delivery and performance of this Note do not and will not contravene any bylaw or contractual restriction binding on or affecting it.

This Note may not be changed or modified orally, nor any right or provision hereof be waived orally, but in each instance only by an instrument in writing signed by the party against which enforcement of such change, modification or waiver is sought.

No failure on the part of the Lender to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Lender of any right, remedy or power hereunder preclude any other or future exercise thereof or the exercise of any other right, remedy or power.

Each and every right, remedy and power hereby granted to the Lender or allowed it by law or other agreement shall be cumulative and not exclusive the one of any other and may be exercised by the Lender from time to time.

Every provision of this note is intended to be severable; if any term or provision of this note shall be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired.

This Note shall be construed and enforced in accordance with, and the rights of the issuer and holder hereof shall be governed by, the law of the Commonwealth of Pennsylvania excluding choice-of-law principles of the law such Commonwealth that would require the application of the laws of a jurisdiction other than such Commonwealth.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the day and year first above written

ATTEST:

DELTA NATURAL GAS COMPANY, INC.

By: _____
(Assistant) Secretary

By: _____
Name:
Title:

ATTEST:

PNG COMPANIES LLC

By: _____
(Assistant) Secretary

By: _____
Name:
Title:

AMENDMENT TO DELTA NATURAL GAS COMPANIES, INC. NOTE

This Amendment, dated as of XXX__,202_, is attached to and made part of the following instrument:

Promissory Note dated XXX __,202_, by Delta Natural Gas Company. Inc., a corporation formed under the laws of the state of Kentucky, in favor of PNG Companies LLC, a limited liability company formed under the laws of the State of Delaware, in the original principal sum of \$XXX,XXX,XXX.00.

The undersigned parties hereby confirm the principal amount of the above-referenced Promissory Note has been increased/decreased by \$XXX.00.

ATTEST:

DELTA NATURAL GAS COMPANY, INC.

By: _____
(Assistant) Secretary

By: _____
Name:
Title:

ATTEST:

PNG COMPANIES, LLC

By: _____
(Assistant) Secretary

By: _____
Name:
Title:

INTERCOMPANY PROMISSORY NOTE

No. 202X-

XXX__,202_

\$ _____

For Value Received, PNG COMPANIES LLC., a limited liability company formed under the laws of the State of Delaware (the “Borrower”), hereby promises to pay to the order of ESSENTIAL UTILITIES, INC. or registered assigns (the “Lender”), a corporation formed under the laws of the Commonwealth of Pennsylvania, the principal sum of XXX MILLION XXX THOUSAND AND XXX DOLLARS (\$ _____), together with interest (computed on the basis of a 360 day year of twelve 30-day months) on the unpaid balance thereof at the rate per annum from the date hereof as noted on Exhibit A.

Payments of principal of and interest on this Note are to be made in lawful money of the United States of America at the principal office of the Lender in Bryn Mawr, Pennsylvania or at such other place as the Lender shall have designated by written notice to the Borrower.

This Note is subject to optional prepayment, in whole or in part, from time to time, at a redemption price of 100% or the principal amount prepaid, plus accrued interest thereon. Prepayments of this Note shall be noted on Exhibit B. attached hereto and made a part hereof; provided that the failure of the Lender to make any such recordation shall not limit or otherwise affect the obligations of the Borrower hereunder.

The Borrower represents that (a) it has full power and authority, not restricted by any law or governmental regulation, to execute and deliver this Note and to perform hereunder; (b) this Note evidences its valid and legally binding obligation, enforceable in accordance with its terms; and (c) its execution, delivery and performance of this Note do not and will not contravene any bylaw or contractual restriction binding on or affecting it.

This Note may not be changed or modified orally, nor any right or provision hereof be waived orally, but in each instance only by an instrument in writing signed by the party against which enforcement of such change, modification or waiver is sought.

No failure on the part of the Lender to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Lender of any right, remedy or power hereunder preclude any other or future exercise thereof or the exercise of any other right, remedy or power.

Each and every right, remedy and power hereby granted to the Lender or allowed it by law or other agreement shall be cumulative and not exclusive the one of any other and may be exercised by the Lender from time to time.

Every provision of this note is intended to be severable; if any term or provision of this note shall be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired.

This Note shall be construed and enforced in accordance with, and the rights of the issuer and holder hereof shall be governed by, the law of the Commonwealth of Pennsylvania excluding choice-of-law principles of the law such Commonwealth that would require the application of the laws of a jurisdiction other than such Commonwealth.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the day and year first above written

ATTEST:

PNG COMPANIES LLC.

By: _____
(Assistant) Secretary

By: _____
Name:
Title:

ATTEST:

ESSENTIAL UTILITIES, INC.

By: _____
(Assistant) Secretary

By: _____
Name:
Title:

AMENDMENT TO PNG COMPANIES LLC NOTE

This Amendment, dated as of XXX__,202_, is attached to and made part of the following instrument:

Promissory Note dated XXX __,202_, by PNG Companies LLC., a limited liability company formed under the laws of the State of Delaware, in favor of Essential Utilities, Inc., a corporation formed under the laws of the Commonwealth of Pennsylvania, in the original principal sum of \$XXX,XXX,XXX.00.

