

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

TARRIFF FILING OF DELTRAN, INC.) CASE NO.
TO ESTABLISH ITS MONTHLY) 98-055
LEASE CHARGE

O R D E R

On December 29, 1997, Deltran, Inc. ("Deltran") filed a proposed adjustment to its monthly lease charge to Delta Natural Gas Company, Inc. ("Delta") for its use of the Canada Mountain Gas Storage Field ("Canada Mountain"). The proposed adjustment would increase the monthly lease charge from \$147,404 to \$200,151. Finding that further proceedings were necessary to determine the reasonableness of the proposed charge, the Commission suspended Deltran's proposed monthly lease charge and initiated an investigation into its reasonableness.

The Commission's decision to investigate the proposed adjustment stems from substantial difference in the initial estimate of the capital cost of Canada Mountain and the cost in Deltran's lease charge calculations. In Case No. 95-098,¹ Delta estimated that the total cost to acquire and complete Canada Mountain was \$11,867,500. Deltran based its proposed lease charge on a total capital cost of \$14,423,765.²

¹ Case No. 95-098, Application of Delta Natural Gas Company, Inc. For an Order Authorizing the Purchase and Financing of the Canada Mountain Gas Storage Field.

² Letter from Connie King, Director of Rates and Treasury, Deltran, Inc., to Helen Helton, Executive Director, Kentucky Public Service Commission, Schedule II (Dec. 29, 1997).

In response to Commission inquiries, Deltran has stated that unknown expenses caused the difference in estimated and actual cost of Canada Mountain. It notes that initial estimates were developed in 1995 and based upon available information. Additional information regarding project costs could not be ascertained until Delta became the legal owner of the storage field and received authorization to complete the project.

Deltran attributes most of the cost differences to increases in gas costs and gas line construction costs. It states that approximately \$1,313,000 of the difference related to higher than expected costs for gas injections. Moreover, the cost to construct a line from the storage field to Delta's system was based upon an inaccurate assumption. The original estimate assumed the construction of 12.9 miles of 12-inch line at an estimated cost of \$41 per foot. Because of routing considerations and the mountainous terrain, 14.1 miles of line were constructed at a cost of \$56 per foot. Deltran also notes that the drilling of an observation well and the installation of dehydration equipment and storage tanks on that well contributed to the increased capital cost.

Having reviewed the evidence of record, the Commission finds that:

1. Deltran's total investment component of \$14,423,765 is reasonable and should be used to calculate the proposed lease charge.
2. Deltran's proposed weighted cost of capital component of 9.81 percent is based upon stale information and should not be used to determine the proposed lease charge.

3. A weighted cost of capital of 9.08 percent is reasonable and should be used to determine the proposed lease charge.³

4. All other expenses set forth in the proposed monthly lease charge are reasonable.

5. A monthly lease charge of \$183,803 is the fair, just, and reasonable rate for Deltran and will produce annual revenues of \$2,206,821.

6. Deltran's proposed monthly lease charge would produce revenue in excess of that found reasonable herein and should be denied.

IT IS THEREFORE ORDERED that:

1. The monthly lease charge of \$183,803 is approved for service rendered on and after March 2, 1998.

2. Deltran's proposed monthly lease charge of \$200,151 is denied.

3. Within 30 days of the date of this Order, Deltran shall file with the Commission its proposed plan for refunding all amounts collected in excess of the approved rate while the proposed monthly lease charge was in effect. Deltran shall make any motion for an informal conference with Commission Staff to discuss this proposed plan at the time of its filing of the proposed refund plan.

4. Within 30 days of the date of this Order, Deltran shall file with the Commission revised tariff sheets that set forth the approved monthly lease charge.

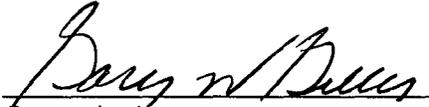
³ See Case No. 97-066, An Adjustment of General Rates of Delta Natural Gas Company, Inc. (Dec. 8, 1997) at 21.

Done at Frankfort, Kentucky, this 24th day of April, 1998.

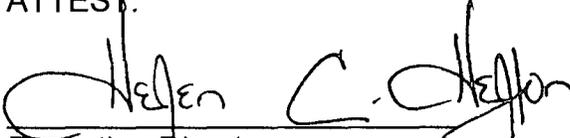
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director