

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA)
NATURAL GAS COMPANY, INC. FOR AN)
ADJUSTMENT OF GAS RATES) **CASE NO. 2024-00346**

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

Filed: April 14, 2025

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 requested a rate increase to recover its capital investments to provide safe and reliable
13 natural gas distribution service to our customers. Delta last requested a base rate
14 adjustment in 2021. Since that time, Delta has been focused on improving service for
15 existing customers, as well as expanding its operations to offer natural gas distribution
16 service to unserved areas. Delta requested an increase in its annual revenue requirement
17 of approximately 19.02%, or \$10,909,513. Delta utilized a forecasted test period in this
18 case comprised of a base period ending February 28, 2025, and a forecasted period ending
19 June 30, 2026.

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. Delta
5 and the AG met to discuss settlement on March 26, 2025. Before and after that meeting,
6 Delta shared calculations with the AG to support settlement negotiations and the AG
7 presented a counteroffer to further narrow the issues and find appropriate compromises.
8 Commission Staff attended the settlement meeting to remain apprised of the negotiations.

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

10 A. The parties recognize that the settlement process can promote administrative efficiency. A
11 fully litigated rate case is time consuming and expensive for all parties involved. The
12 Stipulation is the product of extensive negotiations by the parties to this case. Delta and
13 the AG reached a settlement that they believe represents fair, just, and reasonable rates that
14 minimize the impact to customers while providing Delta with sufficient rates to allow it to
15 operate safely and reliably. In addition, it contains a stay-out provision and an agreement
16 by Delta to increase its contributions to its assistance program for customers experiencing
17 difficulty in paying their gas bill, neither of which would have been accomplished in a
18 litigated proceeding.

19 **Q. In light of the Stipulation, are there any proposals set forth in Delta’s Application
20 that are not resolved?**

21 A. No. The Stipulation resolves all of the outstanding issues raised in Delta’s rate application
22 submitted on November 25, 2024.

23 **Revenue Requirement**

24 **Q. What revenue requirement does the Stipulation establish for Delta’s operations?**

1 A. The parties agreed to a base rate increase of \$7,772,933.¹ This reduces Delta’s proposed
2 revenue requirement increase from its filed position of \$10,909,513, a decrease of more
3 than \$3 million. The Stipulation’s revenue requirement represents an overall revenue
4 increase of 11.3%. Delta’s original request represented a \$15.76 increase in the average
5 residential monthly bill. The Stipulation reduces the increase amount to \$11.21 on the
6 average monthly bill.

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

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

12 **Q. Please summarize how the Stipulation calculates the proposed revenue requirement**
13 **increase.**

14 A. The Stipulation’s proposed revenue requirement increase is calculated as shown in the table
15 below. The calculations begin with the Delta’s proposed revenue requirement, followed
16 by adjustments for corrections and updates recognized in discovery and items conceded as
17 a matter of settlement.

¹ Delta’s increases to its collection and reconnection charges result in an annual increase of \$28,862 in special charges revenue, making the total revenue increase to be recovered in rates \$7,744,071.

Item	Revenue Requirement
Filed Revenue requirement increase	10,909,513
Reduce ROE from 10.95% to 9.75%	(1,532,627)
Correct employee medical benefits forecast	(1,159,358)
Stipulate cash working capital	(206,383)
Incentive compensation	(238,176)
Lobbying and dues	(30,639)
Gross up	30,603
Revenue requirement increase after stipulated adjustments	7,772,933

1

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

3 A. The parties agreed for the purposes of this base rate proceeding that a return on equity of
4 9.75% is reasonable for Delta’s operations. The parties believe the 9.75% represents a fair
5 and reasonable compromise and is in line with returns on equity the Commission has
6 approved recently for similarly situated utilities. The parties further stipulate to a return
7 on equity of 9.65% for Delta’s Pipe Replacement Program mechanism. These
8 modifications to return on equity reduce Delta’s proposed revenue requirement increase by
9 \$1,532,627.

10 **Q. Please describe the correction to the employee medical benefits forecast.**

11 A. In response to AG 1-66(c), Delta explained that it discovered that medical premiums were
12 overestimated. This correction reduced the required rate increase by \$1,159,358.

13 **Q. Did the parties also agree to a different amount of cash working capital than Delta
14 proposed?**

15 A. Yes. In the spirit of settlement, the parties agreed to reduce Delta’s requested revenue
16 requirement increase to set cash working capital in rate base to (\$883,198), which is the
17 amount recommended by the AG’s witness, Mr. Dittmore. This reduces the revenue
18 requirement by \$206,383.

