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Talina R. Mathews
Commissioner

March 14, 2018

PARTIES OF RECORD

Re: Case File No. 2017-00343

Attached is a copy of a memorandum, which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum, please do so within five days of receipt of this letter.

If you have any questions, please contact Angela Goad, Commission Staff Attorney, at 502-782-2562.

Sincerely,

A handwritten signature in blue ink that reads "Gwen R. Pinson".

Gwen R. Pinson
Executive Director

AG/ph

Attachments

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2017-00343
FROM: Angela M. Goad, Staff Attorney *AMG*
DATE: March 14, 2018
RE: Informal Conference of March 13, 2018

Pursuant to a Commission Staff ("Staff") Notice, an informal conference ("IC") was conducted at the Commission's offices in Frankfort, Kentucky on March 13, 2018. Attached is a copy of the attendance roster.

The purpose of the IC was to discuss Commercial Propane Service, LLC d/b/a Bright's Propane Service, Inc.'s ("Bright's Propane") proposed settlement, as attached to this memorandum, through the use of an alternative method of rate regulation. Bright's Propane discussed that given its small size and unique nature of operation, it believed that the use of the alternative method of regulation similar to that authorized in Case No. 2013-00076¹ may provide a more efficient and less costly means for the Commission to regulate Bright's Propane's rates and to protect the interests of the ratepayers. After the Staff advised Bright's Propane that it does not speak for the Commission, and discussed various issues concerning the proposal, Bright's Propane asserted that it would file a formal settlement offer for the Commission's review.

There being no further discussion, the IC was then adjourned.

Attachment

¹ Case No. 2013-00076, *An Investigation into the Jurisdictional Status of the Irvington Gas Company's Underground Propane Operations* (Ky. PSC Nov. 25, 2014).

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)
COMMERCIAL PROPANE SERVICE, LLC) CASE NO. 2017-00343
D/B/A BRIGHT'S PROPANE SERVICE, INC.)
FOR AN ALTERNATIVE RATE ADJUSTMENT)

Informal Conference – March 13, 2018

Please sign in:

NAME

REPRESENTING

Angela Good

PSC-Legal

Gerald Whitcher

SKO - Commercial Propane

Adrian Roberts

Commercial Propane

Mike Roberts

Commercial Propane

Duncan Crosby

SKO for Commercial Propane

Mary Whitaker

PSC-FA

Matthew Bray

PSC-FA

Leah Faulkner

PSC

FOR DISCUSSION PURPOSES ONLY

**ALTERNATIVE REGULATION PROPOSAL OF
COMMERCIAL PROPANE SERVICE LLC**

Commercial Propane Service (“CPS”) is proposing for discussion purposes only an alternative rate-making mechanism for its propane-distribution service in the Old Bridge Subdivision of Boyle County, Kentucky. This approach is intended to minimize rate-making costs, continue providing aesthetic and regulatory benefits to the Old Bridge customers, and better reflect the competitive market currently present in Old Bridge.

In short, CPS proposes a rate structure that reflects the existing rate structure of bottled-gas providers in the neighborhood:

1. Infrastructure Charge, similar to tank-lease charges required by bottled-gas providers;
2. Monthly Minimum Bill, supported in concept by the minimum-purchase charges required by bottled-gas providers; and
3. Retail Price, similar to the price per gallon charged by bottled-gas providers in and around Old Bridge.

This rate structure would lessen the rate-making burden on CPS and the Kentucky Public Service Commission (“KPSC”), ensure the continued viability of CPS, and permit the Old Bridge customers to benefit from competitive pricing while maintaining a fixed delivery system and regulatory oversight.

Background

CPS owns and operates a small propane gas distribution system, consisting of in-ground mains and service lines serving approximately 59 customers in the Old Bridge Subdivision of Boyle County, Kentucky. In February 1991, the KPSC found that this system was a utility and subject to its jurisdiction.¹ At that time, Bright’s Propane Service, Inc. owned and operated the distribution system. It continued to operate this system until 2008. In February 2008, the KPSC approved the transfer of the distribution system to Heritage Operating L.P.² In January 2012, AmeriGas Partners L.P. acquired the system from Heritage Operating L.P. without prior KPSC approval. It obtained such approval in October 2013.³ On January 1, 2015, it transferred the system to CPS after obtaining KPSC approval of the transfer.⁴

KPSC records indicate that, outside of adjustments to reflect the cost of purchased gas, the KPSC has never reviewed the rates assessed for service provided by the distribution system. Since the

¹ *Jurisdictional Status of Bright’s Propane Service, Inc.’s Propane Distribution Service*, Case No. 90-091 (Ky. PSC Feb. 15, 1991).

