

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter of:

AN ADJUSTMENT OF THE PIPE REPLACEMENT )  
PROGRAM RIDER OF DELTA NATURAL GAS ) CASE No. 2018-00086  
COMPANY, INC. )

**ATTORNEY GENERAL’S RECOMMENDATION TO SUBMIT CASE ON  
RECORD, AND FINAL COMMENTS**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and in compliance with the Commission’s procedural order dated June 5, 2018, hereby tenders his recommendation that this case should be submitted for final disposition upon the record without the need for an evidentiary hearing. Additionally, he tenders the following final comments.

**Attorney General’s Comments**

Delta Natural Gas Company, Inc. [“Delta”]’s Pipeline Replacement Program [“PRP”] was initially approved in Case No. 2010-00116.<sup>1</sup> In that case, Delta proposed to limit the scope of its PRP to bare steel pipes, but also stated that it in some circumstances it may need to replace facilities other than bare steel mains and services, and that if so, appropriate costs would be included in the PRP as well.<sup>2</sup> The Company’s first annual PRP adjustment filing identified 67 miles of bare steel pipe targeted for replacement,<sup>3</sup> although since then additional pipes have been slated for replacement.<sup>4</sup> To date, approximately 66.9 miles of pipe

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<sup>1</sup> Final Order dated Oct. 21, 2010.

<sup>2</sup> Case No. 2010-00116, Brown direct testimony, pp. 8, 10-11. *See also* Case No. 2018-00086, response to AG 1-5.

<sup>3</sup> Case No. 2012-00136, response to PSC 1-1.

<sup>4</sup> Case No. 2018-00086, response to AG 1-2.

have been replaced,<sup>5</sup> at an approximate cost of \$19.33 million.<sup>6</sup> Only approximately 33 miles of bare and unprotected steel pipe remain to be replaced.<sup>7</sup> During the PRP's lifespan, Delta's leak rate has fallen from 572 to 383, representing a 33% reduction, while its current lost and unaccounted for gas rating ["L&U"] is only 0.05%. Delta's replacement cost varies between \$194,000 per mile to \$377,000 per mile.<sup>8</sup> Delta's PRP costs are based solely upon actual costs rather than budget estimates, without any cost escalation rate.<sup>9</sup> The PRP currently carries no time limitation, but in the current application the company proposes to limit it to either 15 years (setting the completion date to 2032), or alternatively to 19 years (setting a completion date of 2036).<sup>10</sup> The current application seeks advanced approval to increase spending to \$7.8 million per year.<sup>11</sup>

In the instant application, Delta for the first time seeks approval to include **168 miles** of pre-1983 vintage Aldyl-A plastic pipes within the scope of its PRP. The Commission to date has not authorized Delta to include any Aldyl-A pipe within the PRP. If approved, this would represent a **409% increase** in the number of pipe miles to be replaced. The Company estimates that through 2033, residential customers are projected to pay a total of between \$44.65 million to \$78.63 million in PRP surcharge payments, representing a 1% - 2% annual increase in customer bills.<sup>12</sup>

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<sup>5</sup> *Id.*

<sup>6</sup> Response to AG 1-4.

<sup>7</sup> Response to PSC 1-2 (a).

<sup>8</sup> Response to AG 1-4.

<sup>9</sup> Response to AG 1-6 and 1-7.

<sup>10</sup> Response to AG 1-1.

<sup>11</sup> Application, p. 14.

<sup>12</sup> Response to AG 1-18, referencing response to PSC 1-2 (d) and Application Sch. VII.

In 2016, Delta's annual PRP adjustment <sup>13</sup> indicated that as of that time, it was only considering whether to include certain plastic pipes within the scope of its PRP. In response to Staff DR 1-2 in that case, the Company stated:

“Delta is evaluating the Pipeline and Hazardous Materials Safety Administration ("PHMSA") advisory bulletins concerning the susceptibility of older plastic pipe to premature cracking. To the extent Delta identifies older pipe materials included in the PHMSA bulletins, replacement of such materials would be included in future PRP filings.”<sup>14</sup>

In Delta's next annual PRP adjustment, Case No. 2017-00111, the Company, in response to Staff 1-1 (a) stated that although it continued to monitor PHMSA advisory bulletins concerning the susceptibility of older plastic pipe to premature cracking, “. . . to date, Delta has not focused its resources on the systematic replacement of Alydyl-A pipe. Rather, Delta has **relied upon the results of leak surveys to prioritize pipe replacement.**”<sup>15</sup>

In the instant application, based on Delta's own data the Company should need only approximately three (3) more years to complete its authorized PRP, which has only 33 miles of metal pipe remaining to be replaced.<sup>16</sup> Whereas Delta's responses to data requests state that it will continue to prioritize the replacement of PRP pipe based on prior leak history irrespective of pipe type,<sup>17</sup> yet its application includes a massive capital outlay for the replacement of **all** 168 miles of its Alydyl-A pipe.<sup>18</sup> Clearly, such a project would indeed require between 15-19 years (as the Company proposes) to complete, as opposed to the mere 3 years that would be required to replace the remaining metal pipe in the system. Delta's application

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<sup>13</sup> Case No. 2016-00110.

<sup>14</sup> *Id.*

<sup>15</sup> Case No. 2017-00111, response to PSC 1-1 (a) [emphasis added].

<sup>16</sup> Response to PSC 1-2 (a).

<sup>17</sup> *Id.*

<sup>18</sup> Response to AG 1-18.

thus is at **significant** odds with its discovery responses, the latter of which appear to state that it would only replace its Aldyl-A on an as-needed basis based upon known leakage.<sup>19</sup>

The Attorney General believes that the proposed 1%-2% annual rate increases – the vast majority of which would go toward the unauthorized expansion of the PRP to include the entire Aldyl-A system – is concerning and unconscionable. Delta has failed to produce any evidence into the record of the instant case indicating that: (a) the leakage rate of its Aldyl-A piping is any greater than any of its other piping materials; or (b) that PHMSA has mandated the type of wholesale replacement that Delta now requests. Furthermore, given Delta’s very low leakage and L&U rates, it is very unlikely that its Aldyl-A pipes are experiencing anything more than an ordinary level of leakage, which can be addressed in the ordinary course of business.

Therefore, unless or until Delta can document that any segments of its Aldyl-A network bear a significant enough leakage rate as to warrant specific inclusion within its PRP, the Attorney General urges the Commission to remove the Aldyl-A from Delta’s proposed PRP. Any action to include Aldyl-A pipes within the scope of Delta’s PRP at this stage would therefore be simply premature and unwarranted.

Finally, given that the replacement of the remaining 33 miles of metallic pipe will be completed within 3 years, the Attorney General urges the Commission to adopt a termination date more commensurate with that expected completion date, rather than Delta’s proposed 15-year or 19-year alternative completion dates.

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<sup>19</sup> Response to PSC 1-3. *See also* response to AG 2-3.

Respectfully submitted,

ANDY BESHEAR  
ATTORNEY GENERAL



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***Certificate of Service and Filing***

Counsel certifies that the foregoing is a true and accurate copy of the same document being filed in paper medium with the Commission within two business days; that the electronic filing has been transmitted to the Commission on July 9, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

This 9<sup>th</sup> day of July, 2018.



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Assistant Attorney General