

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

APPLICATION

Applicant, Delta Natural Gas Company, Inc. (“Delta”), pursuant to KRS Chapter 278 and the applicable sections of 807 KAR Chapter 5, hereby applies to the Kentucky Public Service Commission (“Commission”) for authority to adjust its gas rates and approval of certain regulatory and accounting treatments.

Delta’s Notice of Intent to File a Rate Application, required by 807 KAR 5:001, Section 16(2), stated that the Application would be supported by a fully forecasted test period, was filed with the Commission on October 25, 2024, was provided to the Attorney General of Kentucky, Office of Rate Intervention, and is attached at Tab 7 of the Filing Requirements.

In support of its Application, Delta states as follows:

1. Delta’s full name is Delta Natural Gas Company, Inc. Delta’s post office address, principal office, and place of business are located at 3617 Lexington Road, Winchester, Kentucky 40391. Delta may be reached by electronic mail at the electronic mail addresses of counsel set forth below.

2. Delta is a Kentucky corporation that was incorporated on October 7, 1949 and 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, Lincoln, Fayette, Fleming, Clark, Robertson, Mason, Lawrence, Johnson, Martin, Magoffin, Floyd, Pike, Perry, Knott, and Letcher Counties, Kentucky.

4. This Application constitutes notice to the Commission pursuant to KRS 278.180(1) of the changes proposed to be made to Delta's gas rates.

5. Pursuant to 807 KAR 5:001 Section 8, on October 24, 2024, Delta filed with the Commission notice of its intent to use electronic filing procedures in this proceeding. Pursuant to 807 KAR 5:001 Section 16(2), on October 25, 2024, Delta filed with the Commission notice of its intent to file an application for an increase in rates.

Adjustment of Gas Rates

6. In accordance with the provisions of KRS 278.180 and 278.190, Delta requests Commission approval of a change in existing rates, terms, conditions, and tariffs for gas service. Delta proposes to change its existing rates and tariffs to those rates and charges set forth in the proposed tariff attached at Tab 4 of the Filing Requirements. A comparison of the present and proposed rates and charges is attached at Tab 5 of the Filing Requirements.

7. To continue providing safe and reliable service, Delta has invested substantial capital to maintain and upgrade its facilities since its last rate case and will continue do so during the forecasted test period. Although Delta has operated efficiently, a rate increase is necessary at this time.

8. The proposed adjustments in gas rates will result in an increase in revenues of \$10,909,513, or approximately 19.02% percent per year, for the forecasted test period compared to the operating revenues for the forecasted test period under existing rates.

9. The monthly residential bill increase due to the proposed gas base rates will be 22.18 percent, or approximately \$15.75, for a customer using 4.56 Mcf of gas (the average monthly consumption of a Delta residential customer).

Support for Change in Existing Rates and Tariffs

10. In accordance with KRS 278.180, KRS 278.190 and 807 KAR 5:001 Section 16(1)(b)(1), Delta states that the requested change in existing rates, terms, conditions, and tariffs is required to enable Delta to continue providing safe and reliable service to its customers, and to afford Delta a reasonable opportunity to earn a fair return on its property used to provide that service while attracting necessary capital at reasonable rates. Delta's current rates and tariffs are inadequate for those purposes. Therefore, as explained in more detail in the verified testimony and exhibits identified below, the requested change in existing rates is required.

11. Delta supports its request for a change in its existing rates and tariffs with the verified testimony and exhibits of the following persons:

- (a) John B. Brown, Delta President and Chief Officer of Kentucky Operations
- (b) Jonathan Morpew, Delta Director of Operations
- (c) Abdul-Azeez Odusanya, Delta Controller
- (d) William Packer, Essential Vice President, Regulatory Accounting & Regional Controller
- (e) Jeff Wernert, Principal, The Prime Group, LLC
- (f) Larry Feltner, Managing Partner, The Prime Group, LLC
- (g) Paul Moul, Managing Consultant, P. Moul & Associates

12. Delta further supports its request for a change in its existing rates and tariffs with the following exhibits complying with the requirements of 807 KAR 5:001 Sections 14, 16, and 17:

Tab No.	Filing Requirement	Description
1	807 KAR 5:001 Section 14	Application requirements
2	807 KAR 5:001 Section 16(1)(b)(1)	Statement of the reason the adjustment is required
3	807 KAR 5:001 Section 16(1)(b)(2)	Certified copy of a certificate of assumed name or a statement that such a certificate is not necessary
4	807 KAR 5:001 Section 16(1)(b)(3)	New or revised tariff sheets
5	807 KAR 5:001 Section 16(1)(b)(4)	Comparison of current and proposed tariffs
6	807 KAR 5:001 Section 16(1)(b)(5)	Statement that notice has been given with a copy
7	807 KAR 5:001 Section 16(2)	Notice of Intent
8	807 KAR 5:001 Section 16(6)(a)	Statement regarding requirements for pro forma adjustments to base period
9	807 KAR 5:001 Section 16(6)(b)	Forecasted adjustments shall be limited to the 12 months immediately following the suspension period
10	807 KAR 5:001 Section 16(6)(c)	Capitalization and net investment rate base shall be based on a 13-month average for the forecasted period
11	807 KAR 5:001 Section 16(6)(d)	No revisions to forecast
12	807 KAR 5:001 Section 16(6)(e)	Commission may require alternative forecast
13	807 KAR 5:001 Section 16(6)(f)	Reconciliation of the rate base and capital
14	807 KAR 5:001 Section 16(7)(a)	Written testimony
15	807 KAR 5:001 Section 16(7)(b)	Most recent capital construction budget
16	807 KAR 5:001 Section 16(7)(c)	Description of all factors used to prepare forecast period
17	807 KAR 5:001 Section 16(7)(d)	Annual and monthly budgets
18	807 KAR 5:001 Section 16(7)(e)	Attestation by utility's chief officer

