

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY)	
CORPORATION TO ESTABLISH PRP)	
RIDER RATES FOR THE TWELVE)	CASE NO.
MONTH PERIOD BEGINNING)	2014-00274
OCTOBER 1, 2014)	

ORDER

On July 31, 2014, Atmos Energy Corporation ("Atmos") filed with this Commission its annual application to establish Pipeline Replacement Program ("PRP") Rider rates for the 12-month period beginning October 1, 2014. On September 26, 2014, the Commission issued an Order suspending the proposed rates up to and including February 28, 2015. Atmos responded to two requests for information issued by Commission Staff ("Staff"). There are no intervenors in this proceeding. The case now stands submitted for decision.

Atmos originally proposed a current PRP adjustment of \$4,487,359. In response to a request for information, Atmos revised its calculation to include recovery of the assessment imposed by the Commission as well as uncollectible accounts expense.¹ Based on this revised calculation, Atmos proposes a current year PRP adjustment of \$4,517,270. Atmos's total PRP adjustment of \$4,381,785 includes a balancing adjustment to correct an over-recovery of its 2012 PRP adjustment in the amount of

¹ Response to Commission Staff's First Request for Information, Item 3.

(\$135,484).² Atmos proposes \$36,024,876 in total additions to its rate base and total retirements of \$3,770,848 from its rate base due to the PRP program.³

In response to Staff's First Request for Information ("Staff's First Request"), Atmos answered clarifying questions regarding its PRP 2015 Projected Project Summary, filed as Exhibit K-1 to its application.⁴ The first item listed is the replacement of approximately 8.66 miles of 8-inch pipe, from Aiken Rd Purchase to Buck Creed Rd, with a 12-inch steel distribution pipe.⁵ According to Atmos's response to Item 5 of Staff's First Request, this project was earlier referred to as the "Shelbyville Line" and was the subject of a July 2, 2014 request for a Staff Opinion regarding Atmos's ability to recover the cost of this project in its PRP.⁶ The budgeted main installation cost for this particular item is over \$14 million,⁷ which is approximately 39 percent of the total 2015 PRP additions to rate base. Atmos contends that although the Shelbyville Line is not bare steel, cathodically unprotected coated steel, or ineffectively coated steel, its PRP program was intended to replace existing infrastructure that has served its useful life.⁸ Further, Atmos states that the Shelbyville Line is over 50 years old and is currently operating at maximum capacity.⁹ In its request for a Staff Opinion, Atmos noted that it had previously made four annual PRP filings which had all been approved since its PRP

² There is a \$1 difference in the calculation of Atmos's total PRP adjustment due to rounding.

³ *Id.*

⁴ Application, Exhibit K-1 at Tab 11.

⁵ *Id.* at 1.

⁶ Atmos's request for Staff Opinion was attached as an Appendix to Staff's First Request (Ky. PSC Aug. 28, 2014).

⁷ Application, Exhibit K-1 at Tab 11.

⁸ Response to Staff's First Request, Item 5.

⁹ *Id.*

tariff was authorized in Case No. 2009-00354.¹⁰ Atmos stated that although all pipe previously replaced under the PRP was of bare or unprotected steel pipe, it interpreted the Commission's Order in Case No. 2009-00354 to also include the replacement of other aged infrastructure that had outlived its useful life and for which replacement was indicated by safety and reliability concerns.¹¹ Atmos's request referred specifically to replacement of the "Shelbyville Line," which is a one-way feed from Texas Gas Transmission in Jefferson County to Lawrenceburg, which serves approximately 11,000 customers in four counties.¹² Atmos maintained that replacement of the Shelbyville Line, which would not include replacement of bare or unprotected steel, should still be allowed under the PRP from a safety and reliability standpoint.¹³ According to Atmos, the Shelbyville Line has served its useful life, as it was put in service in 1963, contains a Grade 3 leak located under Interstate 64, and needs its maximum allowable operating pressure to be increased.¹⁴ Prior to Staff's rendering of an opinion on the cost recovery of the Shelbyville Line in its PRP, Atmos filed the present case.

HISTORY OF ATMOS'S PIPE REPLACEMENT PROGRAM

KRS 278.509, which allows the Commission to authorize PRPs, provides:

Notwithstanding any other provision of law to the contrary, upon application by a regulated utility, the commission may

¹⁰ Case No. 2009-00354, *Application of Atmos Energy Corporation for an Adjustment of Rates* (Ky. PSC May 28, 2010).

¹¹ Letter from Mark Martin, Vice President – Rates & Regulatory Affairs, Atmos Energy Corporation, to Jeff Derouen, Executive Director, Public Service Commission (July 2, 2014).

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

allow recovery of costs for investment in natural gas pipeline replacement programs which are not recovered in the existing rates of a regulated utility. No recovery shall be allowed unless the costs shall have been deemed by the commission to be fair, just, and reasonable.

