

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC ANNUAL PIPELINE)	CASE NO.
REPLACEMENT PROGRAM FILING OF APACHE)	2022-00057
GAS TRANSMISSION COMPANY, INC.)	

ORDER

On February 28, 2022, Apache Gas Transmission Co., Inc. (Apache) filed its annual status report for its Pipeline Replacement Program (PRP) stating that it has completed all of the projects approved for inclusion in the PRP and proposing no change in the PRP rate. There are no intervenors, and Apache responded to two requests for information. The matter is submitted to the Commission for a decision based upon the evidentiary record.

LEGAL STANDARD

KRS 278.509 allows a utility to recover costs for investment in natural gas pipeline replacement programs that are not recovered in existing rates, provided that the Commission determines that the costs are fair, just and reasonable. Similarly, in accordance with KRS 278.030, the Commission must determine whether the rates are fair, just and reasonable.¹

BACKGROUND

Apache's PRP was initially approved in Case No. 2017-00168 to fund certain replacements and repairs to Apache's existing natural gas pipelines necessary to correct

¹ KRS 278.030; *Pub. Serv. Comm'n v. Com. ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

issues identified by the Commission's Division of Inspections.² In that case, the Commission granted approval to begin recovering PRP amounts of \$3.00 per residential customer and \$3.50 per commercial customer, through the local gas distribution company that is Apache's sole customer, to pay the debt service on two loans that financed the approved projects.³ In Case No. 2018-00106,⁴ Apache filed an application to revise its PRP rates as the prior approved charges were not going to provide sufficient funds to cover the debt service of the yet to be closed second loan. The Commission approved an additional \$0.29 per MCF volumetric charge to generate sufficient funds to cover the debt service of the second loan. The Commission required that revenue from the PRP rates be held in escrow and used repay the loans used for the approved PRP projects.⁵

The first loan used to fund PRP projects was for \$50,000 and was funded on February 27, 2018, by the Kentucky Highlands Investment Corporation and carries a

² Case No. 2017-00168, *Application of Apache Gas Transmission Company, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Implementation of a Pipeline Replacement Program, Approval of Financing Pursuant to KRS 278.300 and Application of Apache Gas Transmission Company, Inc. and Burkesville Gas Company, Inc. for Approval of a Gas Pipeline Replacement Surcharge and Tariff*, (Ky. PSC Aug. 29, 2017), Order.

³ Case No. 2017-00168, *Application of Apache Gas Transmission Company, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Implementation of a Pipeline Replacement Program, Approval of Financing Pursuant to KRS 278.300 and Application of Apache Gas Transmission Company, Inc. and Burkesville Gas Company, Inc. for Approval of a Gas Pipeline Replacement Surcharge and Tariff*, (Ky. PSC Dec. 21, 2017), Order.

⁴ Case No. 2018-00106, *Application of Apache Gas Transmission Company, Inc., Annual Pipeline Replacement Program Filing to Approve New Pipeline Replacement Surcharge Rates Beginning With May 1, 2018 Billing Cycle*, (Ky. PSC Apr. 17, 2018), Order.

⁵ See Case No. 2017-00168, *Application of Apache Gas Transmission Company, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Implementation of a Pipeline Replacement Program, Approval of Financing Pursuant to KRS 278.300 and Application of Apache Gas Transmission Company, Inc. and Burkesville Gas Company, Inc. for Approval of a Gas Pipeline Replacement Surcharge and Tariff*, (Ky. PSC Aug. 29, 2017), Order at 5-6; Case No. 2018-00106, *Application of Apache Gas Transmission Company, Inc., Annual Pipeline Replacement Program Filing to Approve New Pipeline Replacement Surcharge Rates Beginning With May 1, 2018 Billing Cycle*, (Ky. PSC Apr. 17, 2018), Order at 2.

7.5 percent interest rate with a term of 72 months.⁶ This loan's maturity date is March 1, 2024. The second loan was for \$100,000, is also from the Kentucky Highlands Investment Corporation, and was funded on May 9, 2019. The second loan also has an interest rate of 7.5 percent but a term of 120 months. The maturity date is April 1, 2029.⁷ The annual debt service for the loans is \$24,656.52.⁸

In Case No. 2019-00032,⁹ Apache received approval to include the emergency repairs to the main pipeline at Marrowbone Creek in its PRP (Marrowbone Creek Project). An additional loan was not requested at that time as the total costs of the Marrowbone Creek Project were not known and funds were available from the second loan to bridge as the timing of the second loan closing followed the Marrowbone Creek Project; therefore, the surcharge did not change at that time.

