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NEWS RELEASE

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PSC Denies Rate Increase to Atmos Energy

Revenue-neutral rate restructuring increases customer charge, cuts delivery fee

FRANKFORT, Ky. (May 7, 2019) – The Kentucky Public Service Commission (PSC) has denied a request by Atmos Energy to increase rates, leaving the total base rate portion of the monthly bill essentially unchanged for residential customers.

But, in an order issued today, the PSC restructured the monthly bill, increasing the fixed customer charge while reducing the usage-dependent charge for delivery of each 1,000 cubic feet (Mcf) of natural gas.

The net effect is to set the base rate portion of the monthly bill a penny below the current figure of \$26.69 for a customer using 5,330 cubic feet of natural gas per month, on average. The new rate structure takes effect tomorrow.

Atmos serves nearly 177,000 customers in central and western Kentucky.

Atmos submitted a rate increase request in September 2018, seeking an additional \$14.45 million in annual revenue from gas distribution operations, an increase of about 15.8 percent. The company subsequently revised the request to \$14.37 million.

Atmos proposed to increase both the monthly customer charge and the delivery charge, resulting in an increase of \$4.41, or 16.5 percent, in the base rate portion of an average monthly residential customer bill.

The previous, proposed (by Atmos) and new (as approved by the PSC) residential base rate charges are as follows:

	Rates Expiring 5/7/2019	Proposed Rates	New Rates Effective 5/8/2019
Monthly charge	\$17.50	\$20.50	\$19.30
Delivery charge per Mcf (for 5.330 Mcf)	\$1.7250 \$9.19	\$1.990 \$10.61	\$1.3855 \$7.38
TOTAL BASE BILL	\$26.69	\$31.10	\$26.68

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In its application, Atmos proposed to discontinue a separate surcharge that funds a program to replace old, potentially unsafe natural gas pipelines. The utility proposed to instead fund the program through its base rates.

The PSC denied the request, but changed the way Atmos will recover pipeline replacement costs in the future. Atmos will be allowed to base the surcharge on future estimated costs, rather than on actual costs for a 12-month period ending in September of each year.

The forecasted costs and the actual costs will be reconciled annually in a proceeding before the PSC, with a recalculated surcharge taking effect every October. The PSC left in place a \$28 million annual spending cap on the program.

In determining an appropriate revenue level for Atmos, the PSC made a number of other adjustments to the original request. These included:

- Eliminating recovery of certain construction costs prior to the completion of those projects – \$3.93 million reduction.
- Disallowing recovery of increased spending on construction projects, the level of which was found unreasonable - \$3.51 million reduction.
- Changing the methodology used to calculate depreciation of physical assets - \$6.96 million net total reduction; \$3.48 million reduction in the current case and the remainder to be applied in the next Atmos rate case.
- Lowering the target rate of return on equity for Atmos's investors, to 9.65 percent from the 10.40 percent proposed by Atmos - \$2.93 million reduction.

Taken together, those and other, smaller adjustments resulted in the PSC calculating that Atmos's annual revenue from base rates should be \$261,769 below the current amount.

The PSC accepted Atmos's proposed increases to monthly charges for non-residential customers, and allocated the revenue decrease to those classes by reducing their volumetric delivery charges.

In addition to determining the appropriate rates for Atmos, the PSC addressed two other issues in today's order. It directed Atmos to begin tracking the amount of time that company executives and other employees spend on lobbying-related activities, so that the associated salary expenditures can be calculated and excluded from recovery through rates if necessary.

The PSC also directed Atmos to seek prior PSC approval of any major construction projects in the future, including multi-year pipeline replacement projects that are not funded through the surcharge and that exceed certain spending thresholds.

The PSC conducted an evidentiary hearing in the case on April 2 and April 3. The Kentucky Office of Attorney General was the only other party to the case.

Today's order, a video of the hearing, and other records in the case are available on the PSC website, psc.ky.gov. The case number is 2018-00281.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

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