Atmos's PRP was initially authorized by the Commission in Case No. 2009-00354 as proposed by Atmos and noted in its Stipulation, which was submitted jointly by Atmos and the Attorney General's Office. Although not set out in a separate document in that case, the parameters of the PRP were described in Atmos's application, including its pre-filed testimony supporting both the application and the Stipulation. These parameters were described by Gary L. Smith, Atmos's Director of Rates and Regulatory Affairs, who sponsored the PRP mechanism on behalf of Atmos, as follows:

The Pipe Replacement Program ("PRP") would, in essence, provide a mechanism to replace all existing bare steel within the Company's system. The Company has already replaced all cast iron facilities. The PRP would also include replacement of service lines, curb valves, meter loops, and any mandated relocates.¹⁵ We believe the PRP mechanism will provide benefits to the customer by avoiding the costly and resource-intensive process necessary to review adjustments through the traditional rate case process replacing it instead with a simple, straightforward and financially transparent process.¹⁶

When asked about the effects of the PRP on Atmos's operating and maintenance costs, Mr. Smith stated that Atmos "expects, over time, the PRP will result in a reduction in the Company's operating and maintenance expense for those facilities that are

¹⁵ Case No. 2009-00354, Direct Testimony of Gary L. Smith (filed Oct. 29, 2009) at 15.

¹⁶ *Id.* at 16.

replaced,"¹⁷ and reiterated that "the Company wanted to focus this case on the more pressing issue which is capital investment for aging infrastructure."¹⁸

Another Atmos witness, Earnest B. Napier, P.E., Vice President of Technical Services for Atmos's Kentucky/Mid-States Division, described the engineering and operational aspects of Atmos's proposed PRP program and provided information on the history of the piping systems and a description of the proposed methodology Atmos planned to use to manage the PRP.¹⁹ He described the pipe replacement components that Atmos proposed to include in its PRP:

Atmos proposes to include in the PRP all of the planning, design, replacement construction, investment and retirement costs related to the replacement of the following categories of transmission and distribution main – bare steel (whether or not cathodically protected), cathodically unprotected coated steel, and ineffectively coated steel (whether or not cathodically protected). * These facilities will hereinafter be collectively referred to as "bare steel main"

Atmos will be taking steps to ensure that the newly installed facilities are appropriately designed and sized. *This may necessitate in certain circumstances the replacement of facilities other than bare steel mains and services and those planning, design, replacement construction, investment and retirement costs will be included in the PRP as well* (emphasis added).²⁰

In further describing the benefits of utilizing the systematic pipe replacement approach, Mr. Napier stated:

¹⁷ *Id.* at 17.

¹⁸ *Id.* at 19.

¹⁹ Case No. 2009-00354, Direct Testimony of Earnest B. Napier, P.E. (filed Oct. 29, 2009).

²⁰ *Id.* at 13-14.

Incorporating this type of design and construction approach should result in a per foot installation cost less than that which would be achieved by bidding smaller and more discrete projects. In addition, there are the public benefits of minimizing disruptions in traffic flow by concentrating work in one section of a municipality. *At the same time we will monitor our other segments for leakage and needed replacement activity and react accordingly when main segments become problematic from a long range maintenance perspective (emphasis added)*²¹

Having considered the evidence of record²² and reviewing KRS 278.509 and the testimony and underlying documents in Case No. 2009-00354, the Commission finds that the investment in the Shelbyville Line replacement is appropriate for recovery through Atmos's PRP. KRS 278.509 does not mandate that natural gas pipeline replacement programs be restricted to bare or unprotected steel pipe, and it specifically allows recovery of costs for investments in natural gas replacement programs which are not recovered in the existing rates of a regulated utility. Atmos's PRP program, as described in Case No. 2009-00354, includes replacing all existing bare steel within its system as well as "the replacement of facilities other than bare steel mains and services." Thus, other pipe replacements such as the replacement of the Shelbyville Line may be included. The Commission further finds that the information contained in Atmos's application, along with its responses to Commission Staff's requests for information, is in sufficient detail to support the reasonableness of Atmos's proposed PRP Rider rates and that the rates should be approved.

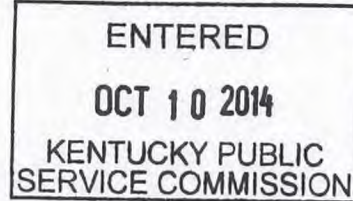
²¹ *Id.* at 16.

²² The evidence includes the facts that the Shelbyville line is over 50 years old, has a Grade 3 leak under Interstate 64, and needs to have its maximum operating pressure increased for reliability purposes.


IT IS HEREBY ORDERED that:

1. The PRP rates in the Appendix to this Order are approved for service rendered by Atmos on and after the date of this Order.
2. Within 20 days of the date of this Order, Atmos 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.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00274 DATED **OCT 10 2014**

The following rates and charges are prescribed for the customers in the area served by Atmos Energy Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Pipe Replacement Program Rider Rates

	<u>Monthly Customer Charge</u>		<u>Distribution Charge per Mcf</u>
Rate G-1 (Residential)	\$ 1.43		\$0.00
Rate G-1 (Non-Residential)	\$ 4.47		\$0.00
Rate G-2	\$27.75	1-15,000 Mcf	\$0.0448
		Over 15,000 Mcf	\$0.0300
Rate T-3	\$22.92	1-15,000 Mcf	\$0.0465
		Over 15,000 Mcf	\$0.0312
Rate T-4	\$21.83	1-300 Mcf	\$0.0739
		301-15,000 Mcf	\$0.0493
		Over 15,000 Mcf	\$0.0347

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