COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF LOUISVILLE GAS AND ELECTRIC COMPANY TO REVISE ITS LOCAL GAS DELIVERY SERVICE TARIFF	)))	**CASE NO. 2024-00125**

LOUISVILLE GAS AND ELECTRIC COMPANY'S
RESPONSE BRIEF

Louisville Gas and Electric Company ("LG&E"), by counsel, submits its Response Brief in support of its proposed revisions to the Local Gas Delivery Service ("LGDS") tariff. The Response Brief addresses the arguments presented in Louisville/Jefferson County Metropolitan Sewer District ("MSD")'s Initial Post-Hearing Brief ("MSD's Opening Brief").

Introduction

The question in dispute in this proceeding is who should bear the costs of the lower heating content of renewable natural gas ("RNG") as compared to the natural gas that LG&E delivers to its customers. There are two potential answers to this question. The first is that LGDS producers bear the costs to increase (or decrease) the heating value of the local gas so that it is comparable to the gas on LG&E's system. The second is that nearby customers bear the cost through consuming more natural gas than they otherwise would have but for the RNG. Only one of these answers is consistent with the Commission's longstanding cost causation principles, which has been LG&E's position throughout this proceeding: the producer, who will benefit from the sale of the RNG, should be responsible for the costs associated with the service. Accepting the other option, which is MSD's position, violates KRS 278.170 by subjecting customers to an unreasonable cost disadvantage.

Argument

I. LG&E's Tariff Revisions Are Fair, Just, and Reasonable

The most critical point of agreement between LG&E and MSD is that the proposed tariff revisions have ramifications outside of MSD's potential RNG project.[1] The import of this proceeding extends far beyond whether MSD must blend a small amount of propane into its RNG to raise the heating value. The LGDS tariff establishes the terms and conditions for *all* producers that will take this service. There are several RNG producers that have inquired about injecting RNG into LG&E's system.[2] Thus, the adverse financial impact that LG&E has demonstrated will occur based on MSD's project—nearby retail customers will incur an additional $200,000 a year in their gas costs[3]—represents the prejudicial subsidization of *one* Rate LGDS customer for *one* year. If the other inquiring producers also begin injecting RNG, the $200,000 could multiply several times over.

MSD's Opening Brief fails to demonstrate that the proposed revisions to the heating value specifications are unfair, unjust, or unreasonable. It is undisputed that MSD's RNG, unless blended with propane, has a materially lower heating value than the gas delivered to LG&E's customers.[4] In determining who should bear the costs associated with the lower heating value, Commission decisions make clear that the producers should be the responsible party. The Commission has followed the "principle that the cost causer should bear the costs related to his actions -- a principle to which the Commission has historically adhered."[5]

[1] Louisville/Jefferson County Metropolitan Sewer District's Initial Post-Hearing Brief ("MSD Brief") at 10.
[2] LG&E's Response to Question No. 1 of Commission Staff's First Request for Information.
[3] November 6, 2024 Hearing Transcript at 10:09-10:10 am.
[4] LG&E's Hearing Exhibit 1.
[5] *In the Matter of: Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates* (Case No. 2004-00067) (Ky. PSC Nov. 10, 2004).

As explained in MSD's Opening Brief, in order to obtain a Renewable Information Number ("RIN"), which MSD describes as "a form of regulatory currency which are valuable and tradeable directly to obligated parties and to other RIN brokers," the "RIN generators must demonstrate that RNG is injected and withdrawn from a physically connected natural gas pipeline."[6] Thus, MSD and other RNG producers will use LG&E's pipeline in order to sell and trade RIN credits to generate additional revenue for the producers.[7] While MSD is a municipal corporation utility,[8] many other RNG producers are not. This is a commercial transaction involving sophisticated entities that are trading and selling RIN credits LG&E maintains that other customer classes should not be financially harmed by these transactions, which will occur unless the heating value is increased prior to injection.

