

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| ELECTRONIC PURCHASED GAS |) | CASE NO. |
| ADJUSTMENT FILING OF DELTA NATURAL |) | 2022-00422 |
| GAS COMPANY, INC. |) | |

ORDER

On December 20, 2022, Delta Natural Gas Company, Inc. (Delta) filed its proposed unified Gas Cost Recovery (GCR) rate report to be effective January 25, 2023. Delta's previous unified GCR rate was approved in Case No. 2022-00326.¹

BACKGROUND

On February 22, 2021, the transfer of ownership of Peoples Gas KY, LLC (Peoples) to Delta was completed following the closing of Case No. 2020-00346.² For a period after the transfer, Delta maintained a separate GCR rate for Peoples' system and Delta's existing system. In Case No. 2021-00185, Delta requested a unified GCR rate for the Delta and former Peoples' systems in order to eliminate customer confusion and to minimize the amount of filings to the Commission.³ The Commission approved Delta's

¹ Case No. 2022-00326, *Electronic Purchased Gas Adjustment Filing of Delta Natural Gas Company, Inc.* (Ky. PSC Oct. 21, 2022).

² Case No. 2020-00346, *Electronic Application of Essential Utilities, Inc., PNG Companies LLC, Peoples Gas KY LLC, And Delta Natural Gas Company, Inc. For (1) A Declaratory Order and (2) Increase in Rates for Peoples Gas KY LLC* (Ky. PSC Feb. 22, 2021).

³ Case No. 2021-00185, *Electronic Application of Delta Natural Gas Company, Inc. for an Adjustment of Its Rates and a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 3, 2022), Order at 27.

request to consolidate its GCR rates for the Delta and former Peoples' gas system.⁴ However, the Commission indicated that the GCA report would initially only include the combined system's Expected Gas Cost (EGC) in the calculation of the GCR rate, and that subsequent Actual Cost Adjustment (ACA) and Balancing Adjustment (BA) would be implemented in future unified GCA filings.⁵

Delta's last separate GCR rate was approved in Case No. 2021-00461,⁶ and Peoples' last separate GCR rate was approved in Case No. 2021-00450.⁷ Delta filed its first consolidated GCR rate report in Case No. 2022-00100 with a combined EGC component and separate ACA and BA components for Delta's legacy system and Peoples' system, but the case was closed on Delta's request with the previous approved separate GCR rates for Delta and former Peoples remaining in effect until the next quarterly GCR rate report filing.⁸ Delta's first consolidated GCR rate report was approved by the Commission in Case No. 2022-00191 for an effective date of July 25, 2022.⁹ The consolidated rate report included the EGC component of the combined gas system.

⁴ Case No. 2021-00185, *Electronic Application of Delta Natural Gas Company, Inc. for an Adjustment of Its Rates and a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 3, 2022), Order at 26-28.

⁵ Case No. 2021-00185, *Electronic Application of Delta Natural Gas Company, Inc. for an Adjustment of Its Rates and a Certificate of Public Convenience and Necessity* (Ky. PSC Jan. 3, 2022), Order at 27.

⁶ Case No. 2021-00461, *Electronic Purchased Gas Adjustment Filing of Delta Natural Gas Company, Inc.* (Ky. PSC Jan. 21, 2022).

⁷ Case No. 2021-00450, *Electronic Purchased Gas Adjustment Filing of Peoples Gas KY, LLC* (Ky. PSC Jan. 28, 2022).

⁸ Case No. 2022-00100, *Electronic Purchased Gas Filing Of Delta Natural Gas Company, Inc.* (Ky. PSC Aug 31, 2022).

⁹ Case No. 2022-00191, *Electronic Purchased Gas Filing Of Delta Natural Gas Company, Inc.* (Ky. PSC July 22, 2022).

Delta's combined system ACA was not available until Delta filed its GCR rate report for rates effective around February 2023 and Delta's combined system BA will continue to be unavailable until its first unified ACA quarter expires.

