

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------|---|------------|
| THE TARIFF FILING OF DELTA |) | |
| NATURAL GAS COMPANY, INC. TO |) | CASE NO. |
| ESTABLISH AN ENERGY ASSISTANCE |) | 2005-00464 |
| PROGRAM RIDER SURCHARGE |) | |

O R D E R

PROCEDURAL BACKGROUND

On November 8, 2005, Delta Natural Gas Company, Inc. ("Delta") submitted a proposed tariff for an Energy Assistance Program ("EAP") Rider for its residential customers with a proposed effective date of December 8, 2005. The Commission, finding that additional proceedings were necessary to determine the reasonableness of the proposed surcharge, suspended the proposed surcharge through February 7, 2006. In addition, finding that the proposed surcharge would increase the total rate Delta charges its residential customers for gas service, the Commission granted Delta a deviation from providing notice of the proposed surcharge to its customers prior to the Commission's acceptance of the filing of the application but ordered Delta to provide notice to its customers of the proposed surcharge.

On December 5, 2005, the Commission Staff submitted a notice of informal conference and initial data request to Delta. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General") requested and was granted full intervention. Delta filed its response to the Staff's initial data request on December 12, 2005 and an informal conference to discuss

Delta's responses and other issues regarding Delta's EAP was held on December 13, 2005 with the Attorney General in attendance. Delta filed additional information requested at the informal conference on December 21, 2005. A telephonic conference was held with Delta and the Attorney General on January 6, 2006. Pursuant to the agreement at the telephonic conference, the Attorney General filed comments on Delta's proposed EAP on January 18, 2006. Delta filed its reply comments on January 24, 2006. The case now stands submitted.

DISCUSSION

Initially, Delta proposed a \$0.05 per Mcf surcharge for its residential customers to collect funds for an EAP that would be used to assist low-income customers in paying their natural gas utility bills. The surcharge was estimated to generate \$110,000 annually. Delta would contribute an additional \$25,000 annually and eliminate its contribution to its WinterCare program. Delta stated that its EAP was planned to operate similar to Columbia Gas of Kentucky's ("Columbia") plan with details of the operation of the EAP to be worked out with the Commission prior to implementation. Delta further stated that this was proposed to be an experimental tariff to be reevaluated after three years. The Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties ("CAC") would administer the EAP by contracting with other Community Action agencies to provide enrollment throughout Delta's service area.

At the informal conference, the Attorney General expressed concern regarding Delta's proposal to collect the funds for the EAP using a volumetric charge rather than a per meter or per customer charge that would result in each customer paying the same amount regardless of usage. Delta explained that it determined that the Columbia plan

was most suitable for it and that the \$0.05 per Mcf was approximately the amount approved for Columbia and that an equivalent per customer charge would be about \$0.275. The Attorney General questioned the level of administrative costs to be charged by CAC,¹ which was provided by Delta at the informal conference, as well as the value of CAC administering the program versus Delta's self-administration. At the informal conference and in a response to information requested at the informal conference, Delta stated that it had no experience in administering such a program, especially in applying eligibility criteria to determine whether customers qualify, while CAC administers the Columbia plan and provides some assistance for the Kentucky Utilities Company ("KU") Home Energy Assistance plan.²

In comments filed January 18, 2006, the Attorney General states that he supports a home energy assistance program but finds Delta's proposed program too onerous on Delta's residential customers. The Attorney General recommends an alternative plan of \$0.10 per customer per month for one year only. The Attorney General argues that, with the request of the National Association of State Utility Consumer Advocates to the federal government to double its allocation to \$5.208 billion for the Low Income Home Energy Assistance Program ("LIHEAP") for the winter of 2005-2006 along with Governor Fletcher's recent decision to add an additional \$8 million to LIHEAP for this winter and the Kentucky House budget committee's approval

¹ Total CAC charges for Year 1 are estimated at \$14,735.72 and \$12,275.97 for Year 2. Delta's Response to information requested at the December 13, 2005 Informal Conference, dated December 20, 2005.

² Delta's Response to information requested at the December 13, 2005 Informal Conference, dated December 20, 2005.

of emergency legislation that would add another \$5 million, the need for financial aid has diminished somewhat. The Attorney General also argues that Delta erred when modeling its program after Columbia's plan because Columbia's plan resulted from a settlement that provided a \$7.8 million decrease in base rates and even with the establishment of the funding for Columbia's plan, residential customers still experienced a decrease in base rates. The Attorney General, in his comments, continued to maintain that a volumetric rate was unduly burdensome to marginal customers and that funding based on a fixed customer charge was more appropriate. According to the Attorney General, a \$0.10 per customer charge would be helpful, not too burdensome, and consistent with the previous agreements with Louisville Gas and Electric Company ("LG&E"), KU and The Union Light, Heat and Power Company ("ULH&P").³

