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220810100

PUBLIC VERSION

August 1, 2022

VIA HAND DELIVERY

Mr. Bernard Logan, Clerk
State Corporation Commission
Document Control Center
Tyler Building, First Floor
1300 East Main Street
Richmond, Virginia 23219

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*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*
Case No. PUR-2022-00052

Dear Mr. Logan:

Please find enclosed for filing in the above-captioned proceeding an unbound original and five (5) bound copies of the PUBLIC VERSION of Virginia Natural Gas, Inc.'s ("VNG" or the "Company") Application, including Testimony and Exhibits, and Schedules 1 - 50, as applicable, contained in Volumes 1 - 4 and 6-9, pursuant to the Virginia State Corporation Commission's ("Commission") Rules Governing Utility Rate Applications and Annual Informational Filings, 20 VAC 5-201-10 *et seq.* (the "Rate Case Rules").

In accordance with the Commission's Rate Case Rules, only one copy of Schedule 29, contained in Volume 5, has been filed with this Application. Two copies of Schedules 29 and 40 have been submitted to the Commission's Division of Utility Accounting and Finance. Two copies of Schedule 40 have also been submitted to the Commission's Division of Public Utility Regulation. Additionally, electronic media containing electronic spreadsheet versions of the Filing Schedules as applicable have been submitted to the Commission's Division of Utility Accounting and Finance.

Please do not hesitate to call if you have any questions regarding the enclosed.

Very truly yours,

/s/ Elaine S. Ryan

Elaine S. Ryan

Enclosures

cc: William H. Chambliss, Esq.
Ms. Kimberly B. Pate
Mr. David Essah
C. Meade Browder, Jr., Esq.
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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

VIRGINIA NATURAL GAS, INC.

CASE NO. PUR-2022-00052

Application of Virginia Natural Gas
For a general rate increase and for authority to revise the terms and
conditions applicable to natural gas service

Application, Testimony, and Schedules

PUBLIC VERSION

VOLUME 1 of 9

Filed: August 1, 2022

VIRGINIA NATURAL GAS, INC.
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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF)
)
 VIRGINIA NATURAL GAS, INC.) Case No. PUR-2022-00052
)
 For a general rate increase and for authority)
 to revise the terms and conditions applicable)
 to natural gas service)

**APPLICATION OF
VIRGINIA NATURAL GAS, INC.**

Pursuant to Chapter 10 of Title 56 of the Code of Virginia (“Va. Code” or “Code”), § 56-232 *et seq.*, and in accordance with the Rules Governing Utility Rate Applications and Annual Informational Filings (“Rate Case Rules”) of the Virginia State Corporation Commission (“Commission”), Virginia Natural Gas, Inc. (“VNG” or the “Company”), by counsel, hereby submits its application for authority to increase its rates and charges effective January 1, 2023, and to revise the terms and conditions applicable to natural gas service as described herein (“Application”). VNG’s proposed rates and charges are designed to increase the Company’s annual rate base revenue by approximately \$69.3 million. The Company’s Application, as supported by accompanying testimony and exhibits, demonstrates the need for this increase in its base rate revenues to fully recover its cost of service over the rate period and earn not less than a fair rate of return on common equity applicable to natural gas distribution services. In support of its Application, VNG respectfully shows the following:

GENERAL INFORMATION

1. VNG is a public service company organized and existing under the laws of the Commonwealth of Virginia that provides natural gas service to approximately 312,000

customers in its service territory in Virginia. This includes the communities of Norfolk, Virginia Beach, Chesapeake and Suffolk in southside Hampton Roads, and Hampton, Newport News, Poquoson, York, James City, Williamsburg, New Kent, Charles City, King William, and Hanover on the Peninsula.

2. Virginia Natural Gas, Inc. is a direct wholly-owned subsidiary of Southern Company Gas (“GAS”) (formerly AGL Resources, Inc. (“AGLR”)),¹ and an indirect wholly-owned subsidiary of Southern Company (“Southern”) pursuant to the Commission’s February 23, 2016 Merger Order issued in Case No. PUE-2015-00113 and the July 1, 2016 closing of the Merger. VNG’s corporate address is:

Virginia Natural Gas, Inc.
Attn: Tyler Lake, Director, Regulatory Affairs
544 S. Independence Blvd.
Virginia Beach, VA 23452

3. The addresses and telephone numbers of the attorneys for the Company are:

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¹ After the July 1, 2016, closing of the Merger, AGLR changed its name to Southern Company Gas.

