COMMONWEALTH OF VIRGINIA

CON-EL TRACTOR AGENTAL CONTRACTOR

STATE CORPORATION COMMISSION

AT RICHMOND, SEPTEMBER 19, 2024

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APPLICATION OF

VIRGINIA NATURAL GAS, INC.

CASE NO. PUR-2024-00048

For a general rate increase and for authority to revise the terms and conditions applicable to natural gas service

ORDER FOR NOTICE AND HEARING

On August 1, 2024, Virginia Natural Gas, Inc. ("VNG" or "Company"), filed with the State Corporation Commission ("Commission") an application pursuant to Chapter 10 of Title 56 (§ 56-232 et seq.) of the Code of Virginia ("Code"), and in accordance with the Rules Governing Utility Rate Applications and Annual Informational Filings of Investor-Owned Gas Utilities, requesting authority for a general increase in rates and to revise the terms and conditions applicable to its provision of natural gas service ("Application"). The Company requests authorization to implement its proposed rates and charges on an interim basis, subject to refund, effective January 1, 2025.

VNG states that its Application follows the Company's most recent base rate proceeding in Case No. PUR-2022-00052 ("2022 Rate Case") and indicates that the Company requests to increase base rate revenues in the instant case by approximately \$63.3 million per year.⁴ The Company states that the requested increase in base rate revenue reflects its costs and revenues for

¹ 20 VAC 5-205-5 et seq.

² Application at 1. VNG made errata filings on August 6, 2024, August 27, 2024, and September 4, 2024.

³ Application at 1, 9.

⁴ Id. at 3-4.

the 12-month Test Year ended December 31, 2023 ("Test Year").⁵ According to the Application, the proposed rates would result in a monthly average rate increase of \$11.81 for residential customers based on an annual consumption of 568 CCFs of natural gas.⁶

VNG states that the Company will experience a revenue deficiency through the 12 months ending December 31, 2025 ("Rate Year").⁷ The Company states that such revenue deficiency reflects (l) VNG's costs and revenues for the Test Year, (2) the expected increase in VNG's average rate base as compared to the Test Year, (3) an updated return on common equity ("ROE") and capital structure, and (4) certain Rate Year adjustments that can reasonably be predicted to occur during the Rate Year, as permitted by Code § 56-235.2.8 The Company further requests an authorized ROE of 10.45%.9 VNG's proposed weighted cost of capital for the Rate Year is 7.94%, with a capital structure of 54.92% equity and 45.08% total debt.¹⁰

According to the Application, from the beginning of 2022 through December 2024, VNG will have invested approximately \$509.4 million to improve the overall safety, reliability, and integrity of its system, and is projecting to invest an additional \$158.3 million more during the Rate Year. VNG notes that approximately \$17 million of the Company's capital expenditures through December 2024 have been dedicated to its Steps to Advance Virginia's Energy

⁵ Id. at 4.

⁶ Id. at 7.

⁷ Id. at 4.

⁸ *Id*. at 4.

⁹ *Id.* at 5.

¹⁰ Id.

¹¹ Id. at 3. See also Direct Testimony of Robert S. Duval at 20, Figure 2.

("SAVE") Plan, ¹² with the Company having installed over 565 miles of main and almost 31,000 service lines from 2012 through 2023. ¹³ VNG proposes to include recovery of cumulative SAVE investment through December 31, 2024 in base rates. ¹⁴

VNG further states that it has seen a change in operating costs and it launched and expanded several new initiatives to improve safety and data systems, enhance the Company's pipeline locating services, position the Company to transition to Advanced Metering Infrastructure, and to further incorporate Pipeline Safety Management Systems and environmental justice into the Company's internal processes. According to the Company, the requested revenue requirement is driven in large part by increases to VNG's rate base since the 2022 Rate Case and costs projected to occur during the Rate Year, including capital costs associated with infrastructure projects, as well as changes in VNG's operating costs as it continues to expand oversight of field operations, implement programs to enhance customer satisfaction, modernize its compliance and record-keeping systems, and engage in meaningful community outreach and safety education initiatives. In the continues of the company of th

The Company indicates that because it earned more than its authorized ROE in 2023, the Company's 2023 earnings test filed with this case recognizes full cost recovery for VNG's two Commission-approved regulatory assets.¹⁷ The two regulatory assets are (1) pipeline safety

¹² Id. See Code §§ 56-603 and 56-604.

