COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WKG STORAGE, INC. FOR RATE ADJUSTMENT FOR SMALL UTILITIES PURSUANT TO 807 KAR 5:076	)))	CASE NO. 2016-00053

ORDER

This matter comes before the Commission by the January 21, 2016 application of WKG Storage, Inc. ("WKG") requesting approval to increase its base rate revenues pursuant to 807 KAR 5:076, the regulation governing the Alternative Rate Filing ("ARF Regulation") procedure for small utilities. According to its application, the rates proposed by WKG would produce base rate revenues of $2,373,856, or $903,856 above the revenues of $1,470,000 generated by its existing rates in 2015.[1]

WKG's application was deemed deficient. An Informal Conference ("IC") to discuss WKG's filing deficiencies attended by representatives of WKG, Commission Staff, and the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), was held on February 16, 2016. On March 1, 2016, WKG filed supplemental information which cured its filing deficiencies, and the application was accepted for filing as of that date. Pursuant to the ARF Regulation, that

[1] These revenue amounts recognize a $105,000 discount to the revenues generated by WKG's current tariffed rates and its proposed tariffed rates. Without the discount, WKG's current rates produce revenues of $1,575,000, while its proposed rates are designed to produce revenues of $2,478,856, which is the amount identified by WKG as its total cost of service.

filing extended the six-month period for processing this case to September 1, 2016.[2] In addition, its revised application was based on WKG's most recent annual report for the year ended December 31, 2015.[3] On March 11, 2016, a procedural Order was issued in this case allowing requests for intervention to be filed no later than March 18, 2016, for two rounds of discovery, and for the opportunity for intervening parties to request a hearing.

The only intervenors in this proceeding are Atmos Energy Corporation ("Atmos Energy") and the AG, which filed its intervention request on March 21, 2016, three days after the date established for such requests. The AG subsequently filed a motion to deviate from the procedural schedule to permit it time to determine whether WKG is a utility under the Commission's jurisdiction, and if so, to allow it to investigate the relationship between WKG and Atmos Energy's Kentucky utility division ("Atmos-Ky"), which is WKG's only customer. On March 30, 2016, the AG was granted intervention. On March 31, 2016, WKG responded to the AG's motions, stating that it elected not to object to the late filing of the AG's motion to intervene or to extending the procedural deadlines by a reasonable amount of time in order to accommodate the AG's request. On April 6, 2016, the Commission approved the AG's motion to deviate from the procedural schedule and issued a revised procedural schedule.

WKG responded to two rounds of data requests issued by Staff and three rounds of data requests from the AG. Atmos Energy did not issue any data requests. In lieu of

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[2] Pursuant to 807 KAR 5:076, Section 7, a utility applying for a rate adjustment under the ARF filing procedures may place its proposed rates into effect six months from the date of filing its application, subject to refund, upon providing the Commission written notice of its intent to place its rates into effect.

[3] In its January 21, 2016 application, WKG had proposed to use the 12 months ended June 30, 2015, as its test year, a proposal that failed to comply with 807 KAR 5:076.

a hearing, WKG and the AG agreed to file comments on the case on July 8, 2016, and all three parties submitted rebuttal comments on July 22, 2016. The matter now stands submitted to the Commission for a decision based upon the evidentiary record.

BACKGROUND

WKG is a wholly owned subsidiary of Atmos Pipeline and Storage, LLC, which is a wholly owned subsidiary of Atmos Energy. WKG owns the exclusive underground natural gas storage rights to the East Diamond Gas Storage Field located in Hopkins County, Kentucky. The facility is 1,750 acres in size and has a storage capacity of two billion cubic feet.[4] Pipeline facilities include compressors and a gathering system consisting of 6-inch and 4-inch steel pipelines, as well as an 18.5-mile-long 8-inch transmission line that connects with ANR Pipeline. WKG is identified in the Commission's docket and tariff systems as a transmission company (transporter). Atmos-Ky, WKG's only customer, has contracted for 97.2 percent of WKG's storage capacity.