The undersigned parties hereby confirm the principal amount of the above-referenced Promissory Note has been increased/decreased by \$XXX.00.

ATTEST:

PNG COMPANIES LLC

By: _____
(Assistant) Secretary

By: _____
Name:
Title:

ATTEST:

ESSENTIAL UTILITIES, INC.

By: _____
(Assistant) Secretary

By: _____
Name:
Title:

DELTA NATURAL GAS COMPANY, INC.

**DESCRIPTION OF PROPERTY AND ORIGINAL COST
MAY 31, 2021**

INTANGIBLE PLANT

Organization	\$	53,151
Franchise		
Misc. Intangible		5,029,030

PRODUCTION PLANT

Production Land		-
Production Structures		-
Land & Land Rights		97,055
Compressor Stations & Structures		910,557
Measuring & Regulating Equipment		358,026
Field Line - Gathering		2,290,299

STORAGE & PROCESSING PLANT

Storage Land		74,295
Storage Right-of-Way		186,821
Gas Rights Wells		
Gas Rights Storage		-
Storage Structures & Improvements		723,568
Storage Wells		8,249,077
Storage Rights		860,396
Storage Reservoirs		1,759,384
Non-Recoverable Natural Gas		294,307
Storage Lines		6,086,342
Storage Compressor Station Equipment		4,526,581
Storage Measuring & Regulating Equipment		1,167,368
Purification Equipment		6,426,298
Storage Other Equipment		109,795

TRANSMISSION PLANT

Land & Land Rights-of-Way		1,675,673
Land Rights		-
Structures & Improvements		355,403
Mains		46,815,221
Compressor Station & Equipment		8,795,497
Regulating Equipment		4,424,185
Other Equipment		391,134

DISTRIBUTION PLANT

Land & Land Rights	358,954
Structure & Improvements	113,377
Mains	97,839,344
Regulating Equipment - General	2,206,054
Regulating Equipment - City Gate	933,554
Services	23,191,406
Meter & House Regulators	14,201,839
Meter & House Regulator Installations	4,131,602
Industrial Regulating Station Equipment	1,780,669

GENERAL PLANT

Land & Land Rights	998,571
Structure & Improvements	5,977,978
Office Furniture & Equipment	1,114,625
Transportation Equipment	5,537,386
Tools, Shop & Garage Equipment	1,103,219
Laboratory Equipment	202,964
Power Operated Equipment	4,470,761
Communications Equipment	237,626
Miscellaneous Equipment	56,332
Other Tangible Property	265,540

GAS STORED UNDERGROUND

CONSTRUCTION WORK IN PROGRESS

PLANT ACQUISITION ADJUSTMENT (580,759)

GAS UTILITY PLANT, AT COST **\$ 265,800,502**

ASSET RETIREMENT COSTS

TOTAL GAS UTILITY PLANT **\$ 265,800,502**

EXHIBIT B
FINANCIAL EXHIBIT
807 KAR 5:001
Section 12 (2)(a)(b)(c)
Page 1 of 7

DELTA NATURAL GAS COMPANY, INC.

**AMOUNT AND KINDS OF STOCK AUTHORIZED,
ISSUED AND OUTSTANDING
MAY 31, 2021**

Delta does not have authorized, issued or outstanding stock.

When PNG Companies acquired Delta in September 2017, all issued and outstanding shares of Delta were purchased by PNG Companies at that time.

DELTA NATURAL GAS COMPANY, INC.

**LONG-TERM DEBT OUTSTANDING
AND MORTGAGE DESCRIPTIONS
MAY 31, 2021**

There are no mortgages outstanding.

The following long-term debt is in existence:

- (1) Delta's existing long-term debt note is with PNG Companies LLC, issued on November 30, 2017. The debt was approved by the Commission in Case No. 2017-00406, which authorized an issuance of \$50,499,999.95. The Series 2017-B Notes are unsecured, bear interest at a rate of 4.26% per annum, which is payable quarterly, and mature on December 20, 2031. Our balance at May 31, 2021 was \$44,499,999.95. Long term interest paid in the 12-months ended May 31, 2021 was \$1,931,200.

DELTA NATURAL GAS COMPANY, INC.

**SHORT-TERM DEBT OUTSTANDING
 MAY 31, 2021**

Delta had outstanding at May 31, 2021 short-term debt as follows:

<u>LENDER</u>	<u>DUE DATE</u>	<u>RATE</u>	<u>AMOUNT</u>
PNG Companies LLC	9/30/2021*	LIBOR + 112.5 basis points and commitment fees of 15 basis points**	\$ 8,391,595.19

Short-term interest paid in the 12 months ended May 31, 2021 was \$33,022.20

* Delta executed a short-term Intercompany Demand Note on October 3, 2017 that was due on September 30, 2019. Pursuant to the Note, it has been renewed for a second term not to exceed two years from the effective date of the renewal. The Note permits a third renewal, provided, however, that the combined terms of the renewals shall not exceed six years from October 3, 2017, the original effective date. The parties have assented to renewing the note for the final term.