¹³ Application at 3.

¹⁴ *Id*.

¹⁵ Id. at 3-4.

¹⁶ Id. at 4.

¹⁷ Id. at 5.

initiatives costs deferred in 2018 and 2019 pursuant to a settlement approved by the Commission totaling \$300,000; and (2) deferred COVID-related costs and foregone late fees incurred in 2020 and 2021 totaling \$3,582,212 (including carrying charges on any deferred COVID-Related Cost balances for 2020 through 2022).¹⁸

Additionally, the Company proposes changes to its existing Terms and Conditions and Schedules for Supplying Gas ("Tariff"). Specifically, VNG proposes changes to its Tariff Sections II, IV, XVIII, and XX along with Riders B, C, and D of its existing Tariff.¹⁹ VNG is also proposing to update Riders B, C, and D to apply the rates and/or consumption patterns proposed by the Company in this filing to its Weather Normalization Adjustment and Revenue Normalization Adjustment. VNG is proposing to adjust the cap for the Conservation and Ratemaking Efficiency Program²⁰ Rider rates in Rider D to \$0.17 per 100 CCF of natural gas.²¹

Finally, in conjunction with the filing of its Application, the Company filed a Motion for Entry of a Protective Order ("Motion") and a proposed protective order that establishes procedures governing the use of confidential information in this proceeding.

NOW THE COMMISSION, having considered this matter, is of the opinion and finds that VNG should provide notice of its Application; a public hearing should be scheduled for the purpose of receiving testimony and evidence on the Application as well as public witness testimony; interested persons and the public should have an opportunity to file comments on the Application or participate as respondents in this proceeding; and the Staff should be directed to

¹⁸ *Id*.

¹⁹ Id. at 6-7.

²⁰ Code § 56-601 et seq.

²¹ Application at 7.

investigate the Application and file testimony and exhibits containing its findings and recommendations thereon. We further find that a Hearing Examiner should be appointed to conduct further proceedings in this matter related to discovery and other pre-hearing matters on behalf of the Commission, including the Company's Motion.

Pursuant to Code § 56-238, the Commission suspends VNG's proposed rates for a period of 150 days, the maximum allowed by law. The Company may, but is not required to, implement its proposed rates and proposed revisions to its Tariff on an interim basis, subject to refund with interest, for service rendered on and after January 1, 2025.

To promote administrative efficiency and timely service of filings upon participants, the Commission will, among other things, direct the electronic filing of testimony and pleadings unless they contain confidential information, and require electronic service on parties to this proceeding.

Accordingly, IT IS ORDERED THAT:

- (1) Case No. PUR-2024-00048 shall be retained for purposes of the Commission's consideration of VNG's Application. The style of the case shall be revised as follows:

 Application of Virginia Natural Gas, Inc., For a general rate increase and for authority to revise the terms and conditions applicable to natural gas service.
- (2) All pleadings in this matter shall be submitted electronically to the extent authorized by 5 VAC 5-20-150, *Copies and format*, of the Commission's Rules of Practice and Procedure ("Rules of Practice"). Confidential and Extraordinarily Sensitive Information shall not be submitted electronically and should comply with 5 VAC 5-20-170, *Confidential information*, of the Rules of Practice. Any person seeking to hand deliver and physically file or submit any

pleading or other document shall contact the Clerk's Office Document Control Center at (804) 371-9838 to arrange the delivery.

