

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED GAS ADJUSTMENT)	CASE NO.
FILING OF VALLEY GAS, INC.)	2022-00149

ORDER

On May 25, 2022, Valley Gas, Inc. (Valley Gas) filed, in accordance with its Purchased Gas Cost Adjustment (PGA) Tariff, its Gas Cost Recovery (GCR) rate report to be effective July 1, 2022. Valley Gas’s previous GCR rate was approved in Case No. 2022-00055.¹ On June 3, 2021, the Commission Staff filed notice of an Informal Conference (IC) to be held via video conference to discuss the GCR mechanism and the storage injection and withdrawal for Valley Gas on June 9, 2022. This IC was followed by an IC memo issued on June 16, 2022, and supplemental information filed into the record by Valley Gas on June 20, 2022.

LEGAL STANDARD

The Commission’s standard of review for GCR rates is well settled as stated in KRS 278.274(1):

In determining whether proposed natural gas utility rates are just and reasonable, the commission shall review the utility's gas purchasing practices. The commission may disallow any costs or rates which are deemed to result from imprudent purchasing practices on the part of the utility.

¹ Case No. 2022-00055, *Electronic Purchased Gas Adjustment Filing of Valley Gas, Inc.* (Ky. PSC Mar. 30, 2022).

Further, the utility has the burden to prove the rates are just and reasonable and the Commission may reduce the purchased gas component of the utility's rates or the rates charged by an affiliated company to the extent the amount is deemed to be unjust or unreasonable.²

DISCUSSION

On June 9, 2022, Commission Staff held an IC with Valley Gas to discuss the GCR mechanism and the storage injection and withdrawal for Valley Gas. During the IC, Valley Gas explained to Commission Staff the storage situation with their sole supplier Constellation Energy (Constellation) and the GCR mechanism concerning its special contract industrial customer Mago Construction (Mago). Valley Gas noted that Mago is not charged the GCR rate, therefore the usage and gas costs related to Mago are removed from Valley Gas's GCR rate calculation. Valley Gas noted that Constellation bills Valley Gas for the total usage in addition to transportation costs, reports on the usage thru the City Gate, and manages the storage of natural gas volumes bought by Valley Gas.

In addition, it was determined that the injection and storage of natural gas managed by Constellation may not be accurately accounted for in the true up and thus the Actual Cost Adjustment (ACA) calculation. On June 20, 2022, Valley Gas filed the monthly storage injection and withdrawal information from Constellation as supplemental information into the case record. Upon review of the supplemental Information, the Commission concludes that Valley Gas's ACA methodology requires modification to accurately reflect the actual cost of gas that is unique to Valley Gas's system and gas

² KRS 278.274(2); KRS 278.274(3)(c); and KRS 278.274(3)(d).

procurement practices. Therefore, the ACA true up should be modified to reflect the total supply of gas purchased by Constellation for the usage of Valley Gas and the injection of storage for each month. Mago should also continue to be removed from the Total Gas Cost calculation for each month during the true up period.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that Valley Gas's GCR report includes a revised rate designed to pass on to its customers its expected change in gas costs. Valley Gas's GCR report sets out an Expected Gas Cost (EGC) of \$4.2187 per Mcf, which is a decrease of \$0.2995 per Mcf from the previous EGC of \$4.5182 per Mcf. Valley Gas's GCR report sets out no Refund Adjustment.

Valley Gas's GCR report sets out a current quarter Actual Cost Adjustment (ACA) of (\$0.1770) per Mcf. Valley Gas calculates its proposed current quarter ACA by finding the monthly Unit Cost of Gas based on the Total Cost of Volumes excluding Mago, divided by Total GCA Sales from the usage thru city gate. Based upon the above discussion regarding the ACA calculation, the corrected current quarter ACA for Valley Gas is (\$0.1854) per Mcf as outlined in Appendix B to this Order. The Commission finds that Valley Gas shall replace its Schedule IV, Actual Adjustment calculation with the new ACA calculation provided as an example in Appendix B to this Order.

Additionally, review of prior GCR rate reports indicates that when Constellation purchased additional gas for the purpose of injecting into storage, it would result in a high unit cost of gas rate. For the period of August and October 2021, Valley Gas was

reporting a unit cost of gas of \$133.9385 per Mcf³ and \$133.7705 per Mcf,⁴ respectively. The invoices provided by Valley Gas support the quarter ACA rates based on the ACA methodology at that time. The Commission finds that the quarter ACAs approved for those quarters shall be changed to reflect the corrected actual cost of gas for those periods as follows: (1) The Second Previous Quarter reported ACA of \$2.1850 per Mcf was approved by the Commission in Case No. 2021-00435⁵ and is set to expire from the GCR rate calculation on December 31, 2022. Using the modified ACA methodology the corrected Second Previous Quarter reported ACA shall be \$0.3846 per Mcf and shall continue to be included in the GCR rate calculation until it expires. (2) The Previous Quarter reported ACA of \$2.8211 per Mcf was approved by the Commission in Case No. 2022-00055 and is set to expire from the GCR rate calculation on March 31, 2023. Using the modified ACA methodology the corrected Second Previous Quarter reported ACA shall be \$0.7462 per Mcf and shall continue to be included in the GCR rate calculation until it expires. Correcting for these changes to the ACA, produces a total ACA of \$1.3480 per Mcf, which is a decrease of \$4.3294 per Mcf from the previous total ACA of \$5.6774 per Mcf.