COMMISSION JURISDICTION

The AG argues that WKG is not a utility and is therefore not subject to Commission jurisdiction. The AG claims that because WKG provides wholesale service to just one customer, its parent company, it does not provide service to or for the public and hence does not meet the statutory definition of a "utility." The AG also claims that WKG has not acted as a utility because it has not filed annual reports with the Commission pursuant to 807 KAR 5:006(4) or with the Department of Revenue pursuant to KRS 136.120 *et seq.*

[4] WKG acquired the East Diamond property from Kentucky Pipeline and Storage Company, Inc. in 2001, at which time KYPSCO had owned and operated the facility for ten years.

WKG notes that the Commission previously asserted jurisdiction over WKG's acquisition of the East Diamond Storage Field in 2001. WKG states that because it believed its storage transportation service and storage transportation rates were subject to Commission jurisdiction, it filed with the Commission its 2004 agreement with Atmos-Ky which sets out the terms and conditions of its service to Atmos-Ky, including a 10 percent discount applicable to its tariffed storage reservation fee.[5]

WKG states that it has acted as required by the Commission to be a regulated utility. It points out that it maintains a tariff, which is on file with the Commission. WKG states that the Commission has not required it, or other entities listed on its website as gas transmission companies, to file annual reports. WKG states that, while it has only one customer, pursuant to its tariff, service is available to customers who contract for storage space in the East Diamond Storage Reservoir to the extent it has capacity available.

Discussion On Commission Jurisdiction

In analyzing whether the Commission has jurisdiction to regulate the rates of WKG, the Commission considered two statutes, KRS 278.010(3) and KRS 278.040.[6] KRS 278.010(3) sets forth the definition of a utility. KRS 278.040(1) mandates that the Commission "shall regulate utilities and enforce the provisions of this [KRS 278] chapter," while KRS 278.040(2) states that the Commission's jurisdiction "shall extend to all utilities in the state," with "exclusive jurisdiction over the regulation of rates and

[5] In addition to a storage reservation fee, WKG's rates also include an injection fee and a withdrawal fee.

[6] The Commission is a creature of statute and has only such powers as have been granted to it by the General Assembly. *See, e.g., Boone County Water and Sewer Dist. v. Public Service Comm'n*, 949 S.W.2d. 588, 591 (Ky. 1997).

service of utilities." It is the conclusion of the Commission that WKG falls within the statutory definition of a utility, and that the Commission has jurisdiction to regulate the rates of WKG under KRS 278.040.

KRS 278.010(3)

"Utility," for purposes of the grant of jurisdiction in KRS 278.040, is defined as:

> [A]ny person . . . who owns, controls, operates, or manages any facility used or to be used for or in connection with. . . .
>
> (b) The production, manufacture, storage, distribution, sale or furnishing of natural or manufactured gas, or a mixture of same, to or for the public, for compensation, for light, heat, power or other uses . . . .

There is no dispute that WKG owns, controls, and operates facilitates used for and in connection with the storage of natural gas for compensation. Whether WKG is a utility as defined in KRS 278.010(3) turns on whether it does so "to or for the public," within the meaning of the statute.

At present, WKG directly serves only one customer, Atmos-Ky, an affiliate, which is a gas distribution company that serves approximately 174,000 customers in central and western Kentucky.[7] The AG contends that because WKG provides service to only one customer, an affiliate, it is not providing service "to or for the public."

The Commission has previously noted a split of authority among jurisdictions that have considered whether service to only one customer can qualify as service to or for the public.[8] The Commission has stated:

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[7] Case No. 2015-00343, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Aug. 4, 2016).

[8] Case No. 99-058, *The Petition of Calvert City Power I, L.L.C. for Declaratory Order ("Calvert City Power")* (Ky. PSC July 6, 1999).