19	807 KAR 5:001 Section 16(7)(f)	Major construction projects constituting 5% or more of annual construction budget
20	807 KAR 5:001 Section 16(7)(g)	Construction projects constituting less than 5% of annual construction budget
21	807 KAR 5:001 Section 16(7)(h)	Financial forecast for each of 3 forecasted years included in capital construction budget
22	807 KAR 5:001 Section 16(7)(h)(1)	Operating income statement
23	807 KAR 5:001 Section 16(7)(h)(2)	Balance sheet
24	807 KAR 5:001 Section 16(7)(h)(3)	Statement of cash flows
25	807 KAR 5:001 Section 16(7)(h)(4)	Revenue requirements necessary to support the forecasted rate of return
26	807 KAR 5:001 Section 16(7)(h)(5)	Load forecast including energy and demand (electric)
27	807 KAR 5:001 Section 16(7)(h)(6)	Access line forecast (telephone)
28	807 KAR 5:001 Section 16(7)(h)(7)	Mix of generation (electric)
29	807 KAR 5:001 Section 16(7)(h)(8)	Mix of gas supply (gas)
30	807 KAR 5:001 Section 16(7)(h)(9)	Employee level
31	807 KAR 5:001 Section 16(7)(h)(10)	Labor cost changes
32	807 KAR 5:001 Section 16(7)(h)(11)	Capital structure requirements
33	807 KAR 5:001 Section 16(7)(h)(12)	Rate base
34	807 KAR 5:001 Section 16(7)(h)(13)	Gallons of water projected to be sold (water)
35	807 KAR 5:001 Section 16(7)(h)(14)	Customer forecast (gas, water)
36	807 KAR 5:001 Section 16(7)(h)(15)	Sales volume forecasts - cubic feet (gas)
37	807 KAR 5:001 Section 16(7)(h)(16)	Toll and access forecast of number of calls and number of minutes (telephone)

38	807 KAR 5:001 Section 16(7)(h)(17)	A detailed explanation of any other information provided
39	807 KAR 5:001 Section 16(7)(i)	Most recent FERC or FCC audit reports
40	807 KAR 5:001 Section 16(7)(j)	Prospectuses of most recent stock or bond offerings
41	807 KAR 5:001 Section 16(7)(k)	Most recent FERC Form 1 (electric), FERC Form 2 (gas), or and PSC Form T (telephone)
42	807 KAR 5:001 Section 16(7)(l)	Annual report to shareholders
43	807 KAR 5:001 Section 16(7)(m)	Current chart of accounts
44	807 KAR 5:001 Section 16(7)(n)	Managerial reports
45	807 KAR 5:001 Section 16(7)(o)	Budget variance reports
46	807 KAR 5:001 Section 16(7)(p)	SEC filings
47	807 KAR 5:001 Section 16(7)(q)	Independent auditor's annual opinion report
48	807 KAR 5:001 Section 16(7)(r)	Quarterly reports to the stockholders
49	807 KAR 5:001 Section 16(7)(s)	Depreciation study
50	807 KAR 5:001 Section 16(7)(t)	List of all commercial or in-house computer software, programs, and models
51	807 KAR 5:001 Section 16(7)(u)	Amounts charged or allocated to it by an affiliate or general or home office
52	807 KAR 5:001 Section 16(7)(v)	Cost of service study
53	807 KAR 5:001 Section 16(7)(w)	Local exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as directed by PSC
54	807 KAR 5:001 Section 16(8)(a)	Jurisdictional financial summary for both base and forecasted periods
55	807 KAR 5:001 Section 16(8)(b)	Jurisdictional rate base summary for both base and forecasted periods
56	807 KAR 5:001 Section 16(8)(c)	Jurisdictional operating income summary for both base and forecasted periods