The Commission's approval of a consolidated GCR rate report for the Delta and former Peoples gas system resulted in residual gas procurement costs that were not recovered when the consolidated GCR rate report became effective. The previously approved GCR rates for the Delta and former Peoples gas system included quarter ACA and BA components that were calculated to be in effect for twelve-month period in order to collect the total amount under or over recovered for each calendar quarter, but those amounts were not included in the consolidated GCR rate. Delta reported that this resulted in an under recovery of \$8,160,521 for Delta and \$320,990 for the former Peoples gas system. As part of this case proceeding, Delta is proposing to recover the balances through a monthly residual tracker surcharge of \$0.87 per Mcf for Delta and \$0.74 per Mcf for former Peoples. Delta estimates based on historical sales data that the surcharges would be in effect for a three-year period and two-year period for Delta and former Peoples' systems, respectively.¹⁰ Delta filed proposed amended tariff sheets with the proposed surcharges included.

LEGAL STANDARD

KRS 278.160(1) requires each utility to "file with the commission, within such time and in such form as the commission designates, schedules showing all rates and conditions for service established by it." KRS 278.160(2) prohibits a utility from charging "greater or less compensation for any service rendered or to be rendered than that

¹⁰ See Cover Letter and Proposed Tariff sheets.

prescribed in its filed schedules.” KRS 278.180 prohibits a utility from amending a rate in its filed schedules without 30 days’ notice to the Commission (or 20 days-notice upon a showing of good cause).

The Commission’s standard of review for GCR rates is well settled as stated in KRS 278.274(1):

In determining whether proposed natural gas utility rates are just and reasonable, the commission shall review the utility's gas purchasing practices. The commission may disallow any costs or rates which are deemed to result from imprudent purchasing practices on the part of the utility.

Further, the utility has the burden to prove the rates are just and reasonable, and the Commission may reduce the purchased gas component of the utility’s rates or the rates charged by an affiliated company to the extent the amount is deemed to be unjust or unreasonable.¹¹

Pursuant to 807 KAR 5:011, Section 8, a utility is required to provide public and customer notice if a charge, fee, or rule regarding the provision of service is changed, revised, or initiated and the change will affect the amount that a customer pays for service or the quality, delivery, or rendering of a customer’s service.¹² However, periodic recalculation of a formulaic rate that does not involve a revision of the rate and that is performed in accordance with provisions of an effective rate schedule or administrative regulation does not require notice pursuant to that section.

¹¹ KRS 278.274(2); KRS 278.274(3)(c), and KRS 278.274(3)(d).

¹² 807 KAR 5:011, Section 8.

DISCUSSION

After reviewing the evidence of record and being otherwise sufficiently advised, the Commission finds that Delta's unified GCR report includes revised rates designed to pass on to its customers its expected change in gas costs. Delta's unified GCR report sets out an EGC of \$6.3631 per Mcf, which is a decrease of \$1.3601 per Mcf from the previous EGC of \$7.7232 per Mcf. Delta's unified GCR rate report sets out a current quarter ACA and total ACA of \$0.7983 per Mcf, which is an increase of \$0.7983 per Mcf from the previous total ACA of \$0.0000 per Mcf. Delta's BA will continue to be unavailable until its first unified ACA quarter expires. Delta's unified GCR report sets out no Refund Adjustment.

Based upon the calculations of the unified GCR rate discussed above, the Commission finds that Delta's unified GCR rate is \$7.1614 per Mcf, which is a decrease of \$0.5618 per Mcf from the previous GCR of \$7.7232 per Mcf. The Commission further finds that the rate set forth in the Appendix to this Order is fair, just and reasonable, and should be approved for service rendered by Delta on and after January 25, 2023.