It is undisputed that but for the injection of the RNG, which allows the producer to claim RIN credits, the lower heating value problem would not exist. As the Commission instructs, "the cost causer should bear the costs related to his actions," which, in this case requires MSD to blend a small amount of propane that will increase its operation and maintenance expense by $0.7M/yr, as compared to the $5.6M/year in projected net revenues---a reduction of 12.5%.[9] There is no regulatory, legal, or other principle that supports designing RNG transactions in a manner that maximizes the RNG's producers revenues by shifting the associated costs to other customers who will not financially benefit from the RNG sale and are affected only because of their proximity to the injection site.

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[6] MSD Opening Brief at 5.
[7] July 3, 2024 Testimony of W. James Gellner, P.E. on behalf of Louisville Metropolitan Sewer District ("Gellner Testimony") at 4 ("Louisville MSD intends to inject the RNG produced at Morris Forman into LG&E's pipeline and sell the RNG to a customer who would use it as renewable fuel for Compressed-Gas (CNG) Vehicles, making the gas eligible for RIN credits. This strategy would provide… an additional revenue stream…").
[8] Louisville/Jefferson County Metropolitan Sewer District's Motion to Intervene at p. 1.
[9] MSD's Response to Question No. 3 of LG&E's First Request for Information.

II. MSD Misconstrues the Impact of its RNG on LG&E's System

No party disputes that by injecting RNG, a group of LG&E customers will have a lower heating value than they otherwise would have but for the RNG injection. Given this indisputable point, MSD attempts to argue that LG&E's evidence regarding (1) the financial impact to other customers and (2) how the RNG will travel throughout LG&E's system is inaccurate or overstated. Neither of MSD's attempts succeeds, however, because LG&E based its calculations and modeling on the information MSD provided to LG&E. MSD's attempted critiques confuse the inputs in the financial impact calculation with the inputs in the hydraulic modeling analysis that was provided as an exhibit to Mr. Rieth's rebuttal testimony.

Beginning with the financial impact, if MSD injects RNG with the minimum heating value currently required by Rate LGDS of 967 Btu per scf, other nearby customers will incur an additional $200,000 per year in heating costs.[10] Contrary to MSD's suggestion, the $200,000 calculation is not based upon the inputs in the modeling analysis. The $200,000 calculation is based upon MSD injecting 320,000 MMBTU/year. Mr. Gellner's testimony states that MSD's "RNG production is anticipated to be 320,000 MMBTU/year initially, which may grow slowly as wastewater flows to Morris Forman increase."[11] MSD clearly testified that this level of production was anticipated "initially," and expects that it may grow. The $200,000 adverse impact is based upon LG&E's current gas costs, which are expected to rise in 2025.[12] If RNG production increases or gas costs indeed rise, the $200,000 will likewise increase.

[10] November 6, 2024 Hearing Transcript at 10:09-10:10 am.
[11] Gellner Testimony at 4.
[12] LG&E Opening Brief at p. 6, fn. 22.

MSD suggests that the subsidization is acceptable because it believes that "nearby customers would experience a maximum increase in their yearly gas consumption of 0.16-0.32%."[13] This is incorrect for several reasons. First, it erroneously connects the $200,000 subsidy to the modeling analysis. The subsidy is based upon MSD's stated expected first-year RNG production, and not the hydraulic modeling. The modeling only predicts where the RNG would flow in the system and the estimated blend of RNG at those locations. Second, MSD's argument ignores that the tariff revisions at issue will apply to all RNG producers. While MSD may believe it is reasonable for other LG&E customers to incur increased heating costs as a result of its project, the cumulative impact of other producers injecting unblended RNG will cause the $200,000 subsidy to increase several times over.

Turning to the modeling analysis, MSD argues that the number of customers that will experience lower heating values because of their proximity to the RNG injection site is overstated.[14] When asked at the hearing whether he disputed the modeling results, Mr. Gellner's only critique is that the models show only one point in time.[15] Moreover, LG&E requested that MSD provide "all analyses performed to determine the impact on nearby LG&E customers resulting from the injection of MSD's RNG onto LG&E's gas distribution system."[16] MSD did not provide any analyses, stating that "We cannot complete an analysis of LG&E's gas system without data for baseline natural gas flows, detailed information on the distribution pipe network, and data on the variability of heating values within the zone."[17]

[13] MSD Initial Post-Hearing Brief at p. 8.
[14] MSD Brief at 7-8.
[15] November 6, 2024 Hearing Transcript at 12:22:00-12:24.00 pm.
[16] LG&E's First Request for Information to MSD, Question No. 10.
[17] MSD's Response to Question No. 10 of LG&E's First Request for Information to MSD.

