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January 14, 2025


PARTIES OF RECORD

Re: Case No. 2024-00346

Notice is given to all parties that the attached Delta Natural Gas Company Informal Conference Memorandum; Power Point presentation and attendance log has been filed into the record of this proceeding.

If you have any comments you would like to make regarding the contents of the document, please do so within five days of receipt of this letter. If you have any questions, please contact Moriah Tussey, Assistant General Counsel, at Moriah.Tussey@ky.gov.

Sincerely,


Linda C. Bridwell, PE
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2024-00346
FROM: Moriah Tussey, Asst. General Counsel
DATE: Jan. 14, 2025
RE: Informal Conference on Jan. 10, 2025

Pursuant to Staff Notice issued on January 2, 2025, an informal conference (IC) was conducted on January 10, 2025. Attached is a copy of the attendance roster.

The purpose of the IC was to discuss the cost allocation study. Larry Feltner, with Prim Group, presented an overview of the cost allocation study. The PowerPoint he used is attached and incorporated to this memorandum. Mr. Feltner and Jeffrey Wernert, also with Prime Group, walked through the Excel of the allocation filed with the application as well. The allocation methodology is based on NARUC methodology and is the same as used in the last rate case.

There being no further discussion, the IC was then adjourned.

cc: Parties of Record

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**

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)
)

CASE NO.
2024-00346

January 10, 2025

Please sign in:

NAME

REPRESENTING

Mary Ellen Wimberly_____

Stoll Keenon_____

Monica Braun_____

Stoll Keenon_____

Noah Abner_____

PSC_____

Jeff Abshire_____

PSC_____

Sarah Jankowski_____

PSC_____

Vinay Raj Raj_____

PSC_____

Bentley Jarboe_____

PSC_____

Mitchell Pollard_____

PSC_____

Christian Everly_____

PSC_____

Brian Thomas_____

PSC_____

Jessica Norris-Canfield_____

PSC_____

Larry Cook_____

Attorney General_____

Larry Feltner_____

The Prime Group_____

**Public Service Commission KY Informal
Conference – Delta Natural Gas
Cost of Service Study Overview**

Larry Feltner

Jeff Wernert

The Prime Group, LLC

Cost of Service Study

- Allocates the utility's costs to customers as fairly as possible based on their usage patterns
- A fair allocation is based on *cost causation*
 - If a customer causes a cost, the customer should pay that cost through the rate
 - Customers should also pay their fair shares of the utility's return on equity

Purpose of a Cost of Service Study

- Determines if the revenue generated by a customer class is covering it's the utility's cost of providing service
- Determines subsidies between rate classes
- Determines cost-based rates
- Delta's current proceeding (2024-00346) utilizes the same classes of customers as its last rate case (2021-00185)

Types of Costs in a Cost of Service Study

- Fixed Cost
 - Many are joint costs that must be allocated to each class of service
- Variable Cost
 - Cost that vary with the units of gas delivered to each class of customers

Fixed Cost

- **Fixed cost** - do not vary with sales levels
 - **Non-volumetric** fixed costs are costs that occur regardless of demand or usage level
 - **Volumetric** fixed costs are costs related to the demand that the customer places on the system

Variable Cost

- A cost that varies with volume, production or sales levels
- Gas Study Examples
 - Gas supply costs
 - Not included in Delta's cost of service study because these costs are handled through the Gas Cost Recovery ("GCR") mechanism
 - Most gas utilities exclude these costs

