

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF DELTA)	
NATURAL GAS COMPANY, INC FOR APPROVAL)	CASE NO.
OF AN ECONOMIC DEVELOPMENT EXTENSION)	2020-00406
AND REGULATORY ASSET)	

ORDER

Delta Natural Gas Company, Inc. (Delta), on December 28, 2020, filed an application for an Economic Development Extension (EDX), as permitted by the pilot program established in Case No. 2020-00001.¹ Delta requests an EDX and regulatory asset for a project in Lincoln and Rockcastle counties. The proposed project, as discussed herein, is separated into three phases; at this time, Delta requests approval of the first two phases. The Commission, as discussed further herein, grants Delta’s application in part and denies in part.

APPLICABLE LAW

The Commission, in establishing an EDX pilot program, defined an EDX as “extensions of service in the ordinary course of business to potential economic development projects for gas local distribution companies (LDCs).”² An application for an EDX should contain, “supporting documentation from the Cabinet for Economic Development certifying that the economic development site is ‘shovel ready’ but for the

¹ Case No. 2020-00001, *Electronic Investigation of a Pilot Program for Economic Development Extensions of Service of Gas Local Distribution Companies* (Ky. PSC May 4, 2020).

² *Id.*, final Order at 1.

lack of natural gas service” and “a description of the proposed site, the anticipated customer(s) or customer type(s), estimated costs, and any other information that may assist the Commission in determining whether an EDX should be approved.”³

The EDX pilot program also established certain guidelines on the EDX such as (1) an LDC can have one EDX at a time, and (2) once service is commenced to a customer at the economic development site the LDC may seek another EDX.⁴ With regard to the capital costs that could be included in the EDX, the Commission stated:

Eligible capital investment costs may include, but are not limited to, the net construction costs of the EDX and the exploration of routes and purchasing of easements or other property rights to facilitate the EDX construction in situations in which the pipeline size cannot be determined in advance of a customer locating at the EDX site.⁵

The Commission also established accounting treatment for the EDX.⁶

BACKGROUND

Delta requests an EDX and regulatory asset for a project in Lincoln and Rockcastle Counties. The proposed project is separated into three phases; at this time, Delta requests approval of the first two phases. Delta provided the necessary documentation from the Cabinet for Economic Development.

Phase 1 involves designing the entire project, acquiring the necessary rights-of-way in Lincoln and Rockcastle counties, and engaging TC Energy to tap its lines in Lincoln County, expected to total \$3,976,000. The project costs include \$3,357,700 for the tap

³ *Id.*, final Order, Appendix A.

⁴ *Id.*, final Order, Appendix B.

⁵ *Id.*, final Order, Appendix A.

⁶ *Id.*, final Order, Appendix B.

and purchase station; \$61,000 for the Lincoln County easements; and \$557,300 for the Rockcastle County easements. The cost of this phase will be partially offset by a \$500,000 Appalachian Regional Commission (ARC) matching grant, which expires January 31, 2022,⁷ \$125,000 from the Stanford-Lincoln County Industrial Development Authority; and \$125,000 from the Rockcastle County Fiscal Court. After the contributions in aid of construction, Delta states that the net cost of Phase 1 is \$3,226,000. Delta expects to acquire the easements for the Lincoln County pipeline by the summer of 2021 and the easements for Rockcastle County by the end of 2022.⁸

Phase 2 will connect the new tap to the Lincoln County Industrial Park, which requires an extension of 1.235 miles of steel pipeline at a cost of approximately \$805,000. Construction is expected to be completed by December 31, 2021.⁹ Delta states that there are a few business located there already, and that the presence of natural gas would attract additional customers. Additionally, Delta believes that AppHarvest, an agriculture technology company that develops and operates large-scale greenhouses, is exploring potential sites in Lincoln County for future facilities.¹⁰ Delta asserts that natural gas is one of the essential requirements for AppHarvest's operation.¹¹ Thus, utility

⁷ Application at 3.

⁸ Delta's Responses to Commission Staff's First Request for Information (Response to Staff's First Request) (filed Mar. 17, 2021), Item 1(a).

⁹ Application at 3.

¹⁰ Response to Staff's First Request, Item 4.