² *The Joint Application of Heritage Operating L.P., and Bright’s Propane Service, Inc. for Approval of Transfer and Acquisition of Assets and Certificates of Public Convenience*, Case No. 2007-00494 (Ky. PSC Feb. 27, 2008).

³ *Application of AmeriGas Partners, L.P. and AmeriGas Propane, L.P. for Approval of the Acquisition of the Utility Assets of Heritage Operating, L.P. D/B/A Bright’s Propane Service, Inc. and for Authority to Abandon the Pipeline System and Serve Customers By Other Means*, Case No. 2013-00241 (Ky. PSC Oct. 11, 2013).

⁴ *Joint Application of AmeriGas Partners, L.P. and Commercial Propane Service LLC for Approval of Commercial Propane Service LLC’s Acquisition of AmeriGas Partners, L.P.’S Utility Assets in Old Bridge Subdivision, Danville, Kentucky*, Case No. 2014-00250 (Ky. PSC Nov. 24, 2014).

FOR DISCUSSION PURPOSES ONLY

KPSC has asserted jurisdiction over the distribution system, the rate for service has been based solely upon the wholesale delivered price of propane per cubic foot as adjusted quarterly for the purchase gas adjustment cost plus a charge of .015 cents per cubic foot for overhead.⁵ KPSC records indicate that Bright's Propane Service began filing quarterly gas cost recovery reports with the KPSC in 2000.⁶ Heritage Operating L.P. and AmeriGas Partners L.P. continued this practice after each had acquired the distribution system.

In June 2013, AmeriGas Partners L.P. applied to the KPSC for permission to abandon the Bright's Propane system.⁷ Amerigas Partners stated a number of reasons for its application. These included: (1) The system was operating at a loss; (2) There were a number of competing propane dealers in the area, including some who were serving individual customers within the Old Bridge Subdivision; (3) The system's unregulated competitors, who did not have to incur the expense of pipeline maintenance or certain regulatory requirements, were offering lower prices; and (4) Those persons currently served by the system could be as easily and more efficiently served through individual propane tanks. To address the aesthetic and monetary concerns of existing customers, AmeriGas Partners offered to provide each customer at no cost a propane tank to each current customer and to bury the propane tank on the customer's property at no cost or provide landscaping sufficient to conceal such tank's presence on the customer's property. These offers proved unacceptable to a sizable portion of the system's customers. Given the opposition to the proposed abandonment, AmeriGas Partners searched for and ultimately located a firm willing to assume operation of the propane delivery system: CPS.

The Propane Delivery System: Description

The propane delivery system consists of an underground piping network that connects approximately seventy structures to four propane storage tanks located within the Old Bridge Subdivision. The largest of these tanks can hold 18,000 gallons of propane. Two of the remaining tanks have a capacity of 1,000 gallons. The remaining tank has a 500-gallon capacity. CPS monitors the volume of propane within these tanks and refills the tanks when necessary. Note that CPS does not provide propane service to all of the residents and structures within the Old Bridge System. Some residents are not connected to the underground piping network and have their own storage tank, evidencing actual competition from bottled-propane providers.

Unlike most propane delivery systems in which a propane supplier fills an individual tank for each customer and the customer must monitor the level of his or her storage tank and order additional supply when the level of propane is low, CPS delivers the propane to a central location and then monitors the level. Unlike other suppliers, CPS has the responsibility to ensure that an adequate supply is maintained in the central storage tanks and must also monitor the individual usage of each customer monthly. Unlike other suppliers, CPS does not bill for one delivery of propane, but must bill each customer monthly for usage. And unlike other suppliers, CPS is regulated by the KPSC.

⁵ Tariff of Bright's Propane Service, Inc. PSC No. 1, Original Sheet No. 1 (Ky. PSC effective Feb. 18, 1991).

⁶ *Purchased Gas Adjustment Filing of Heritage Propane DBA Bright's Propane Service*, Case No. 2013-00374 (Ky. PSC Nov. 14, 2013).

⁷ *The Application of Amerigas Partners, L.P. and Amerigas Propane, L.P., For Approval of the Acquisition of the Utility Assets of Heritage Operating, L.P. D/B/A Bright's Propane Service, Inc. and For Authority To Abandon the Pipeline System and Serve Customers By Other Means*, Case No. 2013-00241 (Ky. PSC filed June 21, 2013).

FOR DISCUSSION PURPOSES ONLY

Although CPS customers obtain numerous advantages through the delivery system that individual customers receiving propane deliveries through the retail market do not, their price is significantly below retail residential price for bottled propane service. As shown in the graph attached to this proposal, the regulated price that CPS has assessed since its acquisition of the Old Bridge propane distribution system has almost always been below the retail residential price of bottled propane in Kentucky as tracked by the U.S. Energy Information Administration (“EIA”).⁸ According to EIA, as of March 5, 2018, the average retail residential rate for bottled propane was \$2.353 per gallon, or \$0.0647 per cubic foot. In contrast, CPS’s tariffed rate is currently \$.03356 per cubic foot. Notably, the EIA pricing appears not to include tank rental, minimum purchase requirements, delivery fuel surcharges, hazardous material charges, or any other charges associated with retail bottled propane service.