In its comments in response to the Attorney General, Delta states that it selected the Mcf approach used by Columbia because its proposal and unit charge were similar to Columbia's and Columbia's approach had been approved by the Commission and agreed to by the parties, including the Attorney General. Delta objects to the Attorney General's \$0.10 monthly customer charge proposal, noting that it produces a lower amount annually and that it would not benefit Delta's customers as much percentage-wise as it does customers of the larger gas distribution companies. In its comments, Delta proposes a monthly per customer charge of \$0.30, which it proposed subsequent to the informal conference in response to the Attorney General's initial suggestion of a \$0.10 monthly charge. Based on this proposal, Delta stated its commitment to include a

³ Case No. 2005-00402, The Annual Cost Recovery Filing for Demand Side Management by The Union Light, Heat and Power Company.

company contribution of \$30,000 annually. However, if the program funding were reduced lower than proposed, Delta stated that there should be a proportionate reduction in its company contribution. Delta proposed that the length of the program extend through two winter seasons and be evaluated in May 2007, after the 2006-2007 winter.

FINDINGS

The Commission recognizes the concerns set forth by both Delta and the Attorney General. The Attorney General states his support for a home energy assistance program to be offered by Delta, but recommends a \$0.10 monthly customer charge to be consistent with his agreements with LG&E, KU, and ULH&P. While Delta argues that its original volumetric approach is consistent with Columbia's plan to which the Attorney General also agreed, it has agreed to a fixed customer charge, but it contends that the \$0.10 per month charge recommended by the Attorney General is too small.

Delta developed its original tariff with the intent of being able to provide assistance to approximately 300 customers annually based on estimated annual consumption and a defined monthly contribution for participants during the 5-month heating season similar to Columbia. It was on this basis that Delta determined that its \$0.05 per Mcf charge was reasonable.

Delta notes that because of its size the Attorney General's recommendation of a \$0.10 per customer charge would not be as helpful to it as the same charge is to the larger utilities. Delta states that on the basis of 33,000 customers, the Attorney General's recommendation would produce about \$40,000 annually, leaving only about

\$25,000 available for customer assistance after recognizing administrative costs. Given its proposal to provide \$400 assistance annually per customer,⁴ Delta would then be able to provide assistance to only about 63 of its roughly 33,000 total residential customers. According to the amended application of ULH&P in Case No. 2005-00402, \$0.10 per month collected from each residential customer would generate \$101,454 from gas customers and \$139,841 from electric customers. Based on an additional \$75,000 contribution to WinterCare by ULH&P and its customers and an amount of \$300 annual assistance per eligible customer, ULH&P can provide assistance to approximately 463 gas and 591 electric customers annually out of 84,545 total gas residential customers and 116,534 total electric residential customers.

The effect of the costs to administer the EAP must be considered. At the December 22, 2005 informal conference in Case No. 2005-00402, ULH&P stated that additional costs to administer its proposed Home Energy Assistance Program would be minimal due to the fact that the Northern Kentucky Community Action Commission currently coordinates ULH&P's pilot Payment Plus program, its Residential Conservation and Energy Education program and its WinterCare program, the last two of which have been in existence for several years. Conversely, Delta has no such plans

⁴ According to Delta's Response to information requested at the December 13, 2005 Informal Conference, dated December 20, 2005. Delta's proposal is to provide the following assistance by month over the next two heating seasons:

| | Year 1 | Year 2 |
|----------|----------|----------|
| November | \$50.00 | \$50.00 |
| December | \$70.00 | \$70.00 |
| January | \$90.00 | \$90.00 |
| February | \$100.00 | \$100.00 |
| March | \$90.00 | \$100.00 |
| Total | \$400.00 | \$410.00 |

in existence, no experience in the operation of such plans and must rely on CAC to administer its plan. Delta stated that it would make its contribution up front in order to cover the administrative costs. According to Delta, CAC has up-to-date knowledge of federal poverty guidelines; has the software and infrastructure in place to process the necessary information; has staff with the ability to contact participants for re-certifications and other issues; has the ability to maintain a waiting list and re-check eligibility; has the ability to provide additional resources to provide assistance from a variety of programs; and has a project manager familiar with similar programs with the ability to coordinate the activities of the various community action agencies in Delta's service territory. The cost of these activities represents \$5,235.72 of the total \$14,735.72 in administrative costs. There is a one-time cost of \$2,000 for information technology for CAC to modify its systems and develop a module for the Delta program. The largest single item identified as administrative cost is \$7,500 arising from a \$25 fee to process each of 300 applications.

The Commission shares the concerns of the Attorney General regarding the level of administrative costs and the additional financial burden that would be placed on Delta's customers. However, based on the information filed by Delta and a review of similar information relating to the administrative costs identified by KU and LG&E in conjunction with their energy assistance programs, we do not find the administrative costs estimated for the Delta program unreasonable. In addition, with Delta serving residential customers in 23 counties, the Commission finds that CAC's administrative experience is essential to the operation of the program. The Commission does,

however, caution both Delta and CAC to take all possible steps to keep administrative costs as low as possible.