- (3) Pursuant to 5 VAC 5-20-140, *Filing and service*, of the Rules of Practice, the Commission directs that service on parties and Staff in this matter shall be accomplished by electronic means. Concerning Confidential or Extraordinarily Sensitive Information, parties and Staff are instructed to work together to agree upon the manner in which documents containing such information shall be served upon one another, to the extent practicable, in an electronically protected manner, even if such information is unable to be filed in the Office of the Clerk, so that no party or the Staff is impeded from preparing its case.
- (4) As provided by Code § 12.1-31 and 5 VAC 5-20-120, *Procedure before hearing examiners*, of the Rules of Practice, a Hearing Examiner should be appointed to rule on all discovery matters, including the Company's Motion and motions *pro hac vice* that arise during the course of this proceeding. A copy of each such filing made with the Commission's Clerk's office in this matter shall also be sent electronically to the Office of the Hearing Examiners.²²
- (5) Pursuant to Code § 56-238, the proposed rates, terms, and conditions of service are suspended. VNG may, but is not obligated to, implement the proposed rates for service rendered on an and after January 1, 2025, on an interim basis, subject to refund with interest.
- (6) On or before December 5, 2024, VNG shall file a bond with the Commission in the amount of \$63.3 million, payable to the Commission and conditioned to ensure the prompt refund by the Company to those entitled thereto of all amounts the Company shall collect in excess of such rates and charges as the Commission may finally fix and determine.

²² Such electronic copies shall be sent to: <u>OHEParalegals@scc.virginia.gov.</u>

- (7) The Commission hereby schedules a telephonic portion of the hearing for the receipt of testimony from public witnesses on the Application, as follows:
 - (a) The portion of the hearing for the receipt of testimony from public witnesses on the Application shall be convened telephonically on June 17, 2025.
 - (b) To promote fairness for all public witnesses, each witness will be allotted five minutes to provide testimony.
 - (c) On or before June 10, 2025, any person desiring to offer testimony as a public witness shall provide to the Commission (a) your name, and (b) the telephone number that you wish the Commission to call during the hearing to receive your testimony. This information may be provided to the Commission in three ways: (i) by filling out a form on the Commission's website at scc.virginia.gov/pages/Webcasting; (ii) by completing and emailing the PDF version of this form to SCCInfo@scc.virginia.gov; or (iii) by calling (804) 371-9141.
 - (d) Beginning at 10 a.m. on June 17, 2025, the Commission will telephone sequentially each person who has signed up to testify as provided above.
 - (e) This public witness portion of the hearing will be webcast at scc.virginia.gov/pages/Webcasting.
- (8) The evidentiary portion of the hearing shall be convened at 10 a.m., on

 June 17, 2025, or at the conclusion of the public witness portion of the hearing, whichever is
 later, in the Commission's second floor courtroom located in the Tyler Building,
 1300 East Main Street, Richmond, Virginia 23219, to receive testimony and evidence of VNG,
 any respondents, and Staff on the Application.
- (9) An electronic copy of the public version of the Application may be obtained by submitting a written request to counsel for the Company: Elaine S. Ryan, Esquire, and Timothy D. Patterson, Esquire, McGuireWoods LLP, Gateway Plaza, 800 E Canal St., Richmond, VA 23219; eryan@mcguirewoods.com or tpatterson@mcguirewoods.com. Interested persons also may download unofficial copies from the Commission's website: scc.virginia.gov/pages/Case- Information.

(10) On or before October 11, 2024, VNG shall cause the following notice to be published as display advertising (not classified) on one (1) occasion in newspapers of general circulation throughout the Company's Virginia service territory:

NOTICE TO THE PUBLIC OF AN APPLICATION BY
VIRGINIA NATURAL GAS, INC.,
FOR A GENERAL RATE INCREASE AND FOR AUTHORITY
TO REVISE THE TERMS AND CONDITIONS APPLICABLE
TO NATURAL GAS SERVICE
CASE NO. PUR-2024-00048

On August 1, 2024, Virginia Natural Gas, Inc. ("VNG" or "Company") filed with the State Corporation Commission ("Commission") an application pursuant to Chapter 10 of Title 56 (§ 56-232 et seq.) of the Code of Virginia ("Code"), and in accordance with the Rules Governing Utility Rate Applications and Annual Informational Filings of Investor-Owned Gas Utilities, requesting authority for a general increase in rates and to revise the terms and conditions applicable to its provision of natural gas service ("Application").

VNG states that its Application follows the Company's most recent base rate proceeding in Case No. PUR-2022-00052 ("2022 Rate Case") and indicates that the Company requests to increase base rate revenues in the instant case by approximately \$63.3 million per year. The Company states that the requested increase in base rate revenue reflects its costs and revenues for the 12-month Test Year ended December 31, 2023 ("Test Year"). According to the Application, the proposed rates would result in a monthly average rate increase of \$11.81 for residential customers based on an annual consumption of 568 CCFs of natural gas.