Based upon the calculations above, the Commission finds that Valley Gas's corrected GCR rate is \$5.5667 per Mcf, which is a decrease of \$4.6289 per Mcf from the previous GCR rate of \$10.1956 per Mcf and the rate set forth in the Appendix to this

³ See Case No. 2021-00435, *Electronic Purchased Gas Adjustment Filing of Valley Gas, Inc.* (Ky. PSC Dec. 27, 2021), at 2, paragraph 4.

⁴ See Case No. 2022-00055, *Electronic Purchased Gas Adjustment Filing of Valley Gas, Inc.* (Ky. PSC Mar. 30, 2022), at 2, paragraph 4.

⁵ Case No. 2021-00435, *Electronic Purchased Gas Adjustment Filing of Valley Gas, Inc.* (Ky. PSC Dec. 27, 2021),

Order is fair, just and reasonable and shall be approved for service rendered by Valley Gas on and after July 1, 2022.

The Commission further finds that, for the purpose of transparency and to maintain a record of information for future use, Valley Gas shall submit all invoices it receives along with its monthly usage reports for each month of the reporting period when it files its future GCR rate reports. Valley Gas's future GCR reports shall also include the additional data information previously provided as a supplemental filing on June 13, 2018, in Case No. 2018-00177⁶ as it pertains to the calculation of the future GCR rate along with the monthly storage injection and withdrawal information from Constellation. Should Valley Gas purchase sustainable natural gas from a renewable source during the reporting period of any future GCR reports, then the supplier, cost, and amount must be documented in its cover letter to the Commission.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Valley Gas are denied.
2. The rates set forth in the Appendix A to this Order are approved for service rendered on and after July 1, 2022.
3. Valley Gas shall replace its current Schedule IV, Actual Adjustment calculation with the methodology shown in the Appendix B to this Order when it files its next GCR rate report.
4. Valley Gas's future GCR reports shall include the information required in finding paragraph 7.

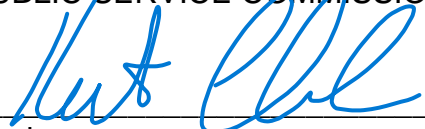
⁶ Case No. 2018-00177, *Purchased Gas Adjustment Filing of Valley Gas, Inc.* (Ky. PSC June 19, 2018).

5. Within 20 days of the date of entry of this Order, Valley Gas shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rate approved herein and reflecting that it was approved pursuant to this Order.

6. This case is closed and removed from the Commission's docket.

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PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman

Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00149 DATED JUN 30 2022

The following rates and charges are prescribed for the customers in the area served by Valley Gas, 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.

RATES:

	<u>Base Rate</u>	<u>Gas Cost Recovery Rate</u>	<u>Total</u>
All Mcf	\$3.0061	\$5.5667	\$8.5728

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00149 DATED JUN 30 2022

SCHEDULE IV

ACTUAL ADJUSTMENT

Particulars	Unit	2022-00149			
		(Month 1) Jan-22	(Month 2) Feb-22	(Month 3) Mar-22	
Total Cost of Volumes Purchased	(a) \$	\$18,935.23	\$12,856.60	\$8,892.69	input
Total Supply Volumes Purchased	(b) DTH	3,508.0	2,469.0	2,100.0	input
Purchased Volumes in Mcf	(c) MCF	3,403.5	2,395.5	2,037.5	(b) / 1.0307
	(d) \$/Mcf	\$ 5.5634	\$ 5.3671	\$ 4.3646	(a) / (c)
Industrial Usage (Mago)	(e) MCF	-	-	-	input
Unit Gas Purchased for Mago	(f) \$	\$ -	\$ -	\$ -	(e) x (d)
Total Gas Cost w/o Mago	(g) \$	\$18,935.23	\$12,856.60	\$8,892.69	(a) - (f)
Total Sales (Res and Com usage)	(h) Mcf	6,900.0	7,136.0	3,735.0	input
Unit cost of gas (no Mago)	(i) \$/Mcf	\$ 2.7442	\$ 1.8017	\$ 2.3809	(g) / (h)
EGC in effect	(j) \$/Mcf	\$ 2.6107	\$ 2.6107	\$ 2.6107	input
Difference	(k) \$/Mcf	\$ 0.1335	\$ (0.8090)	\$ (0.2298)	(i) - (j)
Actual Sales (Res and Com usage)	(l) Mcf	6,900.0	7,136.0	3,735.0	input
	(m)	\$ 921.15	\$ (5,773.02)	\$ (858.30)	(k) x (l)
Total Cost Difference	(n)		\$ (5,710.18)		Sum(m)
Sales for 12 months ended	(o)		30,807.0		input
Current Quarter ACA			\$ (0.1854)		(n) / (o)

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