Proposal – for Discussion Purposes Only

The KPSC regulates only two propane delivery systems: CPS and Irvington Gas Company. The Irvington Gas Company serves approximately 400 customers through underground delivery systems. In response to Irvington Gas Company’s concerns regarding the adverse effects that would result from the use of a traditional methods of rate regulation, the KPSC in Case No. 2013-00076 authorized Irvington Gas Company to assess a “not to exceed rate” based upon the its wholesale cost of propane.⁹ The KPSC determined that the “not to exceed rate” would provide the propane delivery company with greater flexibility and reduce the need for regulatory filings such as gas cost adjustment filings.

CPS proposes a similar “not to exceed rate.” Rather than basing its rate upon the wholesale cost of propane, it proposes to base its rate on the retail residential price for bottled propane service available in and near the Old Bridge subdivision. The logic supporting this proposal is that, if utility propane service ceased to be available, the customers in the Old Bridge neighborhood would either take bottled propane service or incur the expense of converting propane-consuming appliances to electric appliances.

CPS therefore proposes an alternative rate structure that largely mirrors the rate structures of bottled propane providers serving the Old Bridge area:

1. A customer charge analogous to the tank rental fee assessed by bottled propane providers. Based on telephone inquiries by counsel, such fees for small propane tanks, i.e., about 120 gallons, range from \$60 to \$69 annually.
2. A monthly minimum purchase requirement. CPS proposes to retain a current monthly minimum purchase requirement (its current minimum bill is based on a 400 cf minimum purchase). Based on telephone inquiries and internet research by counsel, this concept is supported by retail bottled propane providers’ minimum purchase requirements.

⁸ In Case No. 2018-00006, the KPSC determined that CPS’s rate did not reflect the lower cost of wholesale propane and that CPS customer’s had been assessed \$17,169 more than CPS’s actual cost of propane. In effect, the KPSC found that CPS’s rate should have been lower than that reflected on the graph.

⁹ *An Investigation into the Jurisdictional Status of the Irvington Gas Company’s Underground Propane Operations*, Case No. 2013-00076 (Ky. PSC Nov. 25, 2014) at 9 – 11.

FOR DISCUSSION PURPOSES ONLY

3. A rate for propane usage tied to retail bottled propane service prices in and around the Old Bridge subdivision. Based on telephone inquiries by counsel, one well-known provider of retail bottled propane service that serves a number of customers in the Old Bridge neighborhood is currently charging \$3.19 per gallon (\$0.08868 per cf) without hazardous materials fees or fuel surcharges; another is currently charging \$2.29 per gallon (\$0.06366 per cf) with a \$12.99 hazardous materials fee and a \$6.99 delivery fuel surcharge. As noted above, according to EIA, as of March 5, 2018, the average retail residential rate for bottled propane in Kentucky was \$2.353 per gallon, or \$0.0647 per cf. In contrast, CPS's tariffed rate is currently \$.03356 per cf.

CPS recognizes that an important element of this proposal is to establish a retail bottled propane pricing benchmark that is independent, reliable, and agreeable to the Commission. CPS believes this can be achieved in at least two ways. First, CPS could arrange to have an independent third party conduct a monthly survey of retail bottled propane providers actually serving or offering service to the Old Bridge neighborhood, and having CPS's retail rate for that billing month be the average of non-first-fill rates actually offered into the neighborhood. The benefit of this approach is that it should most accurately reflect the actual competitive pricing conditions for retail propane service in the Old Bridge area.

A second approach would be to base CPS's rate on the EIA's survey of Kentucky bottled propane pricing. EIA publishes a weekly retail rate for residential propane for Kentucky and for U.S. for the period from 1994 to present.¹⁰ Propane prices are reported weekly from October to March. CPS would base its rate on the retail price of propane in Kentucky. Billing schedule would be as follows:

Month Billed	EIA Price Used
September	1st Week October
October	Average October
November	Average November
December	Average December
January	Average January
February	Average February
March	Average March
April	Last Week March
May	Last Week March
June	Last Week March
July	Last Week March
August	Last Week March

This approach assumes that customers would pay the market retail rate for propane if served through individual tanks. Bills would be based solely on actual usage. By using the retail rate, customers would be paying a rate based upon the market. CPS would not be able to assess a monopolistic or excessive rate since its rate would be based upon market price.

