COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN AMENDED GAS LINE TRACKER	)))	CASE NO. 2019-00301

O R D E R

On September 27, 2019, Louisville Gas and Electric Company (LG&E), pursuant to KRS 278.509, filed an application for authority to revise its Gas Line Tracker (GLT) tariff to include three proposed transmission pipeline replacement projects and operation and maintenance expense for the development of a tool necessary for inline inspections. In support of the application, LG&E filed testimony of two witnesses. The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General) was granted intervention on October 16, 2019. LG&E responded to one round of information requests from Staff and two rounds of information requests from the Attorney General. On December 23, 2019, the Attorney General filed notice that he would not be filing testimony and stated that the case can be submitted for a decision based upon the existing record. On January 10, 2020, LG&E also filed notice that it agrees with the Attorney General to submit the case on the existing record.

The Commission finds that, having completed the procedural schedule set forth and the agreement of the parties to submit the case on the record that a hearing is not necessary, the matter is submitted to the Commission for a decision based upon the evidentiary record.

The Commission originally approved LG&E's GLT in Case No. 2012-00222.[1] As originally approved, this mechanism allows LG&E to recover costs associated with various programs to replace gas mains, gas service lines and gas risers, and to take ownership of any customer service lines and risers replaced by LG&E. These costs are not recovered through LG&E's existing rates, but through a separate line item labeled "Gas Line Tracker" on each gas customer's monthly bill. The current monthly GLT rates are found in LG&E's tariff and consist of two charges. The first is a charge for distribution projects based upon the number of natural gas delivery points, and the second is a charge for transmission projects based upon natural gas consumption. The GLT rate is updated on an annual basis in February that updates the projected program costs and that trues up the actual costs with the projected program costs for the previous year through a balancing adjustment.

LG&E requests Commission approval to add three transmission pipeline replacement projects to its GLT: the Western Kentucky A Line project; the Western Kentucky B Line project; and the Magnolia Lines project. These projects will focus on the replacement of certain sections of transmission pipelines, which will result in an overall, more uniform diameter pipeline system. LG&E has also contracted with an inline inspection (ILI) tool vendor for the design and subsequent use of a state-of-the-art tool that will enable cost-effective inspection of the remaining 16-inch and 20-inch pipelines. In addition to the capital cost of the projects, LG&E proposes that the contractual cost for the new ILI tool be included in the GLT mechanism.

[1] Case No. 2012-00222, *Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates, a Certificate of Public Convenience and Necessity, Approval of Ownership of Gas Service Lines and Risers, and a Gas Line Surcharge* (Ky. PSC Dec. 20, 2012).

LG&E asserts that more cost-effective inspections will result from the replacement projects and that the proposed pipeline replacement projects are necessary to enhance pipeline safety as well as comply with a proposed Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA) regulation regarding pipeline safety.[2] For one regulation, LG&E will be required to validate the maximum allowable operating pressure (MAOP) of its pipelines. According to LG&E, the best and safest way to validate a pipeline's MAOP is to conduct pipeline inspections via the ILI process. LG&E also contends that the ILI process supports compliance with PHMSA regulations by providing additional pipeline information prescribed by current regulations.

The ILI process involves inserting a "tool" or "smart pig" into the pipeline and having the tool travel the length of the line. The tool gathers voluminous data about the line that can be used to assess the overall integrity of the pipe including the presence of wall loss, dents, and other pipe anomalies.[3]

LG&E informs that ILI tools with the enhanced inspection technologies are not currently available for pipelines of varying diameter, such as those in the Western Kentucky A and B pipelines and other lines in the LG&E's gas transmission system. When used in pipelines of varying diameters, the tool can get stuck in pipeline fittings and create "speed excursions," which could compromise the data being collected. Therefore, LG&E contends that it needs to make these sections of pipeline a more uniform diameter to prevent speed excursions. Ideally, if the pipeline is a single diameter, this would be

[2] Direct Testimony of John P. Malloy (Malloy Testimony) at 2 and LG&E's Response to the Attorney General's First Data Requests, Item 1.