> The characterization of a service as public or private "does not depend . . . upon the number of persons by whom it is used, but upon whether or not it is open to the use of the public who may require it, to the extent of its capacity." *Ambridge v. Pub. Serv. Comm'n of Pennsylvania*, 165 A. 47, 49 (Pa. Super. 1933). *See* 64 Am. Jur. 2d Public Utilities §1 (1972). Stated another way, "[o]ne offers service to the 'public' . . . when he holds himself out as willing to serve all who apply up to the capacity of his facilities. It is immaterial . . . that his service is limited to a specified area and his facilities are limited in capacity." *North Carolina ex real. Utilities Comm'n v. Carolina Tel. & Tel. Co.*, 148 S.E.2d 100, 109 (N.C. 1966).[9]

In Case No. 99-058,[10] the Commission considered whether service to one or a limited number of customers could qualify as service to the public. Calvert City Power I, L.L.C. ("Calvert City Power") proposed to construct and operate "a natural" gas-fired power plant consisting of several simple-cycle combustion turbine units. Calvert City Power stated that all electricity generated from the facilities would be sold at wholesale to affiliated power marketers, and that there would not be any retail sales to end-users for consumption or sales to any utility regulated by the Commission. After noting the split of authority regarding whether a service provider with only one or a limited number of customers can be considered a public utility, the Commission discussed its decision in Administrative Case 297,[11] in which the Commission stated: "The Commission considers the public to be one or more end-users."[12] The Commission further noted in the Calvert City Order, however, that "[u]nfortunately, that Order contained no

[9] Case No. 96-448, *An Investigation of the Rates, Charges, Billing Practices and Provision of Utility Service by Envirotech Utility Management Services* (Ky. PSC April 29, 1997), at 5.

[10] Case No. 99-058, *Calvert City Power* (Ky. PSC July 6, 1999).

[11] Administrative Case No. 297, *An Investigation of the Impact of Federal Policy on Natural Gas to Kentucky Consumers and Suppliers* (Ky. PSC Oct. 23, 1987) ("Admin 297").

[12] Admin 297.

discussion or analysis of legal precedents or any other foundation to support the conclusion reached," and cannot be accepted "as binding precedent. Rather, it should be considered along with other relevant decisions and applied to the facts and circumstances on a case-by-case basis"[13] The Commission based its finding that Calvert City Power would not be a utility subject to its jurisdiction not only on the lack of direct sales to end-users, but also on the fact that Calvert City Power would not sell power to any Kentucky utility for ultimate consumption by Kentucky customers.[14]

The Commission's statement in Admin 297 that it "considers the public to be one or more end-users" must also be considered in context. Admin 297 was an exhaustive investigation of the impacts of federal policy on Kentucky's gas industry. In its Order of May 29, 1987, the Commission recognized three levels of "regulatory activity" by industry participants that fall within the scope of KRS Chapter 278, each subject to a different level of regulation by the Commission. The first level concerns facilities involved in the production of gas, i.e., at the "wellhead," which are subject to the least oversight and no rate or service regulation by the Commission. The next level of activity involves transporters of gas. The Commission concluded that the facilities, practices and services of transporters, but not rates, must be regulated by the Commission. The final level of regulatory activity is the distribution and sale of gas to end-users.[15] The

[13] Case No. 99-058, *Calvert City Power* at 5.

[14] In a similar case, the Commission found that a power-generating facility would not be a utility even though it did have a contract to sell power to a jurisdictional utility for resale to Kentucky consumers. The Commission noted that the contract was an output contract, i.e., for all of the facility's output, and that therefore the owner of the facility could not serve an indefinite public or hold its generation out to the general public. Case No. 2000-075, *Petition of Kentucky Pioneer Energy, L.L.C. for Declaratory Order* (Ky. PSC July 13, 2000).

[15] The Commission did not address gas storage companies in its Order in Admin 297.

Commission found that this level of activity should be subject to the highest level of scrutiny–full rate-base and facilities regulation–because the rates charged to end-users, whether residential, commercial or industrial, are a primary focus of the Commission's jurisdiction. The Commission's reference to "end-user" is found only in its discussion of what constitutes a "utility selling gas to the public."

