

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF VALLEY GAS, )	
INC. OF AN AMENDMENT TO A SPECIAL )	CASE NO.
CONTRACT WITH MAGO CONSTRUCTION )	2023-00402
COMPANY )	

ORDER

On November 15, 2023, Valley Gas, Inc. (Valley Gas) filed an amendment to its existing special contract (Amendment No. 1) with Mago Construction Company (Mago).<sup>1</sup> On December 8, 2023, the Commission entered an Order opening an investigation into the reasonableness of Amendment No. 1. On February 26, 2024, Valley Gas filed a motion to withdraw Amendment No. 1 and a notice that it had filed a second amended special contract (Amendment No. 2).<sup>2</sup> On March 15, 2024, the Commission issued an Order granting the motion to withdraw Amendment No. 1, permitting Amendment No. 2 to be reviewed in the present case, and suspending application of Amendment No. 2, up to and including August 27, 2024.<sup>3</sup>

KRS 278.030 provides that a utility may collect fair, just and reasonable rates and that the service it provides must be adequate, efficient and reasonable. For special contracts, a utility must establish that the extra revenue from the special contract will

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<sup>1</sup> TFS2023-00529 (Ky. PSC Nov. 15, 2023).

<sup>2</sup> TFS2024-00078 (Ky. PSC Feb. 26, 2024).

<sup>3</sup> Order (Ky. PSC Mar. 15, 2024) at 2.

cover the variable costs and make a contribution to the fixed costs of serving the special contract customer.<sup>4</sup>

The original special contract was approved in Case No. 2014-00368.<sup>5</sup> This contract required Valley Gas to accept on Mago's behalf all daily natural gas delivered to Valley Gas, up to 1,000 Mcf, by Valley Gas' supplier, Constellation Energy.<sup>6</sup> Valley Gas was to provide firm uninterrupted transportation service to meet Mago's needs.<sup>7</sup> Mago was to pay Valley Gas \$2.00 per Mcf for the transportation service from the point of interconnection between the facilities of Valley Gas and the interstate pipeline serving Valley Gas to the metering point for Mago.<sup>8</sup> The contract was for three years with automatic three-year renewals unless Mago provided written notice of non-renewal.<sup>9</sup> It also permitted Mago to unilaterally revert to Valley Gas' General Service Rates.<sup>10</sup> Valley Gas indicated that, if Mago buys any gas from Valley Gas, the rate will be at regular tariff rates.<sup>11</sup> Valley Gas requested a deviation from 807 KAR 5:011 to permit the cost of any gas purchased from Constellation Energy on behalf of Mago, to be excluded from Valley

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<sup>4</sup> Case No. 2020-00023, *Application of Atmos Energy Corporation for Approval and Confidential Treatment of a Special Contract and Cost Analysis Information Submitted to the Kentucky Public Service Commission* (Ky. PSC Aug. 19, 2020), Order at 4-5.

<sup>5</sup> Case No. 2014-00368, *Valley Gas, Inc. Request for Approval of a Special Contract with Mago Construction Company and a Deviation from the Gas Cost Adjustment Clause* (Ky. PSC Oct. 28, 2014), Order at 5.

<sup>6</sup> Case No. 2014-00368, Oct. 3, 2014 Special Contract, Article 3.1.

<sup>7</sup> Case No. 2014-00368, Oct. 3, 2014 Special Contract, Article 3.4.

<sup>8</sup> Case No. 2023-00331, *Electronic Investigation into Valley Gas, Inc. for an Alleged Failure to Comply with Commission Orders and KRS 278.160* (filed Nov. 15, 2023), Valley Gas' Verified Response at 2.

<sup>9</sup> Case No. 2023-00331, Valley Gas' Verified Response at 2-3.

<sup>10</sup> Case No. 2023-00331, Valley Gas' Verified Response at 3.

<sup>11</sup> Case No. 2014-00368, Oct. 28, 2014 Order, Appendix.

Gas' Gas Cost Recovery Rate calculation, which the Commission granted.<sup>12</sup> Mago paid for the cost of extending a gas pipeline to its facility.<sup>13</sup>

Per its General Service Tariff, Valley Gas charged Mago a monthly customer charge of \$15.<sup>14</sup> On April 30, 2015, based on a review of the costs associated with serving a large industrial customer, including the capital cost and operations and maintenance (O&M) expense of Mago's regulator station and turbine meters, Valley Gas began charging Mago \$489 per month as a customer charge.<sup>15</sup> However, Valley Gas did not file an application with the Commission requesting authority to amend its tariff or approve a special contract.<sup>16</sup> Valley Gas and Mago then executed Amendment No. 1, followed by the substituted Amendment No. 2, which incorporated the \$489 per month charge.<sup>17</sup> Although Mago agreed to the new customer charge, the actual monthly expense (depreciation and O&M) for Mago's regulator station and turbine meters is \$407.<sup>18</sup>

### DISCUSSION AND FINDINGS

The 2014 Order approving the special contract indicated that the fixed costs of extending service to Mago would be covered by Mago and that variable costs would be covered by the increase in revenue.<sup>19</sup> Amendment No. 2 allows for recovery of costs

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<sup>12</sup> Case No. 2014-00368, Oct. 28, 2014 Order at 5.

<sup>13</sup> Case No. 2023-00331, Valley Gas' Verified Response at 2.

<sup>14</sup> Case No. 2023-00331, Valley Gas' Verified Response at 4.

<sup>15</sup> Case No. 2023-00331, Valley Gas' Verified Response at 4; Valley Gas' Response to Commission Staff's First Request for Information (Staff's First Request) (filed Dec. 15, 2023), Item 1(a).

<sup>16</sup> This alleged violation is being addressed in Case No. 2023-00331.

<sup>17</sup> TFS2024-00078 (Ky. PSC Feb. 26, 2024).

<sup>18</sup> Valley Gas' Response to Staff's First Request, Item 1(b).

<sup>19</sup> Case No. 2014-00368, Oct. 28, 2014 Order at 3-4.


Valley Gas had not considered in 2014, namely the cost of building a regulator station and turbine meters and additional O&M costs, furthering the covering of costs so as to not negatively affect other customers. Unlike tariff changes for rates to be charged to an entire class of customers, the \$489 monthly customer charge is a negotiated contract rate between Valley Gas and an individual large volume customer who, by virtue of the execution of the contract, considers the charge reasonable and should therefore be approved.

Having considered the terms of Amendment No. 2 and all the evidence in the record, the Commission finds that Amendment No. 2 should be accepted. Amendment No. 2 ensures that the unanticipated costs of serving Mago are not borne by other ratepayers, consistent with the Order approving the original special contract.

IT IS THEREFORE ORDERED that:

1. Amendment No. 2, to the special contract between Valley Gas and Mago approved in Case No. 2014-00368, is reasonable and should be approved.
2. No further amendments or changes to this special contract's rates, terms, or conditions shall be instituted by Valley Gas without first making application to the Commission and receiving approval.
3. This case is closed and is removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ENTERED  
JUN 27 2024  
rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
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