Despite this prior testimony, MSD's Opening Brief now attempts to critique LG&E's modeling. First, MSD claims that the modeling "depicts the potential presence of RNG from a volumetric standpoint, and not the estimated impacts on the blended heating values."[18] LG&E's analyses demonstrate that thousands of customers will be impacted, as well as the estimated percentage blend of RNG they will receive. The estimated blend of RNG by default is an indication of the blended heating value.[19] Because it is not feasible to determine the exact amount of RNG each customer will receive, LG&E performed the financial calculation to determine the aggregate impact on nearby customers, which could include MSD, based upon MSD's stated initial production. MSD next alleges that the "dispersion modeling does not consider a blended heating value to LG&E customers due to the mixing of RNG and natural gas."[20] This is also mistaken; each model sets forth the percentage blend of RNG and natural gas. The analysis does not suggest that any customer who receives RNG will automatically receive *all* RNG; instead, the analysis provides multiple percentage bands to determine the degree of magnitude.[21]

MSD next alleges that LG&E's modeling does not consider MSD's expectation that RNG production will only exceed its gas consumption 9-10% of the time.[22] MSD believes that if it consumes more gas than the volume of RNG it injects, then the RNG will be re-delivered to MSD. MSD provides no analysis, schematic, or explanation in support of this claim. To the contrary, LG&E has explained that when the RNG is injected into its distribution main, it will be transported throughout LG&E's system—it will not simply be re-delivered to MSD. Once it enters the main,

[18] MSD Brief at 7.
[19] August 13, 2024 Corrected Rebuttal Testimony of Tom C. Rieth in Case No. 2024-00125 ("Rieth Rebuttal") at Exhibit TCR-1.
[20] MSD Brief at 7.
[21] August 13, 2024 Corrected Rebuttal Testimony of Tom C. Rieth in Case No. 2024-00125 ("Rieth Rebuttal") at Exhibit TCR-1.
[22] MSD Brief at 7.

it is impossible to segregate the RNG from the natural gas flowing in the distribution main already and will be sent throughout the system. This is true regardless of MSD's own gas usage.

MSD also suggests that if the RNG is injected into its service line—as opposed to LG&E's distribution main, then less RNG will be delivered to other customers. LG&E questioned Mr. Gellner about this possibility at the hearing. Mr. Gellner conceded that in this scenario, MSD could only inject as much RNG as it was consuming; otherwise, the service line would be over-pressured.[23] When asked why MSD would not pursue this option and flare the excess RNG that exceeds its consumption, Mr. Gellner stated that MSD was not interested because it would "reduce the financial advantage," to MSD even though MSD currently flares all of its excess biogas.[24] MSD furthered that position in its Opening Brief, stating that it would be interested in the service line option if its "excess RNG would enter LG&E's distribution system."[25]

Finally, MSD suggests that LG&E could consider changing its entire measurement and billing practices to convert from volumetric to heat content billing.[26] The notion that LG&E should incur widespread capital expenditures to its metering, customer service, and IT systems to avoid requiring RNG producers to increase the heating value of its RNG to a comparable level to natural gas is facially unreasonable. LG&E, along with other Kentucky gas local distribution companies, utilize volumetric billing. Upending LG&E's system to potentially benefit one customer class is not fair, just, or reasonable.

[23] November 6, 2024 Hearing Transcript at 1:00:00-1:03:00 PM.
[24] November 6, 2024 Hearing Transcript at 1:01:45-1:03:00 PM.
[25] MSD Brief at 9-10.
[26] MSD Brief at 11.

Conclusion

LG&E's proposed LGDS tariff revisions are fair, just and reasonable. LG&E supports transporting RNG in a safe manner that does not financially harm other customer classes. For these reasons, LG&E respectfully requests the Commission to approve the LGDS tariff.

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Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

In accordance with the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on December 18, 2024; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.

Counsel for Louisville Gas and Electric Company