VNG states that the Company will experience a revenue deficiency through the 12 months ending December 31, 2025 ("Rate Year"). The Company states that such revenue deficiency reflects (I) VNG's costs and revenues for the Test Year, (2) the expected increase in VNG's average rate base as compared to the Test Year, (3) an updated return on common equity ("ROE") and capital structure, and (4) certain Rate Year adjustments that can reasonably be predicted to occur during the Rate Year, as permitted by Code § 56-235.2. The Company further requests an authorized ROE of 10.45%. VNG's proposed weighted cost of capital for the Rate Year is 7.94%, with a capital structure of 54.92% equity and 45.08% total debt.

According to the Application, from the beginning of 2022 through December 2024, VNG will have invested approximately \$509.4 million to improve the overall safety, reliability, and integrity of its system, and is projecting to invest an additional \$158.3 million more during the Rate Year. VNG notes that approximately \$17 million of the Company's capital expenditures through December 2024 have been dedicated to its Steps to Advance Virginia's Energy ("SAVE") Plan, with the Company having installed over 565 miles of main and almost 31,000 service lines from 2012 through 2023. VNG proposes to include recovery of cumulative SAVE investment through December 31, 2024 in base rates.

VNG further states that it has seen a change in operating costs and it launched and expanded several new initiatives to improve safety and data systems, enhance the Company's pipeline locating services, position the Company to transition to Advanced Metering Infrastructure, and to further incorporate Pipeline Safety Management Systems and environmental justice into the Company's internal processes. According to the Company, the requested revenue requirement is driven in large part by increases to VNG's rate base since the 2022 Rate Case and costs projected to occur during the Rate Year, including capital costs associated with infrastructure projects, as well as changes in VNG's operating costs as it continues to expand oversight of field operations, implement programs to enhance customer satisfaction, modernize its compliance and record-keeping systems, and engage in meaningful community outreach and safety education initiatives.

The Company indicates that because it earned more than its authorized ROE in 2023, the Company's 2023 earnings test filed with this case recognizes full cost recovery for VNG's two Commission-approved regulatory assets. The two regulatory assets are (1) pipeline safety initiatives costs deferred in 2018 and 2019 pursuant to a settlement approved by the Commission totaling \$300,000; and (2) deferred COVID-related costs and foregone late fees incurred in 2020 and 2021 totaling \$3,582,212 (including carrying charges on any deferred COVID-Related Cost balances for 2020 through 2022).

Additionally, the Company proposes changes to its existing Terms and Conditions and Schedules for Supplying Gas ("Tariff"). Specifically, VNG proposes changes to its Tariff Sections II, IV, XVIII, and XX along with Riders B, C, and D of its existing Tariff. VNG is also proposing to update Riders B, C, and D to apply the

rates and/or consumption patterns proposed by the Company in this filing to its Weather Normalization Adjustment and Revenue Normalization Adjustment. VNG is proposing to adjust the cap for the Conservation and Ratemaking Efficiency Program Rider rates in Rider D to \$0.17 per 100 CCF of natural gas.

The details of these and other proposals are set forth in the Company's Application. Interested persons are encouraged to review the Company's Application, testimony and supporting exhibits for the details of these proposals.

TAKE NOTICE that the Commission may adopt rates, charges and/or terms and conditions that differ from those appearing in the Company's Application and supporting documents and may apportion revenues among customer classes and/or design rates in a manner differing from that shown in the Application and supporting documents.

The Commission entered an Order for Notice and Hearing in this proceeding that, among other things, scheduled a public hearing on the Application. Pursuant to Code § 56-238, the Commission suspended VNG's proposed rates for a period of 150 days, the maximum allowed by law and permitted VNG to place its proposed rates into effect on an interim basis, subject to refund with interest, on January 1, 2025.

On June 17, 2025, at 10 a.m., the Commission will hold a telephonic portion of the hearing, for the purpose of receiving the testimony of public witnesses. On or before June 10, 2025, any person desiring to offer testimony as a public witness shall provide to the Commission (a) your name, and (b) the telephone number that you wish the Commission to call during the hearing to receive your testimony. This information may be provided to the Commission in three ways: (i) by filling out a form on the Commission's website at scc.virginia.gov/pages/Webcasting; (ii) by completing and emailing the PDF version of this form to SCCInfo@scc.virginia.gov; or (iii) by calling (804) 371-9141. This public witness portion of the hearing will be webcast at scc.virginia.gov/pages/Webcasting.