[3] Malloy Testimony at 3.

prevented, but LG&E argues that modifying its pipeline system to a single diameter is not cost-effective. LG&E has contracted with Rosen USA, an ILI tool vendor, to design a tool that will accommodate pipeline inspections of 16-inch and 20-inch segments of pipeline. The ILI tool will not accommodate 22-inch segments of pipeline; therefore, LG&E has proposed to eliminate the 22-inch pipeline segments in its Western Kentucky A and B lines and its Magnolia line. LG&E estimates that it is more cost-effective to eliminate the 22-inch pipe rather than having multiple ILIs to inspect individual segments.[4]

LG&E seeks a revision to the current GLT charges so that it can recover the costs related to the plan for the pipeline replacement projects presented in this case as well as the contractual cost of the Rosen USA ILI tool. LG&E sought rate recovery for those projects in the 2018 rate case. However, as part of a Stipulation and Recommendation, LG&E agreed to the removal of the pipeline replacement projects from the inclusion in base rates in that proceeding, and the Commission subsequently approved that removal. Thus, no costs for the pipeline replacement projects are in current rates.[5] The parties to the Stipulation and Recommendation agreed that LG&E should seek cost recovery for these projects either through a separate application for cost recovery under LG&E's GLT or in the context of a future base rate case.[6]

LG&E's GLT is an adjustment clause approved by the Commission to recover certain capital and operation and maintenance costs not already included in base rates associated with the replacement of gas distribution and transmission pipelines. The

[4] Malloy Testimony at 5.

[5] Direct Testimony of Robert M. Conroy (Conroy Testimony) at 2 and 3.

[6] Conroy Testimony at 3.

adjustment clause is set forth in LG&E's gas tariff as Original Sheet No. 84, which is on file and approved by the Commission. The GLT tariff language requires an annual filing in which program costs are updated and the charges are adjusted. LG&E seeks a revision to the current GLT charges so that it can recover the costs related to the plan for the pipeline replacement projects presented in this case. For those costs, LG&E has calculated a total additional capital investment of $31.3 million.[7] LG&E will also incur additional operation and maintenance expense to pay Rosen USA for its development of the multidiameter tool. LG&E proposes to use 9.725 percent return on equity from its last base rate case.[8] The proposed GLT transmission amounts per Ccf are $0.02046 for RGS and VFD service; $0.01656 for CGS and SGSS service; $0.01002 for IGS, AAGS, and DGGGS service; and $0.00098 for FT and LGDS service.[9]

The incremental revenue requirements for the identified projects are $3.5 million in 2020, $2.9 million in 2021, and $3.4 million in 2022. The revenue requirement is allocated based on forecasted billing determinates utilized as part of LG&E's latest rate case. The revenue requirement will be allocated as follows: 66.90 percent to residential service; 27.79 percent to commercial gas service; 3.42 percent to industrial gas service; and 1.90 percent to firm transportation service.[10]

DISCUSSION

[7] The Western Kentucky Line A project ($20.0 million), the Western Kentucky Line B project ($5.4 million), and the Magnolia Lines project ($5.9 million).

[8] Case No. 2018-00295, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates* (Ky. PSC Apr. 30, 2019).

[9] Conroy Testimony at 5.

[10] Robert M. Conroy Testimony at 6 and Exhibit RMC-1.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that LG&E has failed to established that the costs of the proposed pipeline replacement projects and the contractual cost of the Rosen USA ILI tool it seeks to be included for recovery in the GLT tariff is needed in order to timely ensure and enhance the safe and reliable provision of gas service. We note that the GLT program, as originally approved in Case No. 2012-00222, reflects projects that were identified by LG&E as needed to accelerate replacement of gas equipment or assets that had safety issues. In particular, LG&E stated in Case No. 2012-00222 that PHMSA issued an advisory bulletin in March 2008 regarding potential safety issues with mechanical couplings used in natural gas distribution systems, including in gas service risers.[11] LG&E noted in Case No. 2012-00222 that it revised its materials standard shortly after the PHMSA advisory bulletin to eliminate the future use of gas service risers with mechanical compression fittings not incorporating an anti-pull out design.[12] LG&E further noted that the vast majority of its gas customers have these type of gas risers and that there had been 370 gas service riser failures in the few months after it began investigating gas service risers in 2009.[13] Accordingly, LG&E proposed to proactively replace gas service risers and assume ownership of the risers over five years in order to relieve customers of the burden and inconvenience associated with replacing a leaking gas service line or riser and ensures the replacement is completed safely, in a timely manner, and by qualified personnel consistent with regulatory requirements.[14] LG&E also

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[11] Case No. 2012-00222, Direct Testimony of Chris Hermann at 16.