BACKGROUND, OBJECTIVES AND LEGAL BASIS FOR FILING

4. In the Company's last base rate proceeding, Case No. PUR-2020-00095 ("2020 Rate Case"), the Commission approved a revenue requirement increase of \$43.0 million, effective November 1, 2020.² Since that time, VNG has made significant investments in its system to better serve customers. As Company Witnesses Robert S. Duvall and Robert "Rus" Hayslett, Jr. discuss, from the beginning of 2020 through December 2022, VNG will have invested approximately \$445 million to improve the overall safety, reliability and integrity of its system. The Company is projecting to invest an additional \$100 million more during the twelve months ending December 31, 2023 ("Rate Year"), and those needs will continue.

5. Approximately \$176 million of the Company's capital expenditures through December 2022, have been dedicated to its Steps to Advance Virginia's Energy ("SAVE") Plan under Va. Code §§ 56-603 and 56-604 ("SAVE Act"). As Company Witness Duvall testifies, the Company has installed approximately 450 miles of main and almost 25,000 service lines since 2012. To date under SAVE, the Company has retired all low pressure and known cast iron from the system and only has approximately 10 miles of pre-1974 plastic on the distribution system. These continuing efforts to reduce system leaks also provide environmental benefits in the form of reduced greenhouse gas emissions. As permitted by the SAVE Act, VNG is proposing to include recovery of cumulative SAVE investment through December 31, 2022, in base rates as described by Company Witness Gary A. Tucker.

6. Since the 2020 Rate Case, the Company has also seen a change in its operating costs and has launched and expanded several new initiatives to improve safety systems, modernize internal processes and records, bolster the technical workforce, and enhance the

² *Application of Virginia Natural Gas, Inc. For authority to increase rates and charges and to revise the terms and conditions applicable to gas service*, Case No. PUR-2020-00095, Final Order (Sep. 14, 2021).

customer experience. The requested revenue requirement allows the Company to address increasing costs, implement new programs, and ensure the continued provision of safe and reliable natural gas service to customers at just and reasonable rates. As Company Witness Hayslett testifies, the revenue requirement requested in this case is driven in large part by increases to the Company's rate base since the 2020 Rate Case and those 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. Mr. Hayslett's testimony expands on these and other O&M initiatives, including (i) distribution and field service operations, (ii) construction operations, (iii) system operations (transmission), (iv) engineering, (v) compliance, (vi) damage prevention, (vii) cross bore surveying, (viii) advanced leak detection emissions management, (ix) sustainability, and (x) safety.

7. VNG's Application, as supported by the accompanying testimony and exhibits, shows the need for the requested increase in the Company's base rates of service to fully recover its cost of service over the rate period and earn not less than a fair rate of return on common equity applicable to its natural gas distribution services. As evidenced by the testimony and schedules sponsored by Company Witness Tucker, the Company will experience a revenue deficiency through the Rate Year ending December 31, 2023. Such revenue deficiency reflects (1) VNG's costs and revenues for the Test Year ended December 31, 2021, (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 Va. Code § 56-235.2.

8. Based on an adjusted 2021 Test Year, the Company has a total revenue requirement of approximately \$69.3 million.

9. The Company requests that the Commission approve 10.35% as the Company's authorized fair rate of return on common equity, as supported by the analyses of Company Witness Bente Villadsen. Dr. Villadsen supports in her testimony that the Company's current cost of equity falls within a range of 10.0% to 10.5% and concludes that the Company's requested authorized ROE of 10.35% is reasonable and appropriate based on her analyses.

10. The Company's proposed weighted cost of capital for the Rate Year is 7.68%, based on the 10.35% proposed ROE, as supported by the testimony of Company Witness Villadsen, and a capital structure of 53.2% equity and 46.8% total debt, as supported by the testimony of Company Witness Gregory MacLeod.

EARNINGS TEST RESULTS

11. The Company is filing Earnings Tests for the periods 2018 through 2021 as addressed by Company Witness Tucker. Earnings Test schedules are being provided in support of the Company's requests for recovery of two regulatory assets. The first regulatory asset balance the Company is seeking recovery of is for the pipeline safety initiatives costs ("Safety Costs") deferred in 2018 and 2019 pursuant to a settlement approved by the Commission totaling \$300,000. The second regulatory asset balance is for deferred COVID-related costs ("COVID-Related Costs") and foregone late fees in 2020 and 2021 totaling \$3,582,212. The COVID deferral includes carrying charges on any deferred balances for 2020 through 2022. These regulatory assets were specifically addressed in the Proposed Stipulation and Recommendation that was approved by the Commission in the 2020 Rate Case.

