COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

VALLEY GAS, INC. REQUEST FOR APPROVAL OF A SPECIAL CONTRACT WITH MAGO CONSTRUCTION COMPANY AND A DEVIATION FROM THE GAS COST ADJUSTMENT CLAUSE	)))))	CASE NO. 2014-00368

ORDER

On October 3, 2014, Valley Gas, Inc. ("Valley Gas") submitted for approval a special contract with Mago Construction Company ("Mago") and requested confidentiality for Articles 2 and 4 of the contract and a deviation pursuant to 807 KAR 5:011, Section 15, from its Gas Cost Adjustment Clause ("GCA").

In its filing, Valley Gas states that Mago produces asphalt for road construction and has heretofore utilized other fuels for its production. Mago has procured additional projects which will require an increase in production. Consequently, Mago and Valley Gas entered into a contract for the construction of a 6-inch line to serve Mago. The line will cost an estimated $200,000 and will provide non-interruptible natural gas service. Mago will reimburse Valley Gas for the entire cost of the pipeline extension, which will then be owned by Valley Gas.

Valley Gas will procure natural gas to serve Mago from its supplier, Constellation Energy ("Constellation"). As the gas will be sourced under a separate contract with Constellation solely to serve Mago, Valley Gas requests a deviation from its GCA so as to exclude the cost of Mago's gas supply from recovery through Valley Gas's GCA mechanism. Mago will pay Valley Gas for the cost of the gas purchased from Constellation, in addition to a fixed transportation rate for delivering the gas through its system. The calculation of the rate billed to Valley Gas's incumbent natural gas sales customers through its GCA will not be affected by the separate purchase of gas supply for Mago.

Finally, Valley Gas requests confidentiality of the contract term and the contracted gas price pursuant to KRS 61.878(1)(c)(1). Valley Gas states that the public disclosure of the information would create a price ceiling in future contract negotiations. It therefore requests that the information be afforded confidential protection for a period of five years.

Subsequent to the instant filing for approval of the special contract through the Commission's electronic Tariff Filing System, Valley Gas responded to questions from Commission Staff, via e-mail, a redacted copy of which is attached hereto as an Appendix. In its responses, Valley Gas stated that the line will be 8,000 feet in length and will be operated at a pressure of 120 pounds per square inch. Mago will utilize approximately 150 dekatherms each day between April and November and a total of 20,000 dekatherms on an annual basis. Valley Gas states that its existing average annual sales volume is 33,000 Mcf.

Pursuant to 807 KAR 5:011, Section 13, special contracts that establish rates, charges, or conditions of service are subject to the Commission's approval.

Valley Gas has not requested a Certificate of Public Convenience and Necessity ("CPCN"). However, a special contract is not necessarily exempt from the CPCN requirement iterated in KRS 278.020(1), which provides:

> No person, partnership, public or private corporation, or combination thereof shall commence providing utility service to or for the public or begin the construction of any plant, equipment, property, or facility for furnishing to the public any of the services enumerated in KRS 278.010, except retail electric suppliers for service connections to electric-consuming facilities located within its certified territory and ordinary extensions of existing systems in the usual course of business, until that person has obtained from the Public Service Commission a certificate that public convenience and necessity require the service or construction.

The Commission has also adopted a regulation, 807 KAR 5:001, Section 15(3), which defines "ordinary extensions" that do not require a CPCN as follows:

> Extensions in the ordinary course of business. A certificate of public convenience and necessity shall not be required for extensions that do not create wasteful duplication of plant, equipment, property, or facilities, or conflict with the existing certificates or service of other utilities operating in the same area and under the jurisdiction of the commission that are in the general or contiguous area in which the utility renders service, and that do not involve sufficient capital outlay to materially affect the existing financial condition of the utility involved, or will not result in increased charges to its customers.

Pursuant to KRS 278.010(3), utility service includes "[t]he transporting or conveying of gas . . . by pipeline to or for the public, for compensation." Valley Gas currently has a total gas plant in service of $362,644.52,[1] so this proposed $200,000 project represents a significant increase in the monetary value of its system. However, since the proposed project will be paid for exclusively by Mago, the cost will be recorded on the books of Valley Gas as a contribution and the cost will not increase the value of its gas plant in service as reflected on its balance sheet.

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[1] *Annual Report of Valley Gas, Inc. to the Kentucky Public Service Commission for the Calendar Year Ended December 31, 2013* at 5.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that the proposed construction is needed to serve Mago and will not result in wasteful duplication of facilities. Further, the construction will not result in increased rates to existing customers or involve sufficient capital outlay to materially affect the existing financial condition of Valley Gas. The substantial sales to Mago should serve to aid Valley Gas's financial condition and, according to Valley Gas, the project and contract will likely enable it to delay the filing of its next application for a rate increase.

For these reasons, the proposed construction qualifies under 807 KAR 5:001, section 15(3), as an extension in the ordinary course of business, and we find the construction to be exempt from the requirement of a CPCN under KRS 278.020(1). In addition, based upon a review of the information provided by Valley Gas, the Commission finds that the special contract with Mago is reasonable and should be approved as filed. However, the Commission notes that Valley Gas is still required to comply with all applicable safety standards for construction and operation as set out in Title 49 CFR Part 192 and 807 KAR 5:022.