As noted earlier in this Order, Delta considered several factors in addition to the level of administrative costs in its determination to request a \$0.05 per Mcf charge to fund its program. Among those factors was its intent to serve 300 customers annually (600 customers over 2 years). As a result of its current proposal to charge \$0.30⁵ per customer per month over a 15-month period through April 2007, Delta would be able to serve roughly 378 customers or two-thirds of its goal. The Commission agrees with the Attorney General that a \$0.30 per customer charge may be overly burdensome to Delta's customers. We also agree with Delta that the \$0.10 monthly customer charge proposed by the Attorney General would result in collections too insignificant to achieve any measurable assistance in light of the administrative costs required. Therefore, we find that both proposals should be denied. In order for Delta, given its size, to have a meaningful EAP, we find that a \$0.20 per month customer charges should be approved and since roughly a third of this heating season has passed, we find that Delta should be able to operate the plan through the next heating season; that is, for a 15-month period from February 2006 through April 2007, with the plan's continuation subject to its evaluation at that time. Based on Delta's current proposal to include an additional

⁵ This charge actually equates to a higher charge than the \$0.05 per Mcf originally proposed, which is the equivalent of \$0.275 per customer charge, and Delta has not provided any additional information to justify its current proposal other than the factors it utilized to arrive at its original per Mcf charge

\$30,000 from company funds, a \$0.20 monthly customer charge should permit Delta to provide assistance to approximately 255 customers during this period.⁶

The Commission has consistently stated its position that it is important that any company offering an emergency assistance plan should also participate by including company funds. This preference is based on the belief that the utility will be more vigilant in its oversight of the program if it has a financial interest. It also reflects a preference that shareholders bear some of the costs of such programs in order to reduce the costs borne by customers. The Commission encourages Delta to include the \$30,000 in company funds in its current proposal.

In addition to the parameters described above, Delta will be expected to follow the eligibility criteria it provided in response to information requested at the informal conference and shall fully explain the amount and purpose of the EAP charge separately on its bills even though the charge will be part of the overall customer charge. Appendix A, attached, describes the EAP authorized herein. Delta will be required to request prior Commission approval for any deviation from the program described in Appendix A.

The Commission approves this energy assistance program as authorized by KRS 278.285. We have considered the input, comments and concerns of the Attorney General and presume that CAC's willingness to administer the plan represents its implied approval of the plan. Although we have authorized a plan which differs from

⁶ Twenty cents times 33,000 customers for 15 months equals \$99,000 available from customers and adding Delta's \$30,000 contribution, a total of \$129,000 is available. Subtracting the full amount of the estimated administrative cost of \$27,012 leaves \$101,988 available for assistance.

that favored by the Attorney General, we find the emergency nature of the need and the experimental nature of the plan supports the reasonableness of the plan authorized herein.

It is clear from the information it filed and its comments at the informal conference that Delta recognized a need to assist its customers and tried to meet that need in an expeditious and straightforward manner.

IT IS THEREFORE ORDERED that:

1. Delta's proposed EAP program is denied.
2. Delta shall be authorized to implement the energy assistance plan set forth in Appendix A effective February 1, 2006 through April 30, 2007.
3. Delta shall request and receive prior Commission approval for any deviation from the plan described in Appendix A.
4. Delta shall submit a complete, detailed evaluation of the plan no later than May 15, 2007, the contents of which shall be determined through discussion with the Attorney General and staff by March 1, 2007.
5. Within 20 days from the date of this Order, Delta shall file its revised tariffs as described in this Order. The tariffs shall reflect their effective date and that they are authorized by this Order.

Done at Frankfort, Kentucky, this 1st day of February, 2006.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above a solid horizontal line.

Executive Director

Case No. 2005-00464

APPENDIX A

APPENDIX A TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2005-00464 DATED February 1, 2006

AUTHORIZED PARAMETERS OF DELTA'S ENERGY ASSISTANCE PROGRAM

Delta is authorized to fund its Energy Assistance Program ("EAP") through an increase of \$0.20 in its residential customer charge.

Delta shall file a revised gas tariff to increase its residential customer charge which includes a new paragraph that shall be set forth separately on the customer's bill that the cost of the EAP are being recovered through a \$0.20 increase in its residential customer charges.

Delta's EAP shall be in effect from February 1, 2006 through April 30, 2007.

Delta shall file a detailed evaluation of the EAP no later than May 15, 2007, the contents of which shall be determined through discussion with the Attorney General and staff no later than March 1, 2007.

Delta shall ensure that the EAP shall be equally available to customers in all counties served by Delta.

The following criteria as proposed by Delta shall be utilized to determine eligibility:

In order to qualify for Delta's EAP, participants must be active Delta customers.

Participants must be at or below 110% of the federal poverty income guidelines.

Gross monthly income must be verified at the time of application and annually thereafter.

Participants must apply for the Low Income Home Energy Assistance Program and direct subsidy payment to Delta.

Participants must understand that no refunds will be issued unless a credit balance exists on a final bill, then the amount refunded will only be the portion of the credit balance in excess of the EAP assistance

Delta and CAC shall keep records sufficient to allow for an independent, third-party review should the Commission determine that such a review is necessary.