

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF THE)	
IMPACT OF THE TAX CUTS AND JOB ACT)	CASE NO.
ON THE RATES OF DELTA NATURAL GAS)	2018-00040
COMPANY, INC.)	

ORDER

On November 13, 2018, Delta Natural Gas Company, Inc. (Delta) filed responses to the request for information set forth in the Commission's Order entered on September 21, 2018. Delta's responses state that it filed its 2017 federal tax return on October 15, 2018, that it is required to use the Reverse South Georgia Method (RSGM) to calculate the amortization of its excess protected Accumulated Deferred Income Taxes (ADIT), and that an amortization period of 21 years must be used for the protected ADIT. Delta's responses also included a revised calculation of its excess ADIT amortization, the revenue requirement impact of the revised amortization of the excess protected ADIT, and proposed revised rates and revised tariffs to reflect the revisions.

DISCUSSION

Using Delta's updated statutory tax rates¹ and the GRCF,² and the filed regulatory net income before taxes as of September 30, 2017,³ the September 21, 2018 Order

¹ Supplemental Responses to Staff's First Request, Item 5. a. - Gross Revenue Conversion Factor (34% Federal Income Tax Rate, 5% Kentucky Income Tax Rate) and Item 5. b. - Gross Revenue Conversion Factor (21% Federal Income Tax Rate, 5% KY Income Tax Rate).

² *Id.*, Item 5. b. - Gross Revenue Conversion Factor (21% Federal Income Tax Rate, 5% KY Income Tax Rate).

³ Wesolosky Testimony, Schedule MDW-2, Tax Expense Impact.

determined that the TCJA would reduce Delta’s current federal income tax (FIT) expense by \$1,142,599. For the protected excess ADIT, the Commission adopted Delta’s proposal to use the RSGM to calculate a 21-year amortization period and to use a 15-year period for its unprotected excess ADIT. The September 21, 2018 Order determined that the amortization of the excess ADIT reduced income tax expense by \$673,579 for the protected ADIT and \$60,567 for the unprotected ADIT for a total of \$734,146.⁴ The overall reduction to Delta’s revenue requirement was calculated to be \$2,510,210, as calculated in the table below:

Current FIT and SIT Reduction	\$ (1,142,559)
Amortization Excess ADIT - Protected	(673,579)
Amortization Excess ADIT - Unprotected	<u>(60,567)</u>
Income Tax Expense Reduction	(1,876,705)
Multiplied by: GRCF	<u>1.33756</u>
Revenue Requirement Reduction	<u>\$ (2,510,210)</u>

The amortization of protected excess ADIT was based upon estimates, because Delta was unable to determine with certainty the actual ADIT amortizations until Delta’s 2017 federal income tax return (2017 Federal Return) was completed and filed in October 2018.⁵ Because the penalties for a normalization violation could result in Delta’s loss of accelerated depreciation for FIT purposes, Delta requested that any orders issued in this case, which precede additional IRS guidance, should be subject to adjustment if the amortization of excess protected ADIT would result in normalization violation.⁶ Within 30

⁴ See, Appendix A.

⁵ Responses to Commission Staff’s Request for Information, Item 1.c.

⁶ *Id.*

days of finalizing the actual ADIT amounts, Delta proposed that it would submit updated tariff sheets with revised surcredits and supporting schedules.

In its August 21, 2018 Order, the Commission agreed with Delta's position, and found that the investigation into the TCJA impact of the amortization of the excess ADIT should remain open pending the filing of Delta's 2017 Federal Return. The Commission ordered Delta to file revisions to its estimated amortization of the excess ADIT and a tariff containing the revised surcredit within 30 days of filing its 2017 Federal Return.

Pursuant to the September 21, 2018 Order, Delta filed the required updates to its data responses and proposed tariff sheets with the updated TCJA surcredits. However, rather than utilizing the net income before taxes methodology as adopted by the September 21, 2018 Order, Delta proposed to utilize its net investment rate base. Because Delta has not filed a base rate case since Case No. 2010-00116⁷, and its current rate base includes investments that have not been reviewed and determined to be reasonable, the Commission finds that the net income before taxes methodology should continue to be used. As shown in the table below, the revisions to the amortization of the protected and unprotected excess ADITs result in an overall increase to the income tax expense of \$4,744 and a decrease to the revenue requirement reduction of \$6,345.

⁷ Case No. 2010-00116 *Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates* (Ky. PSC Nov 29, 2010).

	8/21/2018 Order	11/13/2018 Filing	(Increase)/ Decrease
Current FIT and SIT Reduction	\$ (1,142,559)	\$ (1,142,559)	\$ -
Amortization Excess ADIT - Protected	(673,579)	(680,668)	(7,089)
Amortization - Unprotected	(60,567)	(48,734)	11,833
Income Tax Expense Reduction	(1,876,705)	(1,871,961)	4,744
Multiplied by: GRCF	1.33756	1.33756	1.33756
Revenue Requirement Reduction	<u>\$ (2,510,210)</u>	<u>\$ (2,503,864)</u>	<u>\$ 6,345</u>

RATE DESIGN

The revised overall reduction to Delta's annual revenue requirement is \$2,503,864, an annual decrease of \$6,345 from the reduction approved on an interim basis by the September 21, 2018 Order. The revised revenue reduction will continue to be allocated based upon the class revenues as approved in Delta's last rate case, Case No. 2010-00116 and then divided by the number of customers as of September 30, 2017.⁸

The September 21, 2018 Order approved rates for three time periods: October 2018–March 2019; April 2019–December 2019; and January 2020 and beyond. The rates approved for October 2018–March 2019 reflected the tax reductions for that six-month period plus the tax reductions for the nine-month stub period of January 1, 2018–September 30, 2018. For the months of October, November, and December, Delta will have refunded customers three months of this period's refund, or \$1,568,881, and will have the balance of \$1,568,881 left to refund.⁹ With the revised revenue reduction, the total refund for this period must be decreased by \$7931 for a total refund of \$1,560,950

⁸ See Appendix A for the class rate calculations.