Cost of Service Study

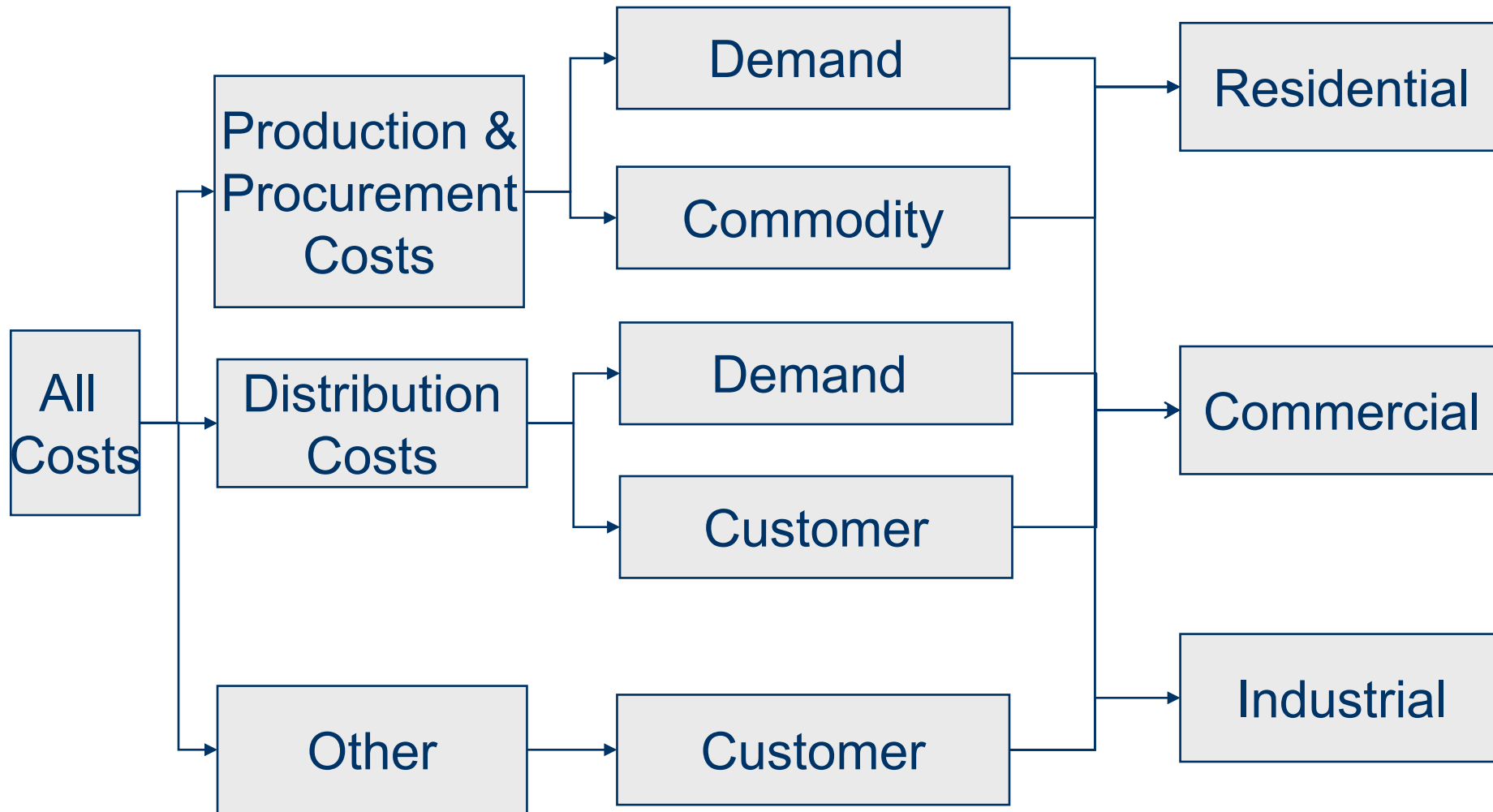
- Costs are allocated in three steps based on cost causation principles
 1. Functional Assignment
 - Organizes all the utility's accounting costs by major functional groups
 2. Classification
 - Corresponds to the three major cost drivers to help identify cost causation
 - Commodity-related costs vary with the volume of gas delivered
 - Demand-related costs vary with the capacity requirements of customers
 - Customer-related costs vary with the number of customers served
 3. Allocation
 - Allocates the functionally assigned and classified costs to each of the utility's classes of customers
 - The allocations are based on each class's pro-rata share of the relevant cost driver

Gas Cost of Service Study

1. Functional Assignment

2. Classification

3. Allocation



Gas Demand-Related Cost

- Design-Day Class Demand
 - Distribution mains
 - Transmission mains
 - Storage

Commodity-Related Costs

- Costs that vary with the volume of gas purchased by the customer
- Gas Study
 - Gas supply cost
 - Not included in Delta's study
 - Wells and Compressor Station costs

Customer-Related Costs

- Costs that do not vary with the demand requirements of the customer or the amount of gas required by the customer
 - Meter reading and billing
 - Customer service
 - Meter
 - Service lines
 - Customer share of distribution assets and related O&M

Evaluating Fair Share of Margins

- Rates should recover actual cost of serving the class
- All rate classes should pay a “fair share” of margins
- Standards for evaluating whether customer classes are paying their fair share
 - Equalized rates of return on rate base among all customer classes
 - The riskiness of a customer class can be considered in justifying differences in rates of return among classes

Rate of Return and Cross Subsidies

- Compare rate of return for rate classes to rate of return for utility as a whole
 - Classes with a rate of return below the rate of return for utility as a whole are receiving a subsidy
 - Classes with a rate of return above the rate of return for utility as a whole are paying a subsidy

Correcting Cross Subsidies

- Correcting cross subsidies according to the cost of service would require equalizing the rates of return for each class, or setting each class according to their risk adjusted rate of return.
- It is important to consider the change (increase or decrease) in the customer's bill required to achieve the non-subsidized rates of return.
- Often bill impacts are too large to eliminate subsidies so it is necessary to balance gradualism with reducing class subsidies.

Farm Tap

- Farm Tap customers are residential customers who are directly attached to a storage line or gas supply pipeline, and do not make use of Delta's distribution system to receive gas service
- Therefore, Farm Tap customers receive a lower overall allocation of costs which leads to a lower overall rate than standard Residential customers

Questions?

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- Larry Feltner
 - The Prime Group, LLC
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