¹¹ *Id.*

infrastructure, including natural gas, must be in place for AppHarvest to consider committing to such investments.¹²

Phase 3 will build 23 miles of steel transmission pipeline from the new Lincoln County tap to three industrial sites in Rockcastle County, at a cost of approximately \$12,961,000.¹³ No firm plans for construction are made at this time, but Delta stated that it could be completed as early as 2023 if funding is secured.¹⁴ Delta also stated that once gas service is commenced to customers in the Lincoln County Industrial Park, if other funding had not been secured, Delta would file an EDX application for Phase 3, or subsections of Phase 3.¹⁵

In response to Commission Staff inquiries, Delta explained that it proposed to include some costs related to Phase 3 in the proposed EDX Phase 1 (the design of the 23-mile pipeline and the acquisition of easements in Rockcastle County for the pipeline), because doing so would allow Delta to construct the 23-mile pipeline of Phase 3 in a singled construction season. Delta also asserts that the Rockcastle County Fiscal Court, when pledging \$125,000 towards the costs of Phase 1, recognized the importance of designing and acquiring the necessary easements for the 23-mile pipeline.¹⁶

DISCUSSION

As an initial matter, the Commission notes that the costs to be included in an EDX application, and thus placed into a regulatory asset, are limited to the costs incurred in

¹² *Id.*, Item 4.

¹³ *Id.*, Item 4.

¹⁴ *Id.*, Item 1(a).

¹⁵ *Id.*, Item 3(b).

¹⁶ *Id.*, Item 2(b).

construction of a single project, namely to extend service to a site that is “shovel ready” but for the lack of natural gas service.¹⁷ These costs, “may include, but are not limited to, the net construction costs of the EDX and the exploration of routes and purchasing of easements or other property rights to facilitate the EDX construction.”¹⁸ When the Commission established the EDX, it envisioned that the regulatory asset would include costs associated solely with serving a potential customer or customers at the “shovel ready” site. Allowing costs beyond the project would encourage and allow a utility to include in the regulatory asset costs that were tenuously associated with the proposed EDX project.

With the contributions from ARC, the Stanford-Lincoln County Industrial Development Authority, and the Rockcastle County Fiscal Court, the total cost of Phase 1 and Phase 2 is \$4,031,000; without the contributions, the total cost of both phases is \$4,781,000.¹⁹ Of the \$4,781,000 total cost, \$557,300 is for acquiring pipeline easements for the Rockcastle Country Industrial Parks.²⁰ The Commission finds that Phase 2 of the proposed EDX, as well as costs associated with extending natural gas service to the Lincoln County Industrial Park include in Phase 1, are the types of projects and costs that are properly allowed in an EDX. The Commission further finds that any costs beyond those associated with the construction of service to the Lincoln County Industrial Park are part of a separate project and should not be included in the proposed EDX.

¹⁷ Case No. 2020-00001, *Electronic Investigation of a Pilot Program for Economic Development Extensions of Service of Gas Local Distribution Companies*, (Ky. PSC May 4, 2020) final Order, Appendix A.

¹⁸ *Id.*

¹⁹ Response to Staff’s First Request, Exhibit I.

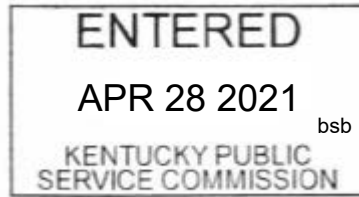
²⁰ *Id.*

Delta, of course, is not prohibited from acquiring the necessary rights-of-way to prepare for the construction of the 23-mile pipeline in Rockcastle County. However, those costs, because they are for a project that is separate from the proposed EDX, cannot be included in the EDX approved herein.

IT IS THEREFORE ORDERED that:

1. Delta's application for an EDX is approved in part and denied in part.
2. Delta's application for an EDX is approved for Phase 1 and Phase 2 of the EDX proposed in Delta's application, in so far as it is related to providing natural gas service to the Lincoln County Industrial Park, is approved.
3. Delta's request to establish a regulatory asset is approved. Delta shall defer property taxes related to the EDX capital investment, including the costs of land. Delta will be able to include applicable carrying costs in the regulatory asset. The carrying costs during the deferral period shall be calculated by applying the long-term debt rate as approved in Delta's most recent base rate case to the regulatory asset balance. Assuming a customer is receiving service, the regulatory asset will be included for recovery in Delta's next application for a general adjustment in rates.
4. Delta's request to include in the EDX costs for design and acquisition of rights-of-way for the proposed 23-mile pipeline in Rockcastle County is denied without prejudice.
5. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:


Linda C. Andwell
Executive Director

Case No. 2020-00406

PUBLIC SERVICE COMMISSION



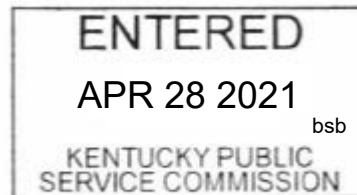
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