57	807 KAR 5:001 Section 16(8)(d)	Summary of jurisdictional adjustments to operating income
58	807 KAR 5:001 Section 16(8)(e)	Federal and state income tax summary
59	807 KAR 5:001 Section 16(8)(f)	Summary schedules for both base and forecasted periods of organization membership dues; initiation fees; expenditures for country club; charitable contributions; marketing, sales, and advertising; professional services; civic and political activities; employee parties and outings; employee gifts; and rate case expenses
60	807 KAR 5:001 Section 16(8)(g)	Analyses of payroll costs
61	807 KAR 5:001 Section 16(8)(h)	Computation of gross revenue conversion factor for forecasted period
62	807 KAR 5:001 Section 16(8)(i)	Comparative income statements, revenue statistics and sales statistics
63	807 KAR 5:001 Section 16(8)(j)	Cost of capital summary for both base and forecasted periods
64	807 KAR 5:001 Section 16(8)(k)	Comparative financial data and earnings measures
65	807 KAR 5:001 Section 16(8)(l)	Narrative description and explanation of all proposed tariff changes
66	807 KAR 5:001 Section 16(8)(m)	Revenue summary for both base and forecasted periods
67	807 KAR 5:001 Section 16(8)(n)	Bill comparison under present and proposed rates for all customer classes
68	807 KAR 5:001 Section 17	Notice Content

13. As authorized by KRS 278.192(1), the Application for a general adjustment of gas rates is supported by a twelve-month (12) fully forecasted test period in accordance with 807 KAR 5:001, Section 16(1)(a)(2) with the forecasted test period ending June 30, 2026. The Application is supported by a base period consisting of the twelve (12) months ending February 28, 2025. As authorized by KRS 278.192(2), this base period begins not more than nine (9) months prior to the

date of the filing of this Application, and is a period consisting of not less than six (6) months of historical data and not more than six (6) months of estimated data. Within forty-five (45) days after the last day of the base period, Delta will file the actual results for the estimated months of the base period as required by KRS 278.192(2)(b).

14. In support of its Application for a general adjustment of rates supported by a fully forecasted test period, Delta has presented its financial data for the forecasted period in the form of pro forma adjustments to the base period, has limited the forecasted adjustments to the forecasted period, and has based capitalization and net investment rate base on a thirteen-month average for the forecasted period, all as shown in Tabs 54-67.

15. The testimony and exhibits to the Application demonstrate the rates, terms, conditions, and tariffs proposed for electric service are fair, just, and reasonable under KRS 278.030.

Reasons for Increase in Revenue Requirement

16. Delta, through prudently managing its costs, has not sought an increase in its base rates since 2021. Based upon Delta's current and projected operations, however, Delta's existing rates will produce revenues in the forecasted test period that are approximately \$10,909,513 less than those necessary to meet Delta's reasonable operating expenses and provide a reasonable rate of return. This revenue deficiency exists despite efforts to increase operational efficiencies and manage costs and is driven by necessary investments to provide safe and reliable service to its customers.

17. Since the test period in Delta's last rate case, rate base has increased by \$46,423,450, which is 35%. Delta's depreciation expense has increased by approximately the same percentage over the same period. These metrics make clear that the primary driver of this

rate increase is the need to accurately reflect the amount of assets that are used and useful in providing natural gas service to our customers.

Depreciation

18. In support of this Application, Delta submits Mr. Jeffrey Wernert's testimony and depreciation study he is sponsoring.

Deferral Accounting

19. Delta requests the Commission approve the use of deferral accounting related to a tax change associated with the natural gas safe harbor rules. Following the Internal Revenue Service's issuance of Revenue Procedure 2023-15 on April 14, 2023, Delta's parent company, PNG, caused a study to be performed to determine which assets were eligible for more favorable tax rate changes. As a result of the study, PNG and Delta achieved certain tax savings, which will benefit customers. A copy of Delta's Form 3115, Application for Change in Accounting Method, was mailed to the Commission on October 30, 2024. Delta is requesting a regulatory asset be established for the costs associated with its portion of the study expenses—\$162,900—because the study costs and reduction in taxes are extraordinary and nonrecurring, and the study costs result from a federal administrative directive. Delta proposes to amortize the regulatory asset over a three-year period. Mr. Odusanya discusses this proposal in his testimony.

Requested Relief

WHEREFORE, Delta Natural Gas Company, Inc. respectfully requests the Kentucky Public Service Commission to enter an order:

1. Approving the revised tariff sheets at Tab 4 of the Filing Requirements;
2. Approving Delta's proposed depreciation rates;
3. Authorizing Delta to establish a regulatory asset to reflect the costs of the study resulting from the tax change associated with the natural gas safe harbor rules; and

4. Granting all other relief to which Delta may be entitled.

Dated: November 25, 2024

Respectfully submitted,



Monica H. Braun
Mary Ellen Wimberly
Emily S. Childress
monica.braun@skofirm.com
maryellen.wimberly@skofirm.com
emily.childress@skofirm.com

Stoll Keenon Ogden PLLC
300 West Vine Street, Suite 2100
Lexington, KY 40507
Telephone: (859) 231-3000
Facsimile: (859) 259-3503

Counsel for Delta Natural Gas Company, Inc.

CERTIFICATE OF SERVICE

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 November 25, 2024; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



Counsel for Delta Natural Gas Company, Inc.