With respect to the Delta's proposed residual tracker surcharges, the Commission acknowledges it may be appropriate for Delta to true up its separate GCR rates for the Delta and former Peoples' systems prior to the period for which the consolidation GCR was approved because while the final Order in Case No. 2021-00185 approved a consolidated GCR rate to be effective April 25, 2022, it did not eliminate the separate GCR rate mechanisms. Implementation of the process following the Order in Case No. 2021-00185 required some interpretation. Delta did not continue to separately true-up its EGC, ACA, and BA components for the separate system GCR rates. If there were no

change in the mechanism, then the recovery of those amounts, which was previously authorized, would eventually flow through the BA component of the separate systems GCR rates. Delta's proposed residual tracker surcharges would effectively change the manner in which those amounts would be recovered by amortizing the full amount of the alleged under recovery through a surcharge over approximately 2 to 3 years, depending on the system.

The Commission generally agrees that it would be reasonable at this point to modify the manner in which the separate GCR rates are trued up and the amounts to be trued up from Delta's separate GCR rates should be considered a regulatory asset.¹³ However, unlike the calculation of the consolidated GCR rate above, Delta's residual tracker surcharges would represent a proposed change to its Gas Cost Adjustment Clause mechanism as opposed to a change in the quarterly inputs to the mechanism and would be outside of the Gas Cost Adjustment Clause calculation as set forth in Delta's tariff. Thus, the implementation of the residential tracker would require an amendment to the schedule describing Delta's GCR mechanism, as Delta recognized in filing its amended tariff, and would require customer notice pursuant to 807 KAR 5:011, Section 8, which there is no evidence Delta provided.

The Commission also needs additional time to review the amount of the alleged under recovery to ensure that it is consistent with the amounts Delta would have

¹³ Commission precedent obligates utilities to obtain approval prior to establishing a regulatory asset. The Commission has historically approved regulatory assets where a utility has incurred: (1) an extraordinary, nonrecurring expense, which could not have reasonably been anticipated or included in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an industry sponsored initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost. Case No. 2001-00092, *Adjustment of Gas Rates of the Union Light, Heat and Power Company* (Ky. PSC Jan. 31, 2002), Order at 14; See also ASC 980-340-25-1.

recovered through the true-up of the EGC, ACA, and BA of the separate system's GCR rates. There is insufficient time to do that as part of the quarterly review of Delta's GCR rates without further affecting the quarters of Delta's GCR mechanism. Thus, having reviewed the record and being otherwise sufficiently advised, the Commission finds that Delta's proposed residual tracker surcharges should be rejected at this time and that Delta should file a separate application proposing residual tracker surcharges to true up any under- or over-recovery of the EGC, ACA, and BA of the separate system's GCR rates with 30 days' notice to the Commission and public and customer notice of the proposed change.¹⁴

The Commission further finds that for the purpose of transparency and to maintain a record of information for future use, Delta shall submit all invoices it receives along with its monthly usage reports for each month of the reporting period when it files its future GCR rate reports. Should Delta purchase sustainable natural gas from a renewable source during the reporting period of any future GCR reports, then the supplier, cost, and amount must be documented in its cover letter to the Commission.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Delta are denied.
2. The rates set forth in the Appendix to this Order are approved for service rendered on and after January 25, 2023.
3. Delta shall submit all invoices it receives along with its monthly usage reports for each month of the reporting period when it files its future GCR rate reports.

¹⁴ The Commission notes that if there would be limited subsidization between the separate systems such that maintaining separate surcharges would be unnecessarily costly that it may be reasonable to simply have a single surcharge.

4. Within 20 days of the date of service of this Order, Delta shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

5. Prior to its next GCR report, Delta shall file a separate application proposing a residual tracker surcharge or surcharges to true up any under- or over-recovery of the EGC, ACA, and BA of the separate systems' GCR rates with 30 days' notice to the Commission and public and customer notice of the proposed change.

6. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00422 DATED JAN 24 2023

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.

Gas Cost Recovery rate

The Gas Cost Recovery rate shall be \$7.1614 per Mcf for service rendered on and after January 25, 2023.

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