On June 17, 2025, at 10 a.m., or at the conclusion of the public witness portion of the hearing, whichever is later, in the Commission's second floor courtroom located in the Tyler Building, 1300 East Main Street, Richmond, Virginia 23219, the Commission will convene a hearing to receive testimony and

evidence VNG, any respondents, and the Commission's Staff on the Application.

To promote administrative efficiency and timely service of filings upon participants, the Commission has directed the electronic filing of testimony and pleadings, unless they contain confidential information, and has required electronic service on parties to this proceeding.

An electronic copy of the public version of the Application may be obtained by submitting a written request to counsel for the Company: Elaine S. Ryan, Esquire and Timothy D. Patterson, Esquire, McGuireWoods LLP, Gateway Plaza, 800 E Canal St., Richmond, VA 23219; eryan@mcguirewoods.com or tpatterson@mcguirewoods.com. Interested persons also may download unofficial copies from the Commission's website: scc.virginia.gov/pages/Case-Information.

On or before June 10, 2025, any interested person may submit comments on the Application electronically by following the instructions on the Commission's website: scc.virginia.gov/casecomments/Submit-Public-Comments. Those unable, as a practical matter, to submit comments electronically may file such comments with the Clerk of the State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. All comments shall refer to Case No. PUR-2024-00048.

On or before December 6, 2024, any person or entity wishing to participate as a respondent in this proceeding may do so by filing a notice of participation with the Clerk of the Commission at: scc.virginia.gov/clk/efiling. Those unable, as a practical matter, to file a notice of participation electronically may file such notice by U.S. mail to the Clerk of the Commission at the address listed above. Notices of participation shall include the email address of the party or its counsel. The respondent shall serve a copy of the notice of participation on counsel to VNG. Pursuant to 5 VAC 5-20-80 B, Participation as a respondent, of the Commission's Rules of Practice and Procedure ("Rules of Practice"), any notice of participation shall set forth: (i) a precise statement of the interest of the respondent; (ii) a statement of the specific action sought to the extent then known; and (iii) the factual and legal basis for the action. Any organization, corporation, or government body participating as a respondent must be represented by counsel as required by 5 VAC 5-20-30.

Counsel, of the Rules of Practice. All filings shall refer to Case No. PUR-2024-00048.

On or before March 26, 2025, each respondent may file electronically with the Clerk of the Commission at scc.virginia.gov/clk/efiling any testimony and exhibits by which the respondent expects to establish its case. Any respondent unable, as a practical matter, to file testimony and exhibits electronically may file such by U.S. mail to the Clerk of the Commission at the address listed above. Each witness's testimony shall include a summary not to exceed one page. All testimony and exhibits shall be served on the Commission's Staff, VNG, and all other respondents. In all filings, respondents shall comply with the Commission's Rules of Practice, as modified by the Commission's Order for Notice and Hearing, including, but not limited to: 5 VAC 5-20-140, *Filing and service*, and 5 VAC 5-20-240, *Prepared testimony and exhibits*. All filings shall refer to Case No. PUR-2024-00048.

Any documents filed in paper form with the Office of the Clerk of the Commission in this docket may use both sides of the paper. In all other respects, except as modified by the Commission's Order for Notice and Hearing, all filings shall comply fully with the requirements of 5 VAC 5-20-150, *Copies and format*, of the Commission's Rules of Practice.

The Commission's Rules of Practice, the Commission's Order for Notice and Hearing, the Application and other documents filed in this case may be viewed on the Commission's website at: scc.virginia.gov/pages/Case-Information.

VIRGINIA NATURAL GAS, INC.

- (11) The Company shall serve each official listed in 20 VAC 5-205-10 J as provided by 20 VAC 5-205-10 J.
- (12) On or before November 1, 2024, VNG shall file proof of the notice and service required by Ordering Paragraphs (10) and (11), including the name, title, and address of each official served, with the Clerk of the Commission by filing electronically at scc.virginia.gov/clk/efiling.