19 **Q. Please describe the Stipulation’s treatment of incentive compensation.**

1 A. The Stipulation addresses both short-term incentive compensation (“STI”) and long-term
2 incentive compensation (“LTI”) for a total reduction \$238,176 to Delta’s originally
3 proposed revenue requirement. For STI, the parties agree that the stipulated revenue
4 requirement includes 100% of Delta’s STI expense and 50% of the STI expense allocated
5 to Delta that is attributable to Essential Utilities, Inc. (“Essential”) and PNG Companies
6 LLC (“PNG”) employees who provide service to Delta. The 50% of Essential- and PNG-
7 allocated STI that is excluded from the revenue requirement and is related to financial
8 performance reduces the originally proposed revenue requirement by \$125,680. The
9 remaining STI to be recovered in rates is not tied to financial performance.

10 For LTI, the parties agree that the stipulated revenue requirement includes 65% of
11 Delta’s LTI expense and 50% of the LTI expense allocated to Delta that is attributable to
12 Essential and PNG employees that provide service to Delta. Removing 35% of Delta’s
13 LTI expense and 50% of Essential- and PNG-allocated LTI expense reduces the originally
14 proposed revenue requirement by \$112,496. The remaining LTI is not tied to financial
15 performance.

16 **Q. Do the parties agree to adjustments for lobbying and dues?**

17 A. Yes. The parties agree to remove AGA dues, which reduces the originally proposed
18 revenue requirement by \$22,700. Coupled with Delta’s correction to eliminate allocated
19 lobbying charges identified in AG 1-70, the total reduction to Delta’s originally proposed
20 revenue requirement is \$30,639.

21 **Q. What is the gross up factor adjustment?**

22 A. The parties agree that stipulated revenue requirement includes a gross up factor to the pro
23 forma adjustments in the amount of \$30,603.

1 **Q. Does the Stipulation specifically detail the cost of debt on which the revenue**
2 **requirement is calculated?**

3 A. Yes. The parties agree that Delta's long-term debt rate included in the cost of capital will
4 be 4.51%. Delta's capital structure on which the revenue requirement is calculated is:
5 52.76% equity, 47.24% long-term debt, and 0% short-term debt. Delta's weighted average
6 cost of capital is 7.27%.

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

9 A. The parties stipulate that the revenue requirement is calculated on a rate base method in the
10 amount of \$178,287,345.

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

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

14 **Revenue Allocation and Rate Design**

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

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

19 **Q. Does the stipulation include an updated tariff?**

20 A. Yes. The updated tariff, showing the rates agreed to in the Stipulation, is attached to the
21 Stipulation as Exhibit 3. The updated tariff reflects the updated Gas Cost Recovery rate
22 Delta proposed in Case No. 2025-00097.

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

1 A. Yes. As set forth in Stipulation Exhibit 2, the customer charge for residential service shall
2 increase by \$5.95 from \$24.00 to \$29.95, which is a reduction from the original proposed
3 customer charge of \$33.60.

4 **Treatment of Specific Issues**

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

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

9 **Q. Does the Stipulation contain a stay-out provision?**

10 A. Yes. Subject to the exclusions set forth in the Stipulation, the parties agree that Delta will
11 not file an application to adjust the base rates where such adjustment would have an
12 effective date at the conclusion of the Commission’s suspension period under KRS
13 278.190, for service rendered prior to Delta’s January 2029 billing cycle. As stated in the
14 Stipulation, Delta retains the right, at any time, to seek Commission approval for deferral
15 accounting, emergency rate relief under KRS 278.190(2), adjustments to Delta’s existing
16 and future mechanisms, and rate changes due to changes in law or regulations.

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

18 A. Yes. The parties agree that Delta should recover its actual rate case expense, to be
19 determined by Delta’s final monthly update to be filed on or before the filing of its post-
20 hearing data responses or post-hearing brief, whichever is later. The rate case expense will
21 be amortized over a three-year period beginning on the effective date of the revised tariffs,
22 without carrying charges.

23 **Q. Do the parties agree that Delta will increase its contributions to the Home Energy**
24 **Assistance (“HEA”) program?**

1 A. Yes. Delta currently contributes \$45,000 annually to the HEA program. Delta agrees to
2 increase its contribution by \$20,000 to \$65,000 in 2026, 2027, 2028, and 2029. By 2029,
3 this increase in Delta’s contributions will total \$80,000 over the four-year period.

4 **Q. Does the AG agree not to contest the regulatory asset Delta proposes?**

5 A. Yes. Delta has proposed to defer and recover as a regulatory asset the \$162,900 related to
6 the tax method change study over a three-year period. The AG agrees not to contest the
7 establishment and amortization of this regulatory asset.

8 **Conclusion**

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

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

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

16 A. Yes. I recommend the Commission accept and approve the Stipulation without
17 modification.

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

19 A. Yes, it does.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF CLARK)

The undersigned, **John B. Brown**, being duly sworn, deposes and says he is President and Chief Officer of Kentucky Operations of Delta Natural Gas Company, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.



JOHN B. BROWN

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of April, 2025.



Notary Public (SEAL)

My Commission Expires:

June 19, 2027

