

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF LOUISVILLE GAS AND)
ELECTRIC COMPANY'S RESIDENTIAL GAS MAIN) CASE NO. 95-404
EXTENSION POLICY AND PRACTICE)

O R D E R

On October 11, 1995, the Commission initiated this case to determine the reasonableness, adequacy, sufficiency and legality of Louisville Gas and Electric Company's ("LG&E") current residential natural gas extension practices. Precipitating this case were three complaint cases which raised issues relating to LG&E's practices regarding residential extensions.¹ A public hearing was held in Case No. 94-195 on October 27, 1994; and the record of that proceeding has been incorporated by reference herein.

LG&E was directed to respond to a request for information which was included in the Appendix of the Commission's Order initiating this case. LG&E filed its response on December 11, 1995. During the period November 14, 1995 through July 12, 1996, Commission Staff and LG&E met in a series of informal conferences to discuss its

¹ Case No. 94-195, Gary A. Frye v. Louisville Gas and Electric Company, Complaint filed May 11, 1994; Case No. 95-345, Danny Brooks Brewer v. Louisville Gas and Electric Company, Complaint filed August 10, 1995; and Case No. 95-367, James E. Pepper v. Louisville Gas and Electric Company, Complaint filed August 21, 1995.

residential gas main extension policies and practices. On August 26, 1996, LG&E notified the Commission of its request for a formal hearing in this proceeding and filed a "Settlement Proposal" for the Commission to consider at the formal hearing. LG&E subsequently withdrew its request for a formal hearing and its settlement proposal asking that the case be submitted to the Commission for a decision based upon the record.

Based upon our review of the record in this case and being otherwise sufficiently advised, the Commission finds that LG&E's practices in performing residential gas main extensions have in some instances been arbitrary and led to inconsistent treatment of prospective customers. For that reason, the Commission finds that certain of LG&E's policies and practices are unreasonable and are in need of reform.

A complete understanding of the process through which customers obtain, and LG&E provides, residential gas main extensions is necessary to review LG&E's policy and practices. LG&E describes the process as "customer driven" and the information in this record and the record of Case No. 94-195 supports this description.² An applicant desiring service from LG&E initially contacts the company to express an interest in receiving service. Typically, the customer initially contacting the company assumes the role of assisting LG&E in gathering information regarding potential customers who may

² Case No. 95-404, LG&E's Response to the Commission's December 11, 1995 Order ("Response"), Items 2(a) and 18. In his testimony in Case No. 94-195, Vic Peek, an LG&E Customer Energy Consultant, described LG&E's marketing efforts regarding residential gas main extensions as "[v]ery, very reactive. We are not proactive."

also desire service.³ This customer is sometimes referred to as a "project champion." According to LG&E, it is very commonplace for a project champion to be used in a main extension of any size, and without them LG&E does not believe it would be able to extend gas service to new customers as successfully as it does.⁴

LG&E provides an informational packet to prospective customers either through a project champion or in a mailing to the prospective customers. This packet consists of: a step-by-step guide to extending natural gas service; LG&E's extension policy, how costs for the extension are calculated, and the refund process; and a petition form.⁵ Additional information about the benefits of natural gas, reiteration of information previously provided about the extension process, and LG&E's policies is provided at group meetings facilitated by LG&E representatives, including a Customer Energy Consultant.⁶

According to LG&E, the Customer Energy Consultant provides the information and is the liaison between LG&E and the prospective customer. The only action LG&E takes to coordinate or direct the efforts of the project champion is to use him for dissemination of the informational packet.⁷ No specific instruction or training is provided to the project

³ Response, Item 4(a).

⁴ Case No. 94-195, Transcript of Evidence ("T.E."), pages 106-107, and Response, Item 22. According to LG&E, since 1988 over 27,000 new customers have been added; and in 1994 alone, more than 7,000 new customers received service.

⁵ Response, Item 9(a), page 1 of 16.

⁶ Id.

⁷ Response, Item 11(a).

champion by LG&E other than providing the packet of information described herein.⁸ LG&E's actions in this regard presume that the project champion efficiently assists LG&E in identifying potential customers, treats each prospective customer fairly, and correctly explains LG&E's policies and rules to the group of potential applicants.⁹

After the initial identification of potential applicants, LG&E makes the determination of whether the service request requires a main extension. The request is forwarded to an Engineering Technician who prepares an estimate of the length of extension necessary based upon the information available (which may include field measurements).¹⁰ Once completed, the Customer Energy Consultant calculates the cost of the extension, including any customer contribution, and presents the information to the applicants requesting service. If the prospective customers elect to proceed with the extension, LG&E sends a contract for service to each of the applicants, and presuming that a sufficient number of signed contracts are received,¹¹ LG&E approves the capital expenditure.