**Essential currently has a credit facility with various lenders ("Essential Credit Agreement"). This Essential Credit Agreement provides for borrowings at LIBOR + 112.5 basis points ("BPS"), and commitment fees of 15 BPS. These rates are the basis for the rates charged to PNG under a demand note with Essential and thus the rate PNG charges to Delta.

EXHIBIT B
FINANCIAL EXHIBIT
807 KAR 5:001
Section 12 (2)(g)
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DELTA NATURAL GAS COMPANY, INC.

**OTHER INDEBTEDNESS
MAY 31, 2021**

There is no other indebtedness outstanding.

EXHIBIT B
 FINANCIAL EXHIBIT
 807 KAR 5:001
 Section 12 (2)(h)
 Page 5 of 7

DELTA NATURAL GAS COMPANY, INC.

**DIVIDENDS FOR LAST FIVE YEARS
 MAY 31, 2021**

<u>MONTH AND YEAR PAID</u>	<u>RATE</u>	<u>ON SHARES OR VALUE</u>	<u>PAR VALUE</u>	<u>DIVIDEND AMOUNT</u>
March-16	0.205	7,104,613	7,104,613	\$ 1,456,446
June-16	0.205	7,110,454	7,110,454	\$ 1,457,643
September-16	0.2075	7,115,289	7,115,289	\$ 1,476,422
December-16	0.2075	7,123,569	7,123,569	\$ 1,478,141
March-17	0.2075	7,128,472	7,128,472	\$ 1,479,158
June-17	0.2075	7,133,329	7,133,329	\$ 1,480,166
July-17	0.2075	7,137,147	7,137,147	\$ 1,480,958
December-18	N/A	N/A	N/A	\$ 7,000,000
December-20	N/A	N/A	N/A	\$ 13,000,000

Dividends paid in 2016-2017 were to Delta shareholders. In September 2017, Delta was acquired by PNG, a privately held company, until March 2020 when PNG was acquired by Essential Utilities (Aqua America), a publicly-traded company.

EXHIBIT B
 FINANCIAL EXHIBIT
 807 KAR 5:001
 Section 12 (2)(i)
 Page 6 of 7

DELTA NATURAL GAS COMPANY, INC.

STATEMENT OF INCOME
12 MONTHS ENDED MAY 31, 2021
(UNAUDITED)

OPERATING REVENUES	<u>\$ 44,919,956</u>
OPERATING EXPENSES AND TAXES	
Gas Purchased	\$ 12,211,376
Operations & Maintenance	14,332,807
Depreciation & Amortization	8,003,084
Property & Other Taxes	<u>3,477,270</u>
Total	<u>\$ 38,024,538</u>
Operating Income	\$ 6,895,418
OTHER INCOME (EXPENSE), NET	\$ 1,395,822
INTEREST EXPENSES	\$ 2,172,697
PROVISION FOR INCOME TAXES	\$ 1,823,492
NET INCOME	<u>\$ 4,295,051</u>

BALANCE SHEET
12 MONTHS ENDED MAY 31, 2021
(UNAUDITED)

ASSETS

Gas Utility Plant	\$	271,867,293
Less - Reserve for Depreciation		120,109,552
Net Gas Utility Plant	\$	<u>151,757,741</u>
Current Assets		
Cash	\$	252,951
Receivables		4,069,192
Deferred Gas Cost		154,131
Gas Stored - Current Portion		2,364,028
Materials and Supplies		809,941
Prepayments		922,627
Other		457,020
Total Current Assets	\$	<u>9,029,890</u>
Other Assets		
Regulatory Assets	\$	6,454,137
Investments		1,413,715
Other		3,689,945
Total Other Assets	\$	<u>11,557,797</u>
TOTAL ASSETS	\$	<u><u>172,345,428</u></u>

LIABILITIES

Capitalization		
Member's Equity	\$	59,638,371
Long-Term Debt		43,000,000
Total Capitalization	\$	<u>102,638,371</u>
Current Liabilities		
Notes Payable	\$	8,391,595
Current Portion of Long-Term Debt		1,500,000
Accounts Payable		4,428,783
Accrued Taxes		1,565,204
Customers' Deposits		524,466
Accrued Interest & Payroll		3,680,480
Refunds Due Customers		57,418
Other		1,467,430
Total Current Liabilities	\$	<u>21,615,376</u>
Deferred Credits & Others		
Deferred Income Taxes	\$	24,329,927
Pension Liabilities		2,403,567
Asset Retirement Obligation and Other		21,358,186
Total Deferred Credits and Other	\$	<u>48,091,680</u>
TOTAL LIABILITIES	\$	<u><u>172,345,428</u></u>