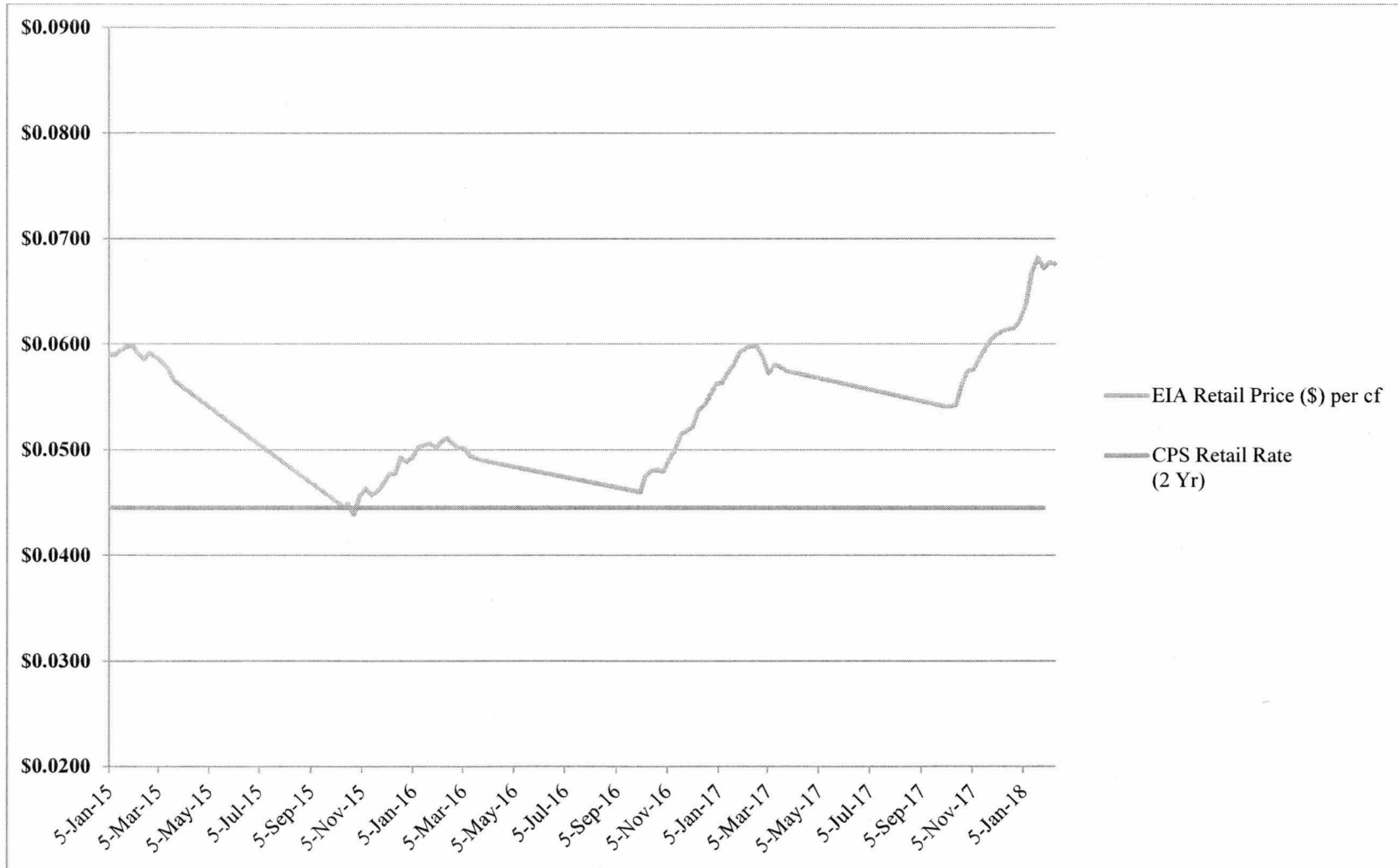
¹⁰ See https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=M_EPLLPA_PRS_NUS_DPG&f=M (last visited Mar. 11, 2018).

FOR DISCUSSION PURPOSES ONLY

This approach is relatively easy for CPS to administer and the KPSC to monitor. The retail residential price can easily be obtained from the EIA website and the average for the month easily calculated. CPS can indicate the average on its monthly bill and can report the current average monthly retail price by letter to the KPSC. Because the proposed rate is a formula and does not change, KRS 278.180 will not require the filing of a revised tariff sheet when the formula is recalculated each month. KPSC Staff can verify EIA's residential retail rate for Kentucky by visiting EIA's website and performing the calculations to determine the monthly average.

Finally, CPS would continue to assess charges for non-recurring services. These charges would continue to be subject to cost-of-service regulation. If CPS sought to amend any of these charges, it would follow the procedures set forth in KRS 278.180 and 807 KAR 5:011.

EIA RESIDENTIAL RETAIL RATE FOR KENTUCKY vs. CPS TARIFF RATE



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