

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE PIPE)
REPLACEMENT PROGRAM RIDER OF) CASE NO.
DELTA NATURAL GAS COMPANY, INC.) 2016-00110

ORDER

On March 2, 2016, Delta Natural Gas Company, Inc. ("Delta") submitted an application requesting to revise rates for its Pipeline Replacement Program ("PRP") effective with meters read on and after April 25, 2016, pursuant to the Commission's Order in Case No. 2010-00116.¹ At the time Delta filed its application, it failed to include signed copies of its proposed tariff as required by 807 KAR 5:011, Section 3, which sets out the format requirements for tariffs filed with the Commission. On April 22, 2016, Delta filed revised tariffs that were signed; however, the revised tariffs did not change the effective date so that they provided at least 30 days' notice from the April 22, 2016, filing date as required by KRS 278.180. Delta responded to one information request from Commission Staff ("Staff"). There are no intervenors in this proceeding, and the case now stands submitted for decision.

Delta proposes a current-year PRP adjustment of \$1,429,322. During 2015, Delta experienced an under-recovery of its PRP revenues in the amount of \$11,409,

¹ Case No. 2010-00116, *Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates* (Ky. PSC Oct. 21, 2010).

which it proposes to include in its PRP Balancing Adjustment for 2016. Delta's Total PRP adjustment, including the Balancing Adjustment, is \$1,440,731.

Delta was asked in a Staff request for information to provide the number of years it expects to use the PRP mechanism to recover the cost of replacing bare and coated steel pipe along with associated services. Delta responded that, "[a]ssuming the remaining unprotected mains are replaced at a similar rate, based on current mapping records, it will take approximately 5 years to complete the replacements."² Delta elaborated that, although the replacement of bare steel pipe will take a minimum of five years, its PRP is "a continuing program to improve public safety and reliability of service"³ for its customers. Delta states that the PRP promotes the replacement of facilities other than bare steel that do not meet current material and construction standards or pose other operational issues.⁴

The Commission notes that Delta's PRP is unique among Kentucky jurisdictional local distribution companies in that it did not propose an end date for its PRP in Case No. 2010-00116,⁵ in which the Commission first approved the program. In the case of Duke Energy Kentucky, Inc., its Accelerated Main Replacement Program, approved by the Commission in 2002 to recover the costs of replacing cast iron and bare steel mains on an accelerated basis over ten years, was completed at the end of 2010. Columbia Gas of Kentucky, Inc. began a 30-year Accelerated Main Replacement Program in 2008

² Delta's response to Commission Staff's First Information Request, Item 2.c. The "similar rate" refers to the rate at which mains have been replaced to date under the PRP.

³ *Id.*

⁴ *Id.*

⁵ Case No. 2010-00116, *Delta Natural Gas Company, Inc.* (Ky. PSC Oct. 21, 2010).

to replace unprotected bare steel, cathodically protected bare steel, cathodically unprotected coated steel, ineffectively coated steel, and cast iron pipe, as well as all metallic service lines, and service lines not meeting current material and construction standards.⁶ Atmos Energy Kentucky's 15-year Pipe Replacement Program was approved by the Commission in 2009 to replace all existing bare steel mains, as well as service lines, curb valves, meter loops, and mandated pipe relocations.⁷ The Gas Line Tracker ("GLT") mechanism of Louisville Gas and Electric Company was approved for a five-year period in 2012 and is expected to be complete in 2017. The GLT includes the replacement of cast iron, wrought iron, bare steel, and Aldyl-A plastic pipe mains, as well as service lines and risers.⁸

The Commission recognizes Delta's work towards replacing mains eligible for replacement under its PRP and shares the goal of safety and reliability of service, which is the highest priority in our approval of pipe-replacement programs. However, it is the Commission's intent for these programs to be time limited and not to continue beyond completion of the accelerated replacement of targeted aging and unprotected mains and associated services. To allow such programs to be open-ended would shift the recovery of some capital costs resulting from activities in the ordinary course of on-going utility business from base rates to surcharge recovery, which was not the Commission's intent. In order to track the progress of Delta's PRP replacements, the

⁶ Case No. 2009-00141, *Application of Columbia Gas of Kentucky, Inc. for an Adjustment in Rates* (Ky. PSC May 1, 2009), Application, Direct Testimony of David E. Mueller at 8.

⁷ Case No. 2009-00354, *Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC Nov. 18, 2009), Application, Direct Testimony of Gary L. Smith at 15.

⁸ Case No. 2012-00222, *Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates, a Certificate of Public Convenience and Necessity, Approval of Ownership of Gas Service Lines and Risers, and a Gas Line Surcharge* (Ky. PSC Dec. 20, 2012).

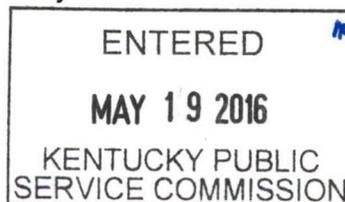
Commission will require Delta to file the information sought in Appendix B to this Order with its future annual PRP applications.

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that the information contained in Delta's filing, along with its responses to Staff's request for information, is in sufficient detail to support the reasonableness of Delta's proposed PRP adjustment. The Commission also finds that because Delta's signed tariff was not filed until April 22, 2016, the earliest date the rates can become effective is May 22, 2016.

IT IS HEREBY ORDERED that:

1. The PRP rates in Appendix A to this Order are approved for billing by Delta for meters read on and after May 22, 2016.
2. Delta shall file the information requested in Appendix B to this Order when it files its future annual PRP applications.
3. Within 20 days of the date 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.

By the Commission



ATTEST:


Acting Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2016-00110 DATED **MAY 19 2016**

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 authority of the Commission prior to the effective date of this Order.

Pipeline Replacement Program Rates:

Residential	\$ 2.21
Small Non-Residential	\$ 4.19
Large Non-Residential	\$ 31.97
Interruptible	\$ 229.44

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2016-00110 DATED **MAY 19 2016**

1. Provide a list of the remaining items to be replaced and an estimate of the associated costs eligible to be recovered through the Pipe Replacement Program ("PRP") as originally enumerated by Delta in Case No. 2010-00116. The information should include:

a. The amount of pipe remaining to be replaced through the PRP. Pipe should be categorized by material (i.e., bare steel, coated steel, etc.), age, size, and location.

b. The number of services remaining to be replaced through the PRP.

c. The number of years Delta expects to use the PRP mechanism to recover the cost of bare and coated steel pipes along with associated services.

d. The estimated remaining cost per year of the PRP, broken down by pipe, services, and any other eligible PRP activities.

2. Provide a list showing by year the amount of pipe replaced through the PRP since the program started. Pipe should be categorized by material (i.e., bare steel, coated steel, etc.), age, size, and location.

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