12. Based on the Earnings Test analysis, the Company did not write-off any of the

deferred balances and the Company has proposed full recovery, subject to future Earnings Test reviews, of both regulatory asset balances.

13. The Earnings Tests include the following ratemaking adjustments:

- Financial and accounting information are based on GAAP accounting with FERC or regulatory entries. Regulatory entries are for Commission authorized costs or revenues that are not recognized under GAAP accounting.
- Rate base includes both direct and allocated net plant and associated accumulated deferred income taxes.
- Actual capital structure and debt costs.
- Actual Return on Equity (“ROE”) is measured against the Commission authorized ROE.
- Ratemaking adjustments to remove fines and penalties, promotional marketing costs, civic participation, and other adjustments as needed for costs that are generally non-recoverable.
- Normalization/pro-forma entries for depreciation expense and revenues related to prior periods. Entries were recorded in 2021 associated with rate implementation of the 2020 Rate Case Final Order.

14. For the 2020 and 2021 Earnings Tests, the regulatory entry for the forgone late fees and associated carrying charges were not incorporated since GAAP recovery precluded recognition of these revenues. Still, because the Test Year and Rate Year are used to establish future rate recovery, the regulatory entries for the COVID-related forgone late fees and associated carrying costs have been included. Earnings Tests in 2023 and beyond will include the regulatory entry to amortize COVID-related foregone late payment fees to match amounts collected in rates.

REVISED TARIFF

15. The proposed tariff and rate schedule revisions to VNG's Terms and Conditions and Schedules for Supplying Gas ("Tariff") in Filing Schedule 41 reflect an effective date of January 1, 2023, to account for the expectation that the Commission will suspend rates, charges and terms and conditions proposed in this Application for 150 days under Va. Code § 56-238, and permit the Company to implement them, on an interim basis subject to refund, on January 1, 2023.

16. The Company is proposing revisions to the Terms and Conditions of its existing Tariff, specifically to Sections I, III, VI, VII, X and XIX to clarify and provide better uniformity of certain responsibilities and obligations of Customers and the Company. In Tariff Section XVIII, the Company also proposes to expand its existing Commission-approved practice of providing up to 100 feet of service line from the main to the customer's meter without charge to also include certain customers installing any two natural gas appliances. In Tariff Section XX, VNG updates the System Peak Day Firm Sales Volume, Demand Charge Allocation Factors, and the target margin for the Margin Sharing Adjustment. The language related to timing and periods in the Margin Sharing Adjustment is updated to reflect when information is available.

17. Riders B, C, and D are updated to apply the rates and consumption patterns proposed by the Company in this filing to reflect the Weather Normalization Adjustment and the Revenue Normalization Adjustment. Rider E is also updated to reflect that existing SAVE Rider related costs are included in the Rate Year revenue requirement and will this be recovered in base rates, not Rider rates.

18. As proposed, residential customers should expect a monthly average rate increase of \$12.88 based on annual consumption of 599 cubic feet ("CCF") of natural gas.

DIRECT TESTIMONY SUPPORTING OBJECTIVES SOUGHT

19. In support of the Company's Application and accompanying request for a rate increase and proposed changes to the rates, terms and conditions for the provision of natural gas distribution services, and pursuant to Rule 20 VAC 5-201-10, the Company presents herewith the pre-filed direct testimony of Robert S. Duvall, Robert "Rus" Hayslett, Jr., Gary A. Tucker, Dr. Bente Villadsen, Gregory MacLeod, John M. Cogburn, Todd J. Jirovec, and Michael J. Adams. In summary, those witnesses address the Application and the objectives sought as follows:

