COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION OF THE REASONABLENESS OF THE CONSERVATION/ENERGY EFFICIENCY PROGRAM OF DELTA NATURAL GAS COMPANY, INC	)))))	CASE NO. 2018-00029

ORDER

On December 22, 2017, Delta Natural Gas Company, Inc. ("Delta") filed a revised tariff sheet, via the Commission's electronic Tariff Filing System, proposing to revise its Conservation/Efficiency Program Cost Recovery Component ("CEPRC") pursuant to its tariff. Delta proposed an effective date of January 24, 2018, for the revised tariffs. On January 23, 2018, the Commission issued an order finding that since Delta's current Conservation/Efficiency Program ("CEP") Tariff states that new rates are to be effective February 1, 2018, the earliest date that Delta's tariff revision could become effective was February 1, 2018. That Order also found that an investigation would be necessary to determine both the reasonableness of Delta's proposed revision and Delta's CEP as a whole, and suspended the proposed tariff revision for five months, from February 1, 2018, up to and including June 30, 2018. During the suspension period, Delta continued to charge the CEPRC rate set forth in its January 28, 2016 CEP tariff filing.[1]

On March 29, 2018, the Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention ("Attorney General") was granted intervention

[1] TFS 2016-00735 Delta Natural Gas Company, Inc. filed January 28, 2016.

and a procedural schedule was established on May 16, 2018. Delta responded to two rounds of discovery from Commission Staff and one round of discovery from the Attorney General. On June 12, 2018, both Delta and the Attorney General filed individual statements requesting that the case be submitted for a decision based on the record.

BACKGROUND

Delta's CEP is a demand-side management ("DSM") program that was approved by the Commission ten years ago in Case No. 2008-00062.[2] The CEP offers residential customers a home energy audit and rebate incentives for the installation of high-efficiency natural gas appliances. The home energy audit is provided at no cost, and the residential customer receives a kit which includes caulk, switch plate and outlet gaskets, electrical outlet plugs, and weather stripping. The rebate program offers incentives on high-efficiency furnaces, space heaters, gas logs and fireplaces, and water heaters.

Delta recovers the cost of the program from residential customers through a DSM surcharge, known as the CEPRC. This surcharge is the sum of four components: (1) Conservation/Efficiency Program Cost Recovery ("CEPCR"); (2) Conservation/Efficiency Program Revenue from Lost Sales ("CEPLS"), (3) Conservation/Efficiency Program Incentive ("CEPI"), and (4) Conservation/Efficiency Program Balance Adjustment ("CEPBA").

---

[2] Case No. 2008-00062, *The Application of Delta Natural Gas Company, Inc. for Approval of a Customer Conservation/Efficiency Program and Demand Side Management Cost Recovery Mechanism* (Ky. PSC July 18, 2008).

DISCUSSION

Delta's CEP was designed to encourage customers to conserve and efficiently use natural gas. At the time when the Commission approved Delta's CEP in 2008, its gas costs ranked amongst the highest in Kentucky and these programs allowed participants to lower energy usage and thereby lower their total bill. Since the approval of Delta's CEP, natural gas supply has increased 36 percent, and prices have declined significantly. Such declines impact the cost/benefit ratios associated with the DSM programs. Currently, the program costs exceed the program benefits by $12,296.[3]

The Commission typically evaluates DSM programs based on benefit-cost ratios calculated by utilizing the California Tests. While four separate tests comprise the California Tests, the Commission relies primarily on the Total Resource Cost Test ("TRC"), which measures the net costs of DSM programs as a resource option based on the total costs of the program, including the participants' and utility's costs. A TRC score greater than one indicates that the benefits of the program outweigh the costs and the program is beneficial for the customers. When Delta's CEP was approved in 2008, all of the California Test scores were positive, including a TRC score of 1.07[4]. Although a TRC score of 1.07 indicates that the program is marginally positive, it did support the program. Today, Delta's CEP has a TRC score of 0.27, while the individual programs within the CEP have TRC scores of 0.36 for the furnace rebate program and 0.07 for the water heater program.[5] Delta was unable to provide a TRC score for the Energy Audit Program

[3] Delta's Response to Staff's Second Request for Information ("Staff's Second Request"), Item 3, Exhibit A.

[4] Case No. 2008-00062, Delta's Response to Commission Staff's First Request for Information, Item 1 (filed April 22, 2008).

[5] Delta's Response to Staff's First Request for Information ("Staff's First Request"), Item 1.

and stated that due to lack of participation, the Company wished to discontinue the program.[6]

Delta argued that the most important test in determining if the CEP is cost-beneficial was the Ratepayer Impact Measure ("RIM"), which showed the highest benefit-cost ratios of 3.62, 3.43, and 3.58 for the furnace rebate program, water heater program, and CEP as a whole, respectively.[7] However, in calculating the RIM scores, Delta assumed that but for the furnace and water heater rebate programs, 50 percent of the customers that participated in those rebate programs would have switched to alternative fuel. The Commission finds no support for this assumption and, for that reason, is not persuaded to rely on the RIM scores.