⁸ T.E., page 107 and Response, Item 10(a).

⁹ Response, Items 13-14.

¹⁰ Response, Item 17, page 3 of 14. In his testimony in Case No. 94-195, at pages 173-174, Mr. Peek describes this as providing a copy of the petition request to an estimator, who visits the site and determines the length of extension needed based upon the list of names and addresses on the petition. According to Mr. Peek, during the field visit the estimator only looks at the area represented by the petitioner(s).

¹¹ Response, Item 1. According to an LG&E memorandum dated September 28, 1993, it will "initiate construction if 90% or more of the petitioning customers have returned signed contracts and either advanced or agreed to advance the amount specified in the agreement."

Once approved to proceed, a work order number is assigned to the extension and forwarded to the Engineering group "for proper size, type of material and design standards."¹² LG&E's review at this point includes the potential for future growth, in which case the pipeline required may be sized larger than the actual size required for service to the petitioning group.¹³ Once completed, additional field information and permits are obtained as needed, and LG&E approves the final construction drawings. A bid request is then prepared, mailed to contractors, and ultimately awarded.

Having defined the process, the Commission finds that certain elements of LG&E's residential gas main extension policies and practices warrant reexamination. Those specific elements are: (1) LG&E's degree of oversight and control regarding project champions; (2) LG&E's procedures for substantive review and assessment of the project; and, (3) LG&E's definition of when an extension is completed for purposes of determining new extensions from a particular main and customer contributions.

1. Using the project champion to identify and solicit potential applicants may assist LG&E in working with neighborhoods and groups with which it is unfamiliar. Currently, LG&E assumes no responsibility for the actions of the project champion, and

¹² Response, Item 17, page 4 of 14. Mr. Peek's testimony in Case No. 94-195, at page 174 characterizes this as the "final engineering aspect" where the engineering staff reviews the project for sizing after contracts have been signed and "I've signed off on it."

¹³ When LG&E chooses to install a larger size pipe than required for the extension, LG&E absorbs the difference in the price and charges the petitioning customers only for the size of pipe needed at the time. As explained by Mr. Peek in his testimony in Case No. 94-195, at pages 157-158, LG&E may for engineering purposes install larger pipe.

makes no attempt at the outset to ensure that all potential customers are notified that a main extension in their area is being considered by LG&E. LG&E's subsequent technical efforts typically appear to be driven by the size of the group of potential applicants initially identified by the project champion. According to LG&E, since requests for service are "driven by the customer,"¹⁴ a proposed extension is not usually evaluated beyond the scope of the area needed to provide service to the initial applicants who make the request for service.¹⁵

A "customer driven" approach to main extensions is acceptable so long as it fits into the framework of meeting the requirements of public convenience and necessity. However, the responsible expansion of a utility's system should not be left to the control of an individual who could only reasonably be expected to champion his own and possibly his closest neighbors' interests, and not those of the public to be served or the utility. When a main extension is proposed, the surrounding area should be evaluated by LG&E to determine the extent that public convenience and necessity may demand further extension. The evaluation should include existing fuel sources, ease of customer conversion, economic feasibility to the utility, and a sampling of customer interests.

While LG&E is correct that it cannot force people to take natural gas, LG&E misses the point. LG&E is the only party to this transaction with the expertise, the information, and the resources to make a meaningful review regarding the competing

¹⁴ T.E., Case No. 94-195, page 134.

¹⁵ Id., page 173.

considerations which have to be balanced. It is reasonable for LG&E to take a more active role to protect the equities mandated by LG&E's "pro rata" tariff.¹⁶

The obligation to serve is broader than simply extending service to each applicant. It also involves a higher level planning process to provide for the expansion of the utility's distribution system in a way that is not detrimental to the utility and is beneficial to the public. A project may be initiated by an individual applicant, but its scope should not be left to the applicant to determine. It is also reasonable to expect that the utility itself will independently evaluate potential markets that are adjacent to its existing system, again in an effort to identify cost-effective opportunities to meet the demands of public convenience and necessity.

The Commission recognizes that in some instances bringing a second group into a proposed extension or otherwise expanding the scope of the project may increase the overall contribution required by the petitioning group. But the goal of LG&E's policy and the responsibility of the Commission is to ensure that all customers are treated in a consistent and equitable manner.