- **Robert S. Duvall**, President of VNG, provides an overview of the Company's business operations and the key factors driving the need to increase base rate revenues by \$69.3 million per year, and explains why it is critical for the Company to obtain the relief it is requesting. Mr. Duvall also sponsors Filing Schedule 37, the GAS corporate organizational chart.
- **Robert "Rus" Hayslett, Jr.**, Vice President of Operations for VNG, describes the Company's operations and maintenance activities and costs, as well as the Company's recent capital additions and planned capital expenditures through the Rate Year. Mr. Hayslett also addresses the Company's new initiatives to enhance customer satisfaction and community outreach.
- **Gary A. Tucker**, Director of Regulatory Accounting and Revenue Recovery Mechanisms for AGSC, presents the earnings test results, the calculation of the increase in the Company's revenues required in this case to provide VNG with the opportunity to recover its cost of service and to earn a fair rate of return, based on the test year, and VNG's cost of capital. Mr. Tucker also sponsors a majority of the required rate case schedules.
- **Dr. Bente Villadsen**, Principal of The Brattle Group, presents evidence and a recommendation supporting the capital structure and ROE that VNG seeks in this proceeding.
- **Gregory MacLeod**, Finance Director and Assistant Treasurer at GAS, presents testimony regarding the Company's capital structure and overall cost of capital.
- **John M. Cogburn**, Director of Rates, Tariffs, and Regulatory Planning for AGSC, describes and supports certain tariff and schedule revisions that are appropriate to ensure that VNG's Terms and Conditions and Schedules for Supplying Gas reflect current customer and business needs and practices. Mr. Cogburn also presents the various

jurisdictional, functional, and class cost of service studies included in support of the Application and explains the cost allocation methods by which they were developed.

- **Todd J. Jirovec**, Principal at Strategy&, evaluates and confirms the reasonableness of the costs of services provided by AGSC, Southern Company Services and other affiliates to VNG, as well as the projected costs associated with the shared services provided by the services companies and affiliates in the Rate Year.
- **Michael J. Adams**, Senior Vice President with Concentric Energy Advisors, Inc., presents the lead lag study that was used to develop cash working capital factors and ultimately to calculate the cash working capital requirements of the Company.

COMPLIANCE WITH RATE CASE RULES AND REQUEST FOR PARTIAL WAIVER

20. As required by Rule 10.I of the Rate Case Rules, 20 VAC 5-201-10.I (“Rule 10.I”) of the Company is filing an original and 12 copies of its Application and supporting testimony. In support of its Application, the Company is filing an original and 12 copies of Schedules 1-9, 11-12, 14-19, 21-22, 24-31, 34-43, and 50, as applicable, and one copy of Schedules 29 and 40, as permitted by Rule 10.I.³

21. The Company has filed electronic media in conformity with Rule 20 VAC 5-201-10.H, and two copies of Schedules 29 and 40 have been submitted to both the Commission’s Division of Utility Accounting and Finance and Division of Energy Regulation under Rule 10.I.

22. Copies of the Company’s Application, to the extent required by 20 VAC 5-201-10.J, have been served on the persons addressed in that Rule, along with the added information required by that Rule. A complete copy of the Application has also been served on the Division of Consumer Counsel of the Office of the Attorney General, in conformity with Rule 10.J.

23. Pursuant to Rule 10 E of the Commission’s Rate Case Rules, and for good cause shown, the Company respectfully requests that the Commission waive, in part, the requirements

³ Filing Schedules not applicable to the Company have been omitted in accordance with Rule 90 of the Rate Case Rules.

of Rate Case Rules 20 and 90 with respect to Schedule 6, which requires an applicant to provide copies of the most recent public financial reports. In 2020, the Commission revised Schedule 6 as it relates to electric utilities to permit “a link to where such copies can be found on the internet” instead of hard copies of these voluminous reports.⁴ Consistent with this Commission-approved revision to Schedule 6, and due to the voluminous nature of its public financial reports, VNG respectfully requests that the Commission waive the requirement to submit hard copies of its public financial reports, and instead permit the Company to provide a link to where those reports can be found on the internet. The Commission recently granted Columbia Gas of Virginia, Inc.’s similar request for partial waiver in its rate case.⁵

WHEREFORE, VNG requests that the Commission (1) deem this Application filed under 20 VAC 5-201-10.D; (2) authorize the implementation of the proposed rates and charges, on an interim basis subject to refund, effective January 1, 2023; (3) grant the Company’s requested waiver with respect to the requirements for Filing Schedule 6; and (4) grant the Company such further relief as may be necessary or appropriate.

⁴ 20 VAC 5-204-90; *see Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte: In the matter of adopting new rules of the State Corporation Commission governing utility rate application by investor-owned electric utilities*, Case No. PUR-2020-00022, Order Adopting Regulations (Nov. 23, 2020).

⁵ *Application of Columbia Gas of Virginia, Inc. For authority to increase rates and charges and to revise the terms and conditions applicable to gas service*, Case No. PUR-2022-00036, Order for Notice and Hearing at Ordering Paragraph (20) (June 2, 2022).

Respectfully submitted,

VIRGINIA NATURAL GAS, INC.

By: /s/ Elaine S. Ryan

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August 1, 2022