Based on a review of the current TRC scores, the Commission finds that the scores do not support the continuation of the programs. The total costs of the programs exceed the benefits, and, thus, continuing all of these programs are a financial burden to the customers. Therefore, Delta should eliminate offering any DSM programs other than those that target income-eligible residential customers until market conditions change so that the benefit-cost ratios are greater than one and exhibit a positive net present value. Consequently, the program cost recovery will be reduced to zero and Delta will be able to continue the recovery of lost sales and any balancing adjustment. Based on the 2017 average residential consumption, the average per bill impact is $0.54 per month.[8]

---

[6] *Id.*

[7] *Id.*

[8] Delta's Response to Staff's Second Request, Item 4a.

In response to discovery, Delta stated that if the Commission reduces or eliminates the current rebate levels recoverable from customers under the CEP, Delta should have the option to continue offering the rebates at their current level. Under that scenario, any rebates paid by Delta in excess of the Commission approved rebate levels would not be recoverable under the CEP but reviewed during Delta's next general rate case.[9] Additionally, Delta requested that even though any excess rebate amounts would not be recovered through the CEP, any energy savings from continuing the DSM programs would be included in the CEPLS component of the DSM surcharge.[10] Again, based on the TRC scores, the Commission finds Delta's request to continue the current CEP program rebate levels to be reasonable only under the condition that there is no recovery from customers of any program costs, including lost revenues and incentives. In the event that Delta is able to demonstrate in the future that the rebate programs are cost-effective, recovery will be allowed only for costs incurred subsequent to that approval, not for costs incurred prior to that approval. If Delta elects to continue the CEP rebates under these conditions, a revised tariff will have to be filed to reflect the changes to the programs.

LOW-INCOME ASSISTANCE

Currently, Delta offers an Energy Assistance Program ("EAP"), whereby residential customers contribute $0.20 per month and Delta contributes $30,000 annually to fund a bill credit for low-income customers. Additionally, Delta offers a Winter Care program where customers voluntarily contribute towards low-income assistance, but no programs

---

[9] Delta's Response to Staff First Request, Item 1 and Response to Staff's Second Request, Item 1b.

[10] Response to Staff's Second Request, Item 1b.

within the CEP are specifically targeted towards low-income customers. The Commission encourages Delta to consider and propose a low-income appliance replacement program similar to Columbia Gas's Low-income Furnace Replacement Program with costs to be recovered under the DSM surcharge.

CONCLUSIONS

The Commission finds that in the event Delta seeks in the future to expand its DSM offerings, any future application should be supported by detailed benefit-cost analyses along with support for the need for the proposed DSM programs. Additionally, future DSM programs should include robust, targeted programs that assist with participation by low-income customers.

IT IS THEREFORE ORDERED THAT:

1. Delta's CEP is terminated on and after June 29, 2018.

2. Delta's proposed residential CEPRC rate as filed on December 22, 2017, and as revised in response to Staff's Second Request, Item 3, Exhibit A, is denied.

3. Delta's proposed CEPLS rate as revised in response to Staff's Second Request, Item 3, Exhibit A, is approved.

4. Delta's proposed CEPBA rate as revised in response to Staff's Second Request, Item 3, Exhibit A, is approved.

5. Any future DSM applications filed by Delta shall include the information as described herein.

6. The DSM rates in the Appendix to this Order are approved for final meter readings on and after June 29, 2018.

7. 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.

8. Delta is authorized to continue to file its CEPRC annually to recover through the CEPBA component the CEP costs incurred through June 29, 2018.

9. Delta is authorized to continue to file its CEPRC annually to recover any lost revenues and authorized incentives associated with any Commission-approved DSM program consistent with KRS 278.285. Recovery of lost revenues will be reset to zero on the effective date of the adjustment of base rates in Delta's next base rate case and shall not exceed claimed savings over the life of the specific DSM measure.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

By the Commission

ENTERED

JUN 2 8 2018

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Gwen R. Pinson

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00029 DATED JUN 2 8 2018

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

Conservation/Efficiency Program Cost Recovery Component (CEPRC)

CEPCR	$ 0.00000 per Ccf
CEPLS	$ 0.00786 per Ccf
CEPI	$0.00000 per Ccf
CEPBA	$ 0.00631 per Ccf
DSM	$0.01417 per Ccf

*John B Brown
Chief Financial Officer
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

*Jenny Lowery Croft
Manager - Employee & Regulatory Services
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

*Justin M. McNeil
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Rebecca W Goodman
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Kent Chandler
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Honorable Robert M Watt, III
Attorney At Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Monica Braun
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Matthew Wesolosky
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391

*Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391