While the requested deviation from the GCA requirements may result in the cost of Mago's gas being lower than Valley's weighted average cost of gas as calculated in its GCA applications, due to the increased sales and the consequent increased net earnings, Valley Gas has demonstrated that the contract will benefit its customers at large. As the special contract is likely to materially improve the financial condition of the utility, its ratepayers, and Mago, and will have no impact on Valley Gas's system average cost of gas as it is currently calculated, Valley Gas has demonstrated good cause to grant a deviation from its GCA. Valley Gas may exclude the cost of natural gas procured from Constellation solely for the benefit of Mago from its GCA filings for the life of the special contract or until as otherwise ordered by the Commission.

Finally, pursuant to 807 KAR 3:001, Section 13, Valley Gas requested confidentiality of certain portions of the special contract. In its letter, which the Commission will treat as a motion, Valley Gas requests confidential protection for the contract term and price provisions of the special contract for a period of five years. It states that public disclosure of the information would impair its ability to negotiate future contracts.

The Commission finds that the terms of the special contract for which Valley Gas has requested confidential protection are exempted from public disclosure pursuant to KRS 61.878(1)(c)(1). Additionally, the Commission finds on its own motion that the contract rate which is identified in question 7 in the Appendix is entitled to confidential protection pursuant to KRS 61.878(1)(c)(1).

IT IS THEREFORE ORDERED that:

1. The Agreement between Valley Gas and Mago is reasonable and should be approved.

2. Valley Gas's request for a deviation from its GCA is granted.

3. Valley Gas shall exclude from its GCA the cost of natural gas purchased from Constellation for Mago in accordance with the terms of the special contract.

4. Valley Gas's request for confidentiality is granted.

5. The materials for which Valley Gas seeks confidential treatment shall not be placed in the public record or made available for public inspection for a period of five years pursuant to the exceptions under KRS 61.878(1)(c)(1).

6. The rate in question 7 in the Appendix shall not be placed in the public record or made available for public inspection for a period of five years pursuant to the exceptions under KRS 61.878(1)(c)(1).

7. Use of the materials granted confidentiality in this proceeding shall be in compliance with 807 KAR 5:001, Section 13(9).

8. Valley Gas shall inform the Commission if the materials granted confidentiality become publicly available or no longer qualify for confidential treatment.

9. If a non-party to this proceeding requests to inspect materials granted confidential treatment by this Order and the period during which the materials have been granted confidential treatment has not run, Valley Gas shall have 20 days from receipt of written notice of the request to demonstrate that the materials still fall within the exclusions from disclosure requirements established in KRS 61.878. If Valley Gas is unable to make such demonstration, the requested materials shall be made available for inspection.

10. Valley Gas shall construct the facilities required to serve Mago to meet all applicable requirements as set out in Title 49 CFR Part 192 and 807 KAR 5:022.

11. Valley Gas shall ensure the facilities are constructed by individuals qualified to perform the type of work as proposed.

12. Valley Gas shall notify the Commission one week prior to the actual start of construction, at the 50 percent completion point, and when the construction is complete.

13. Any documents filed pursuant to ordering paragraph 8 of this Order shall reference the number of this case and shall be retained in the utility's post case reference file.

By the Commission

ENTERED

OCT 2 8 2014

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00368 DATED OCT 2 8 2014

PSC - Tariffs

From: Kerry Kasey <igenergy@bbtel.com>
Sent: Tuesday, October 07, 2014 12:34 PM
To: PSC - Tariffs
Subject: RE: Valley Gas Contract Filing
Attachments: VALLEYGAS.pdf

1. 8,000'
2. Taping line at the intersection of Highway #79 and Highway #477 following Highway #477 on the right side of the road on personal property.
3. 6" Plastic High Den 120 psi pipe.
4. 150 **dekatherm estimate daily only during April –November, 20,000 dekatherms annual estimate.**
5. Mago will be paying by Check or Electronic Funds Transfer for the entire installation.
6. No financing for the project will be done by Valley Gas.
7. If Mago buys any gas from Valley Gas the rate will be at Valley's regular tariff rates.
8. No other improvements are necessary to provide Mago with service.

Kerry R Kasey
VALLEY GAS, INC.
401 S 1ST STREET
IRVINGTON, KY, 40146
270/547-2455
igenergy@bbtel.com

From: PSC - Tariffs [mailto:psc.tariffs@ky.gov]
Sent: Monday, October 06, 2014 7:22 AM
To: igenergy@bbtel.com
Subject: Valley Gas Contract Filing

Mr. Kasey,

Staff has requested additional information regarding the special contract with Mago Construction Company that was filed on October 3.

1. Provide the length of the proposed pipeline to serve Mago.
2. Provide the route of the proposed pipeline, showing its location on a map indicating its interconnection with Valley's existing system.
3. Describe the design and capacity of the proposed 6" pipeline.
4. Provide the expected daily and annual load represented by the Mago contract.
5. Describe the manner in which Mago will fund the $200,000 pipeline construction cost.
6. Confirm that Valley Gas will not be providing financing for the pipeline construction cost.
7. State whether Mago will pay any other rate or charge in addition to the per Mcf rate and the gas cost.
8. Are any improvements required within the existing Valley Gas system to provide service to the proposed pipeline and Mago?

You can e-mail your responses to psc.tariffs@ky.gov.

If you have any questions, please give us a call at (502) 564-3940 or respond to this e-mail.

Thanks.

Daniel

Kerry R Kasey
Secretary
Valley Gas, Inc.
401 First Street
P. O. Box 55
Irvington, KY 40146