[12] *Id.*

[13] *Id.*

[14] *Id.* at 16–17.

proposed to recover the costs associated with the programs to replace gas service risers and lines through the GLT program to allow LG&E to timely recover the costs of these programs, which were, according to LG&E, solely purposed upon ensuring its customers receive safe and reliable natural gas service.[15]

The GLT program, as approved in Case No. 2012-00222, also included recovery for costs associated with a leak mitigation program.[16] The leak mitigation program involved the replacement of 141 miles of distribution mains yet to be replaced at that time. The accelerated replacement of gas distribution mains was also needed to address safety concerns in a timely manner.

Subsequent amendments to the GLT program that were proposed by LG&E and approved by the Commission also addressed immediate safety concerns. For example, in Case No. 2015-00360,[17] the Commission approved the addition of a program proposed by LG&E to the GLT program to replace Aldyl-A plastic pipe over two years.[18] The Aldyl-A plastic pipe, manufactured between 1965 and 1991, had been the subject of a number of PHMSA safety bulletins and was considered responsible for several incidents involving fatalities, injuries, and property damage.[19]

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[15] *Id.* at 17.

[16] *Id.* at 18.

[17] Case No. 2015-00360, *Application of Louisville Gas and Electric Company for Approval of Revised Rates to be Recovered Through its Gas Line Tracker Beginning with the First Billing Cycle for January 2016* (Ky. PSC Jan. 28, 2016).

[18] Case No. 2015-00360, January 28, 2016 Order at 2.

[19] *Id.*

Similarly, in Case No. 2016-00371,[20] the Commission approved a settlement agreement, which included, among other things, LG&E's request to amend its GLT tariff to include a program to replace steel customer service lines and to replace 15.5 miles of 45- to 60-year-old transmission pipeline.[21] The settlement agreement limited recovery of the costs associated with these two pipeline replacement programs to a five-year recovery period, with any remaining cost for such programs to be recovered through base rates via a base-rate roll-in effective on and after July 1, 2022.[22] According to LG&E, the two pipeline replacement programs proposed in Case No. 2016-00371 were needed to replace at-risk materials that had been in the ground for decades and represent a continuation of LG&E's efforts to improve safety and reliability.

Unlike the previous programs that were approved as amendments to the GLT program, the pipeline replacement program proposed in this matter does not address any immediate safety or reliability concerns. Rather, LG&E states that the need to replace the 22-inch and 24-inch pipeline segments in its Western Kentucky A, Western Kentucky B, and Magnolia Lines to establish only 16-inch and 20-inch pipeline segments is so that more enhanced inline pipeline inspection tools can be used cost-effectively. LG&E also states that the pipeline replacement project will improve its inspections process, which would result in improved pipeline safety, reliability, and integrity. However, there is no evidence of any need to replace the pipelines on an accelerated basis due to any

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[20] Case No. 2016-00371, *Electronic Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Rates and for Certificates of Public Convenience and Necessity* (Ky. PSC June 22, 2016).

[21] Case No. 2016-00371, June 22, 2016 Order at 4.

[22] Case No. 2016-00371, June 22, 2016 Order, Appendix A at 13.

immediate or imminent safety or reliability concerns. There are other methods to inspect pipelines, and LG&E has been inspecting this section of pipeline since its construction. No evidence suggests these pipelines are leaking or pose an immediate safety or reliability concern. Absent any identifiable concerns that relate to an immediate or imminent safety or reliability risk, which were the main criteria in originally allowing LG&E to recover certain investments through the GLT tariff, the Commission will decline to expand the scope of the GLT tariff to include the programs proposed in this case. Although LG&E will not be able to recover the costs associated with the proposed programs through the GLT mechanism, the company is not prohibited from seeking recovery of such costs in future rate cases.

IT IS THEREFORE ORDERED that:

1. LG&E's application proposing revisions to its GLT Program is denied.

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

By the Commission

ENTERED

MAR 26 2020

KENTUCKY PUBLIC SERVICE COMMISSION

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