The Commission is aware of at least two prior instances in which the Commission has asserted, without discussion, jurisdiction over a natural gas company providing service to a single, affiliated utility. In Case No. 98-055, Deltran, Inc. proposed to increase the amount it charged for gas storage services provided to Delta Natural Gas Company, Inc. ("Delta"), its parent company and sole customer. The Commission investigated Deltran's revenue requirements and granted a rate increase less than the amount requested.[16] Similarly, in Case No. 2007-00354, the Commission investigated Apache Gas Transmission Company, Inc.'s ("Apache") ARF application to increase the rate for gas transportation services charged to Burkesville Gas Company, Inc. ("Burkesville"), an affiliate and its sole customer, and granted a lesser increase than requested.[17] As is Atmos, both Delta and Burkesville are local distribution companies.

Based on the foregoing, the Commission finds that WKG meets the statutory definition of a "utility" and is therefore subject to the Commission's rate jurisdiction. Although WKG currently serves only Atmos-Ky, WKG has some capacity in excess of that provided to Atmos-Ky, and WKG, through its tariff, offers storage service to the

[16] Case No. 98-055, *Tariff Filing of Deltran, Inc. to Establish Its Monthly Lease Charge* (Ky. PSC April 24, 1998).

[17] Case No. 2007-00354, *The Application of Apache Gas Transmission Company, Inc. for an Increase in Rates* (Ky. PSC Dec. 21, 2007). Apache's service to Burkesville is provided under a special contract. It is limited in that it can provide service only to the gas distribution utility to which it is connected.

public to the extent of its available capacity. Under its contract with Atmos-Ky, WKG retains the right to market storage capacity in excess of that dedicated to Atmos-Ky, including additional capacity it may develop, and it can terminate the year-to-year contract upon a year's notice. WKG's facilities interconnect with an interstate pipeline, and are physically capable of providing storage services to more than one customer. Prior to the execution of the contract with Atmos-Ky in 2004, WKG in fact did provide gas storage services under contracts with multiple customers.

As a utility within the meaning of KRS 278.010(3)(b), WKG is required to file annual reports with the Commission.[18] The fact that the Commission in the past has not required WKG or certain other gas utilities to do so does not divest the Commission of its statutory jurisdiction over WKG.[19] Because 807 KAR 5:006, Section 4, provides that each utility "shall file" an annual report with the Commission, the Commission finds that WKG should be required to file an annual report hereafter. The Commission will provide to the Department of Revenue, for purposes of calculating the assessment provided for in KRS 278.130, the amount of gross annual operating revenue reported by WKG.

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[18] *See* KRS 278.130, KRS 278.140, KRS 278,230 and 807 KAR 5:006, Sections 4(1), (2), and (3).

[19] Even though the Department of Revenue has neither required WKG to file annual reports nor made assessments against WKG pursuant to KRS 136.130 nor made assessments against WKG pursuant to KRS 278.130, this cannot operate to divest the Commission of statutory jurisdiction over WKG.

TEST PERIOD

WKG proposed the 12-month period ended December 31, 2015, as the test period for determining the reasonableness of its proposed rate increase. The Commission finds that using the 12-month period ended December 31, 2015, as the test period in this proceeding is reasonable. In using a historic test period, the Commission has given full consideration to appropriate known and measurable changes, based on changes occurring both during and subsequent to the test period.

TEST-PERIOD REVENUES AND EXPENSES

For the test period, WKG reported operating revenues of $1,470,000, consisting of $525,000 in injection and withdrawal charges and $945,000 in storage charges, and operating expenses of $1,211,680.[20] With its proposed adjustments to the test year, based on its review of its 2015 financial statements, WKG requested an increase that, as stated previously, would generate annual base rate revenues of $903,856.

RATE BASE

WKG proposed a test-year-end rate base of $9,504,531.[21] The Commission reduced cash working capital by $41,137 based on its adjustments to O&M expenses. The resulting rate base is shown below:

[20] Application, Statement of Adjusted Operations, Schedule E, page 17 of 26, and Revenue Requirements, ARF Form 1, Filed Mar. 01, 2016.

[21] Application, Cost of Service Schedules and Workpapers, Schedule B Rate Base, page 5 of 26, filed Mar. 01, 2016.