- (13) On or before June 10, 2025, any interested person may file comments on the Application by following the instructions found on the Commission's website: scc.virginia.gov/casecomments/Submit-Public-Comments. Those unable, as a practical matter, to submit comments electronically may file such comments by U.S. mail to the Clerk of the State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218-2118. All comments shall refer to Case No. PUR-2024-00048.
- (14) On or before December 6, 2024, any person or entity wishing to participate as a respondent in this proceeding may do so by filing a notice of participation at scc.virginia.gov/clk/efiling. Those unable, as a practical matter, to file a notice of participation electronically may file such notice by U.S. mail to the Clerk of the Commission at the address listed in Ordering Paragraph (13). Such notice of participation shall include the email addresses of such parties or their counsel. The respondent shall serve a copy of the notice of participation on counsel to the Applicant. Pursuant to 5 VAC 5-20-80 B, *Participation as a respondent*, of the Rules of Practice, any notice of participation shall set forth: (i) a precise statement of the interest of the respondent; (ii) a statement of the specific action sought to the extent then known; and (iii) the factual and legal basis for the action. Any organization, corporation, or government body participating as a respondent must be represented by counsel as required by 5 VAC 5-20-30, *Counsel*, of the Rules of Practice. All filings shall refer to Case No. PUR-2024-00048.
- (15) Within five (5) business days of receipt of a notice of participation as a respondent, VNG shall serve upon the respondent a copy of the public version of its Application and supporting materials, unless these materials already have been provided to the respondent.

- (16) On or before March 26, 2025, each respondent may file, with the Clerk of the Commission, at scc.virginia.gov/clk/efiling, any testimony and exhibits by which the respondent expects to establish its case. Any respondent unable, as a practical matter, to file testimony and exhibits electronically may file such by U.S. mail to the Clerk of the Commission at the address in Ordering Paragraph (13). Each witness's testimony shall include a summary not to exceed one page. All testimony and exhibits shall be served on the Staff, the Company, and all other respondents simultaneous with its filing. In all filings, respondents shall comply with the Rules of Practice, as modified herein, including, but not limited to: 5 VAC 5-20-140, *Filing and service*, and 5 VAC 5-20-240, *Prepared testimony and exhibits*. All filings shall refer to Case No. PUR-2024-00048.
- (17) On or before April 30, 2025, Staff shall investigate the Application and file with the Clerk of the Commission its testimony and exhibits concerning the Application, and each Staff witness's testimony shall include a summary not to exceed one page. Staff shall serve a copy thereof on counsel to VNG and all respondents.
- (18) On or before May 21, 2025, VNG shall file with the Clerk of the Commission any rebuttal testimony and exhibits that it expects to offer, and each rebuttal witness's testimony shall include a summary not to exceed one page. VNG shall serve a copy of its rebuttal testimony and exhibits on Staff and all respondents.
- (19) Any documents filed in paper form with the Office of the Clerk of the Commission in this docket may use both sides of the paper. In all other respects, except as modified herein, all filings shall comply fully with the requirements of 5 VAC 5-20-150, *Copies and format*, of the Rules of Practice.

(20) The Rules of Practice 5 VAC 5-20-260, *Interrogatories or requests for production of documents and things*, shall be modified for this proceeding as follows: responses and objections to written interrogatories and requests for production of documents shall be served within seven (7) calendar days after receipt of the same. In addition to the service requirements of 5 VAC 5-20-260 of the Rules of Practice, on the day that copies are filed with the Clerk of the Commission, a copy of the interrogatory or request for production shall be served electronically on the party to whom the interrogatory or request for production is directed or the assigned Staff attorney, if the interrogatory or request for production is directed to the Staff.²³ Except as modified herein, discovery shall be in accordance with Part IV of the Rules of Practice, 5 VAC 5-20-240 *et seq*.

(21) This matter is continued.

A COPY hereof shall be sent electronically by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the Commission.

²³ The assigned Staff attorney is identified on the Commission's website, <u>scc.virginia.gov/pages/Case-Information</u>, by clicking "Docket Search," then clicking "Search by Case Information," and entering the case number, PUR-2024-00048, in the appropriate box.