⁹ The Oct18 – Mar19 Refund totaled \$3,137,763.

during the January through March balance of the October 2018–March 2019 period.¹⁰ For the remaining months of 2019, the September 21, 2018 Order revenue reduction of \$1,882,658 will decrease by \$4759, to a level of \$1,877,899. Beginning January 2020, the revised annual revenue reduction of \$2,503,865 will be credited to ratepayers through a surcredit reduction. For each time period, the rate reduction is determined using the same allocation methodology, with the rate reduction reflected on customer bills as a surcredit reduction. The tax reduction surcredits approved by this Order will continue in effect until new base rates are established in Delta’s next general rate case.

IT IS THEREFORE ORDERED that:

1. The rates and charges in Appendix B, attached hereto, are fair, just, and reasonable for Delta to charge for service rendered on and after January 1, 2018.
2. Within 20 days of the date of this Order, Delta shall file with the Commission, using the Commission’s electronic Tariff Filing System, its revised tariffs as set forth in this Order.
3. This case is closed and removed from the Commission’s docket.

10	(1) Total Annual Increase:	\$ 6345	
	(2) Monthly Increase:	\$ 529	(line 1 ÷ 12)
	(3) Stub Period Increase:	\$ 4759	(line 2 * 9)
	(4) Oct18 – Mar19 Increase:	\$ 3172	(line 2 * 6)
	(5) Total Increase for Oct18 – Mar19	\$ 7931	(line 3 + line 4)
	(6) Total Refund Balance	\$1,568,881	
	(7) Jan19 – Mar19 Refund	\$1,560,950	(line 6 – line 5)

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00040 DATED **DEC 21 2018**

Oct 2018 - Mar 2019

	Calculated Net Revenue @ Approved Rates per Case No. 2010-00116	Class Allocation	Allocated Tax Adjustment	# of Customers for the 12 months ended September 30, 2017	Monthly Customers	Monthly per Customer Tax Reduction Rate (Adjustment/(monthly customers*3))
Residential	\$ 14,846,218	54.3%	\$ 847,948	355,300	29,608	\$ 9.55
Small Non-Residential	3,991,286	14.6%	227,964	50,181	4,182	18.17
Large Non-Residential	7,008,122	25.6%	400,272	11,763	980	136.11
Interruptible	1,484,119	5.4%	84,766	367	31	923.88
	\$ 27,329,745	100.0%	\$ 1,560,950	417,611	34,801	

Apr 2019 - Dec 2019

	Calculated Net Revenue @ Approved Rates per Case No. 2010-00116	Class Allocation	Allocated Tax Adjustment	# of Customers for the 12 months ended September 30, 2017	Monthly Customers	Monthly per Customer Tax Reduction Rate (Adjustment/(monthly customers*9))
Residential	\$ 14,846,218	54.3%	\$ 1,020,122	355,300	29,608	\$ 3.83
Small Non-Residential	3,991,286	14.6%	274,252	50,181	4,182	7.29
Large Non-Residential	7,008,122	25.6%	481,547	11,763	980	54.58
Interruptible	1,484,119	5.4%	101,978	367	31	370.49
	\$ 27,329,745	100.0%	\$ 1,877,899	417,611	34,801	

Jan 2020 and on

	Calculated Net Revenue @ Approved Rates per Case No. 2010-00116	Class Allocation	Allocated Tax Adjustment	# of Customers for the 12 months ended September 30, 2017	Monthly Customers	Monthly per Customer Tax Reduction Rate (Adjustment/(monthly customers*12))
Residential	\$ 14,846,218	54.3%	\$ 1,360,164	355,300	29,608	\$ 3.83
Small Non-Residential	3,991,286	14.6%	365,669	50,181	4,182	7.29
Large Non-Residential	7,008,122	25.6%	642,062	11,763	980	54.58
Interruptible	1,484,119	5.4%	135,970	367	31	370.49
	\$ 27,329,745	100.0%	\$ 2,503,865	417,611	34,801	

APPENDIX B
APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2018-00040 DATED **DEC 21 2018**

The following rates and charges are prescribed for the customers in the area served by Delta Natural Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the effective date of this Order.

TCJA Surcredit

As of January 2, 2019 – March 31, 2019

Residential Rate per Customer	\$(9.55) per month
Small Non-Residential Rate per Customer	\$(18.17) per month
Large Non-Residential Rate per Customer	\$(136.11) per month
Interruptible Rate Per Customer	\$(923.88) per month

As of April 1, 2019

Residential Rate per Customer	\$(3.83) per month
Small Non-Residential Rate per Customer	\$(7.29) per month
Large Non-Residential Rate per Customer	\$(54.58) per month
Interruptible Rate Per Customer	\$(370.49) per month

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