Net Plant:	
Gross Plant	$14,882,143
Construction Work in Progress	600,356
Less: Accumulated Depreciation	3,969,839
Net Plant	$11,512,660
Additions:	
Prepayments	$ 35,790
Cash Working Capital	$ 101,723
Total Additions	$ 137,513
Deductions:	
Injuries and Damage Reserves	$ 153
Accumulated Deferred Income Taxes	$ 2,186,626
Total Deductions	$ 2,186,779
Net Rate Base	$ 9,463,394

As it has stated previously, in instances in which a utility's rate base exceeds the utility's capitalization, the Commission has found capitalization to be a more appropriate method of valuation than rate base, in part because rate base typically includes components such as prepayments and materials and supplies, and because capital better represents the actual interests of investors.[22] In this instance, WKG's adjusted rate base is $9,463,394 while its test-year-end capitalization is $9,016,107.[23] The Commission finds that this level of capitalization should be used as the earnings base to which the rate of return authorized herein should be applied to calculate WKG's revenue requirement.

[22] Case No. 9678, *Adjustment of Rates of General Telephone Company of the South* (Ky. PSC Apr. 16, 1987) and Case No. 10117, *Adjustment of Rates of GTE South, Inc.* (Ky. PSC Sept. 1, 1988).

[23] WKG's revised application filed March 1, 2016, WKG's 2015 annual report, balance sheet, at page 112, line 14. In its July 8, 2016 written comments, WKG erroneously identified its capitalization as approximately $11.3 million; however, that amount was the total of its test-year-end liabilities and credits, including its capitalization of $9,016,107.

ADJUSTMENTS TO TEST-PERIOD REVENUES AND EXPENSES

The increase found reasonable by the Commission in this case is based on its review of WKG's operations for the test year, the adjustments and expenses proposed by WKG which we accept, and adjustments made by the Commission as described below. These adjustments reflect standard ratemaking theories and the Commission's long-held ratemaking practices.

Revenues

As stated above, the test-year revenues of $1,470,000 reported by WKG reflect a $105,000 discount Atmos-Ky receives under the terms of its 2004 contract with WKG. Although WKG's proposed rates produce revenues sufficient to cover its calculated cost of service of $2,478,856, it included the discount in its income statement and revenue requirement calculation. So that the income statement, revenue requirement calculation, and rates developed by the Commission are consistent with each other, the Commission finds that an adjustment to eliminate the discount received by Atmos-Ky is appropriate. Such an adjustment will increase WKG's test-year revenues by $105,000 for ratemaking purposes.

Well Workover and Plugging Expenses

Gas well workover and gas well plugging expenses have fluctuated widely over the years since WKG acquired the East Diamond facility in 2001. WKG stated that there are multiple factors involved in deciding whether to workover or plug wells, but that the primary driver is well integrity.[24] In the test year, WKG reported well workover and well plugging expenses of $515,763 and it proposed to recognize this amount for

[24] Response to Staff's Second Request for Information ("Staff's Second Request"), Item 7.

ratemaking purposes. Information provided through discovery shows that, for calendar years 2010 through 2015, WKG's gas well workover and gas well plugging expenses varied from a low of zero in 2012 to a high of $515,763 in 2015.[25] For calendar years 2006 through 2013, the total amount of these expenses was $512,639. Each well workover costs between $80,000 and $100,000, while each well plugging costs approximately $105,000.[26] WKG plans to plug six wells in 2016, but currently has no plans for well plugging or well workovers for 2017.

The Commission finds that the test-year expense should be adjusted for ratemaking purposes due to the wide fluctuations in the gas well workover and gas well plugging expenses, as well as the intermittent nature of the projects. The Commission finds that using a five-year average of well workover and plugging expense for calendar years 2011 through 2015 in the amount of $186,563 should be utilized for ratemaking purposes.[27] Additionally, the Commission finds that the test-year expense of $515,763 in well workover and capping costs should have been recorded to Wells Expense. Therefore, the five-year average of $186,563 for Wells Expense will be recognized in Account 816.[28] Finally, the Commission finds the non-well workover and non-well plugging outside service expense of $68,147 recorded in Account 923 to be reasonable

[25] *Id.*, and response to Staff's First Request for Information ("Staff's First Request"), Item 8. If the workover is to improve efficiency, the cost is capitalized. If the workover is due to maintenance, the cost is expensed. Well plugging costs are not capitalized because, once it is plugged, a well is no longer an asset generating benefits to the company.