2. As stated previously, LG&E's internal substantive review process requires closer analysis. Once signed contracts are returned by enough petitioners LG&E approves the project and the request is forwarded to the Engineering Department for further review. It is at this point that consideration of future growth is included, if

¹⁶ The pro rata provision in LG&E's tariff provides that a person who chooses not to participate in an extension which requires customer contributions, must pay his pro rata share of the full extension cost if connection to the extension occurs within the first 10 years.

appropriate, and the pipeline necessary for the project may be sized larger. Future growth considerations incorporated at this stage of review rather than earlier when LG&E first estimates the extension needed, and its failure to share this information with petitioners prior to sending out legally binding contracts for execution, are shortcomings in its internal review process.

The work of the estimator and the engineer who review a proposed extension for future growth should be coordinated. LG&E should share any conclusions it reaches regarding the scope of the extension with the petitioning group prior to any contracts being signed. It appears prudent to us that in order to ensure the fairest treatment of potential customers, LG&E must take a more active role at this stage of the process to define the scope of the extension for both economic and operational reasons.¹⁷

3. Extension projects tend to "leapfrog" according to LG&E. One extension in an area may be under construction, when a second adjacent group may request an extension be considered by LG&E for their area.¹⁸ While construction for both may be ongoing concurrently, the bids are generally let separately. LG&E agrees that this situation can lead to a public perception that LG&E reviews these projects simultaneously, even though that is not, in fact, the case. Such perception, though

¹⁷ Response, Item 18. After the engineering evaluation, LG&E might extend the scope of the extension to improve system reliability and safety. However this is not typically done by LG&E in all cases, which may lead to inconsistent and arbitrary treatment of potential applicants.

¹⁸ T.E., page 167.

unintended by LG&E, can lead to the public's further confusion over how extension projects are treated internally by LG&E.

807 KAR 5:022, Section 9(16)(b)(2), provides that each customer receiving service from an extension under the regulation is entitled to a refund of a portion of their contribution for customers connecting to the extension within 10 years of its completion. The refund provision does not apply to customers who receive service from a second extension which connects to the first or to laterals constructed from the original extension. LG&E's tariff mirrors this provision.

To help provide clarity to the matter, LG&E should propose for its tariff a definition of when an extension is "completed" for purposes of determining when a second group of applicants falls under the "and not to extensions or laterals therefrom" exclusion contained in the Commission's administrative regulations and LG&E's tariff. The Commission finds that when a second extension is proposed (which will connect to an extension under construction), its construction should not begin prior to completion of the other, absent unusual circumstances. The Commission does believe that until "complete" the scope of the extension for purposes discussed herein should remain fluid (i.e., subject to expansion). Therefore, the proposed definition will need to be consistent with the policies LG&E develops for oversight of project champions and for becoming more active in defining the scope of an extension.

SUMMARY

LG&E's current practices in reviewing and coordinating residential gas main extensions should be redefined to allow better communication between LG&E and the

potential customers requesting service. While the concept of a project champion may be beneficial, LG&E's failure to monitor and coordinate the activities of the project champion can lead to arbitrary treatment of some customer groups. If LG&E continues to use project champions, it should develop a set of procedures which explain what the project champion is expected to do and how LG&E's Customer Energy Consultant, or other LG&E employee, monitors and oversees the actions of the project champion.

LG&E's existing internal review of gas main extensions, which estimates the length of the proposed extension and whether the pipeline required should include future growth, should be combined in some manner. In defining the scope of a proposed extension, and calculating the amount of any customer contribution necessary, LG&E should include information from its own analysis on the potential for future growth. This will allow a basis from which LG&E can assume a more active role in defining the scope of proposed extensions, which will help prevent a recurrence of the situation presented in Case No. 94-195.

LG&E's tariff should be amended to include a definition as to when an extension is completed. The proposed definition should reflect the Commission's finding herein that until "complete" the scope of an extension is subject to review for inclusion of additional customers.

IT IS THEREFORE ORDERED that:

1. Within 30 days of the date of this Order, LG&E shall address the matters referred to in this Order by written response. Within 30 days from receipt, the Commission shall rule on whether the response is acceptable.

2. LG&E's response should include, at a minimum:
- a. Guidelines for project champions.
 - b. Revisions to LG&E's internal policies regarding review of extension requests.
 - c. Revisions to LG&E's tariff to define when an extension is complete.

Done at Frankfort, Kentucky, this 10th day of February, 1997.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director