In Case No. 2020-00067,¹⁰ Apache reported that all of the projects approved for inclusion in its PRP rider, including the Marrowbone Creek Project, were completed at a total cost of \$204,099.28. Apache stated that it would need additional financing of approximately \$55,000 to \$60,000 to cover the additional cost of the PRP projects and that it would request any necessary increase in the PRP rate when it finalized and sought

⁶ Apache's Response to Staff's First Request for Information (filed May 3, 2022) (Staff's First Request), Item 3.

⁷ Apache's Response to Staff's First Request, Item 3.

⁸ See Apache's Response to Staff's First Request, Item 3.

⁹ Case No. 2019-00032, *Electronic Annual Pipeline Replacement Program Filing of Apache Gas Transmission Company, Inc.*, (Ky. PSC May 24, 2021), Order.

¹⁰ Case No. 2020-00067, *Adjustment of the Pipe Replacement Program Rider of Apache Gas Transmission Company, Inc.* (Ky. PSC Mar. 26, 2020), Order.

approval for the financing. Apache did not request an increase in the PRP rate in that case.

In Case No. 2021-00120,¹¹ Apache notified the Commission that the Small Business Administration (SBA) was making payments on Apache's two outstanding loans, which were approved for projects other than the Marrowbone Creek Project. Due to that SBA funding, Apache reported that the funds collected through the PRP were adequate to cover the debt service on the approved loans and a portion of the costs associated with the Marrowbone Creek Project, so the PRP rate remained unchanged at that time.

In the present case, Apache again stated that the PRP projects have been completed.¹² Apache provided evidence indicating that the annual revenue generated by the PRP in 2021 was approximately \$21,137.29.¹³ However, Apache indicated that SBA covered its loan payments in February 2020 through June 2020 and February 2021 through June 2021, which allowed Apache to meet its debt service obligations and to cover a portion of the cost of the Marrowbone Creek Project at the existing rate. Apache did not propose a change in the current PRP rates.

DISCUSSION AND FINDINGS

Upon review, the current revenue from the PRP adequately covers the debt service coverage and certain the costs associated with the Marrowbone Creek Project, as long as the SBA continues to pay the debt service for the two loans. Currently, Apache files

¹¹ Case No. 2021-00120, *Electronic Annual Pipeline Replacement Program Filing of Apache Gas Transmission Company, Inc.* (Ky. PSC Mar. 1, 2021), Status Report.

¹² Annual PRP Status Report (filed Feb. 28, 2022).

¹³ Apache's Response to Staff's First Request, Item 4.

escrow statements through the quarterly gas cost adjustment filings of Burkesville Gas, and the Commission finds that this filing should continue. However, Apache's current PRP does not require cost supports to be filed with its annual PRP filing. To improve the efficiency of the Commission's review of Apache's PRP, the Commission finds that cost supports, including itemized costs of PRP projects not previously provided, a breakdown of the most recent annual PRP revenue by month with monthly customer counts and Mcf sales, and documentation showing disbursements from the escrow account for the most recent calendar year, shall be filed with each annual filing. Based upon the review of the current PRP revenue and debt service expenses, the Commission further finds that the rates shall remain unchanged at the time and that the current PRP rates are fair, just and reasonable.

IT IS THEREFORE ORDERED that:

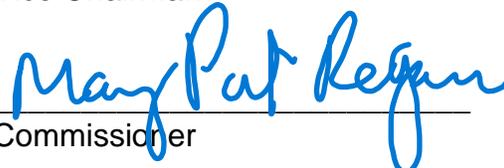
1. Apache shall continue to collect its PRP surcharges subject to the escrow terms contained in the final Order in Case No. 2017-00168 and Case No. 2019-00032.
2. Apache shall file cost supports as discussed above with its next annual PRP report and any future annual PRP report until the Commission orders otherwise.
3. Apache shall file its next annual PRP application with the Commission no later than March 1, 2023.
4. Any request to increase or decrease the PRP rate as the result of additional financing or subsequent to a change in the terms of the current financing will be considered in a separate proceeding.
5. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman



Commissioner



ATTEST:



Executive Director

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