[26] *Id.*

[27] See the Response to Staff Second Request Item 7.a. The total amount expensed for Wells Expense for calendar years 2011 through 2015 for well workover/capping expenses was $933,267 resulting in a five year average of $186,653.

[28] *Id.* For 2014, well workover/capping expenses were charged to Account 816 – Wells Expense. In 2015, such expenses were charged to Account 923.

and that it should be allowed for ratemaking purposes. Overall, the ratemaking impact of this adjustment is a decrease of $329,110 to WKG's test-year expense level.

Income Taxes

Based on the Commission's adjustments to the test-year revenue and expenses, income taxes were adjusted by $177,867 to reflect the appropriate level of expense for the test year. In its application, WKG used a 35 percent federal income tax rate in determining its revenue requirement. The Commission used a 34 percent rate in its revenue requirement determination as the top corporate income tax rate of 35 percent applies only to income over $10 million in a tax year. WKG imputed interest expense to calculate taxes for ratemaking purposes, as the Commission did in its calculation of income tax expense.

REVENUE REQUIREMENT DETERMINATION

WKG's adjustments to its actual test-year operations resulted in net income of $46,018. Based on the adjustments described herein and the expense levels proposed by WKG that we accept, the adjusted test year operating results are as follows:

	Actual Test Year	Adjustments To Test Year	Adjusted Test Year
Operating Revenues	$1,470,000	$ 105,000	$1,575,000
Operating Expenses	$1,211,680	$ (329,110)	$ 882,570
Operating Income	$ 258,320	$ 434,110	$ 692,430
Depreciation Expense	$ 342,589	$ -0-	$ 342,589
Net Income Before Income Tax	$ (84,269)	$ 434,110	$ 349,841
Income Taxes	$ (130,287)	$ 177,867	$ 47,580
Net Operating Income	$ 46,018	$ 256,243	$ 302,261

CAPITAL STUCTURE AND COST OF CAPITAL

Cost of capital, or rate of return, is the typical method used to determine the revenue requirement of an investor-owned utility. In order to apply a cost-of-capital, or rate-of-return approach, a utility should be sufficiently capitalized and have a capital structure that is reasonably balanced between debt and equity (or its parent company should have such a capital structure). In its written comments, WKG stated that: (1) it is a subsidiary of Atmos Energy; (2) its belief, as Atmos Energy is its sole source of capital, that it is appropriate to use its parent company's capital structure for ratemaking purposes; and (3) the close relationship between its rate base and its capitalization support its being regulated using a rate-base method (cost of capital) rather than an operating ratio method.[29]

In cases involving small investor-owned utilities, the operating-ratio method has often been used to determine the revenue requirement. This has been done because many small investor-owned utilities are not sufficiently capitalized or have an atypical capital structure that does not support determining a revenue requirement using a cost-of-capital approach (and because there is no parent company with a balanced capital structure).

With capitalization of $9,016,107, the Commission concludes that WKG is sufficiently capitalized. While that capitalization is 100 percent equity, the Commission is of the opinion that it is appropriate to use Atmos Energy's capital structure for determining WKG's return on capital.

[29] Written Comments of WKG Storage, Inc. filed July 8, 2016, at 8.

Using the cost-of-capital method with capitalization of $9,016,107, the Atmos Energy capital structure and capital costs proposed by WKG results in a $2,097,707 revenue requirement, which would require an increase in revenues of $522,707. In this case, the Commission finds that using the cost-of-capital method to determine WKG's revenue requirement is reasonable. WKG is sufficiently capitalized, and as a subsidiary of Atmos Energy, it can legitimately use Atmos Energy's capital structure for ratemaking purposes.[30] This is similar to the approach to capital structure used in rate cases for Atmos-Ky and Columbia Gas of Kentucky, Inc.

In Atmos-Ky's most recent litigated base rate case,[31] the Commission approved a weighted average cost of capital utilizing a 9.8 percent return on equity ("ROE"), which is the ROE used by WKG in this case. The capital structure and weighted average cost of debt proposed by WKG are Atmos-Energy's 13-month averages for WKG's calendar year 2015 test period.

The Atmos-Energy capital structure WKG has used for ratemaking purposes consists of 46.82 percent debt and 53.18 percent equity.[32] It used a debt cost of 5.31 percent, Atmos-Energy's debt cost. Together with the 9.8 percent ROE, this results in a weighted average cost of capital of 7.7 percent as shown below.

[30] Atmos-Ky's adjusted rate base is $9,463,394, while its year-end capital was $9,016,107.

[31] Case No. 2013-00148, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Apr. 22, 2014).

[32] *Id.*, Schedule I, page 25 of 26. Capital Structure is as of Dec. 31, 2015 13-month average book balances using the parent's capital structure, Filed Mar. 01, 2016.

Description	Amount	Ratio	Cost Rate	Weighted Cost
Weighted Debt Cost	$2,797,237,685	46.82%	5.31%	2.49%
Equity Capital	$3,177,441,930	53.18%	9.80%	5.21%
Total	$5,974,679,615	100.00%		7.70%

Using total capital of $9,016,107 and applying a 7.7 percent rate of return, the required return is $694,233. With this return the total cost of service is $2,097,707, which results in a required increase of $522,707, the amount of increase being approved by the Commission.

RATE DESIGN

As previously stated, Atmos-Ky is WKG's only customer. The rates in WKG's contract with Atmos-Ky became effective on September 3, 2004. The contract specified a 10 percent discount for Atmos-Ky from the tariffed rate for gas storage from the WKG facility. Atmos-Ky will continue to receive a 10 percent discount after this case is concluded. Absent the discount, the new storage rate, which is based on its proposed rates, should allow WKG to recover its full cost of service.

FINDINGS

After review of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The rates proposed by WKG should be denied.

2. WKG should be considered a utility as defined in KRS 278.010(3)(b) and be subject to Commission jurisdiction.

3. WKG's rates and service should be subject to Commission jurisdiction pursuant to KRS 278.040.

4. WKG should be granted an increase in revenues of $522,707.

5. The rate design proposed by WKG is reasonable and should be approved.

6. The rates in the Appendix attached hereto are fair, just and reasonable for WKG to charge for service rendered on and after the date of this Order and should be approved.

7. WKG should be subject to the Public Service Commission Annual Assessment pursuant to KRS 278.130, KRS 278.140, and 807 KAR 5:006, Section 1, beginning in 2017 based upon calendar year 2016 gross receipts.

8. WKG should be subject to filing annual reports with the Commission pursuant to KRS 278.230 and 807 KAR, Section 4(2) and (3).

IT IS THEREFORE ORDERED that:

1. The rates proposed by WKG are denied.

2. WKG is a utility as defined in KRS 278.010(3)(b) and is subject to Commission jurisdiction.

3. The rates and service of WKG are subject to Commission jurisdiction pursuant to KRS 278.040.

4. WKG is hereby granted an increase in revenues of $522,707.

5. The rate design proposed by WKG is reasonable and should be approved.

6. The rates in the Appendix attached hereto are fair, just and reasonable for WKG to charge for service rendered on and after the date of this Order.

7. Within 20 days of the date of this Order, WKG shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets

setting forth the rates and charges approved herein and reflecting their effective date and that they were authorized by this Order.

8. WKG shall be subject to the Public Service Commission Annual Assessment pursuant to KRS 278.130, KRS 278.140, and 807 KAR 5:006, Section 1, beginning in 2017 based upon calendar year 2016 gross receipts.

9. WKG shall be subject to filing annual reports with the Commission pursuant to KRS 278.230 and 807 KAR 5:006, Section 4(2) and (3).

By the Commission

ENTERED
SEP 30 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

Jaline R. Mathews

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2016-00053 DATED SEP 30 2016

Firm Transportation Rates ($/1,000 cubic feet)

	Rates
Storage Transportation (TS-1) Injection	$0.1620
Storage Transportation (TS-1) – Withdrawal	$0.1620
Storage Service (S-1) – Reservation	$0.0810

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