

**PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON**

CASE NO. 15-1256-G-390P (REOPENED)

MOUNTAINEER GAS COMPANY, a public utility,
Charleston, Kanawha County.
Infrastructure Replacement and Expansion Program
filing for 2016.

CASE NO. 16-0922-G-390P

MOUNTAINEER GAS COMPANY, a public utility,
Charleston, Kanawha County.
Surcharge on Infrastructure Improvements.

NOTICE OF FILING AND HEARING

On July 5, 2016, Mountaineer Gas Company (Mountaineer) filed its annual Application for approval of an Infrastructure Replacement and Expansion Program for 2017 (2017 IREP) with revised IREP rates for 2017, pursuant to W. Va. Code §24-2-1k, which authorizes the Public Service Commission of West Virginia to approve cost recovery of projects to replace, upgrade and expand natural gas utility infrastructure that are deemed to be just and reasonable and in the public interest. In its Application, Mountaineer seeks approval of a revised five-year IREP plan of projected capital investment including an expansion project to extend and enhance service to the Eastern Panhandle (Expansion Project) expected to occur in 2018 and 2019.

In its Application, Mountaineer forecasts capital investment for calendar year 2017 of approximately \$20 million as part of its multi-year plan. The 2017 IREP covers several categories of plant asset replacements and improvements, including mains, service lines, automated meter reading devices, regulator stations, and other plant equipment. These plant investments are proposed to be made in Mountaineer service territories throughout the State. These investments and the Expansion Project are identified in the Application, which is on file and available for public inspection at the Commission's offices at 201 Brooks Street, Charleston, West Virginia, and which may be viewed on the Commission's website, www.psc.state.wv.us.

Effective January 1, 2017, Mountaineer proposes to recover costs associated with these investments through an additional increment within the fixed or volumetric base rate component of its rates, depending on the applicable rate schedule. This increment will be added to the 2016 IREP Rate Component that is now in place. Mountaineer

projects that if the program and rate increment are approved as requested, the average monthly bill for its various classes of customers will be changed on January 1, 2017, as shown in Column A. Mountaineer has argued that certain negative consequences relating to accumulated deferred income taxes, bonus depreciation and operating losses for income tax purposes could result in a higher rate impact as shown in Column B. The Commission will consider the Mountaineer proposal or any alternative proposals for accounting and ratemaking approaches that could be adopted by the Commission to eliminate the need for the Column B rates.

		Column A Mountaineer Proposed		Column B Alternative	
Type of customer	Ave. Usage (Mcf)	\$ Increase	% Increase	\$ Increase	% Increase
Residential	6	\$0.41	0.69%	\$1.67	2.80%
Commercial	30	\$0.96	0.39%	\$3.87	1.56%
Large commercial	444	\$35.30	1.23%	\$144.22	5.01%
Industrial	2,610	\$63.20	0.57%	\$258.17	2.34%
Resale	742	\$13.36	0.30%	\$53.42	1.22%

The increases shown above are based on averages of all customers in the indicated class. Each class may receive an increase greater or less than stated here. Individual customers may receive increases that are greater or less than average.

In its Application, Mountaineer also seeks approval of the Expansion Project to extend and enhance service in Morgan, Berkeley, and Jefferson Counties as an IREP-eligible project that Mountaineer is authorized to include in its five-year IREP plans. Mountaineer asserts that the Expansion Project will enhance the reliability of the natural gas supply serving its Martinsburg service area, provide or expand service to numerous commercial customers and housing developments, and create new opportunities to expand service into underserved and unserved areas. The Expansion Project is expected to cost \$45 million and consists of approximately 24 miles of distribution trunk line beginning at a new interconnect in Morgan County and extending to the northern end of Mountaineer's Martinsburg distribution system (Segment 1); approximately 24.5 miles of distribution trunk line from the southeast side of Martinsburg to Charles Town, then back west to Mountaineer's existing system in Middleway, and then northeast to Kearneysville (Segment 2); and approximately 4.4 miles of distribution trunk line from the east side of Martinsburg to Shepherdstown (Segment 3). Construction of Segment 1 is expected to take place in 2018 and will cost approximately \$30 million, while construction of Segments 2 and 3 is expected to take place in 2019, but portions of Segments 2 and 3 could be accelerated to 2018.

Although Mountaineer seeks approval of all segments of the Expansion Project as IREP-eligible facilities that it is authorized to include in its five-year IREP plans, it currently only seeks authorization to include the costs of Segment 1 for recovery in the

calculation of its 2018 IREP Rate Component. If the Commission provides such authorization, Mountaineer will begin recovering costs associated with Segment 1 through an additional IREP rate increment to be effective on January 1, 2018. This increment will be added to the 2016 and 2017 IREP Rate Components and also will include the incremental increase associated with the general 2018 IREP infrastructure investment proposed for that year. Mountaineer estimates that if the level of Segment 1 costs in 2018 are authorized for recovery in the calculation of the 2018 IREP Rate Component, the incremental rate increase specific to Segment 1 would increase a typical residential customer bill averaging 6 Mcf per month by \$0.54 per month beginning on January 1, 2018, or \$6.48 annually for 2018. (These estimates do not account, however, for base revenues generated from the additional customers added as a result of the Project, which could reduce the estimated rate impact.)

Mountaineer also estimates that if the costs of Segment 1 are authorized for recovery in 2019, the year when the full impact of the Segment 1 investment is incorporated into the IREP, the average monthly bill for its various classes of customers would increase on January 1, 2019, as follows:

		Column A Mountaineer Proposed		Column B Alternative	
Type of customer	Ave. Usage (Mcf)	\$ Increase	% Increase	\$ Increase	% Increase
Residential	6	\$1.05	1.75%	\$1.20	2.00%
Commercial	30	\$2.43	0.98%	\$2.79	1.12%
Large commercial	444	\$91.02	3.12%	\$104.06	3.57%
Industrial	2,610	\$162.93	1.47%	\$186.28	1.68%
Resale	742	\$33.39	0.76%	\$38.58	0.88%

The increases shown above are based on averages of all customers in the indicated class. Each class may receive an increase greater or less than stated here. Individual customers may receive increases that are greater or less than average.

In addition to the rate impact of the Segment 1 investment, the cost of a new wholesale gas transportation agreement related to the Project is estimated to increase the gas cost rate of a typical residential customer by \$1 per month, or \$12 annually beginning in November 2018.

The Commission set a hearing on the 2017 IREP Application, Case Number 16-0922-G-390P, and the petition to reopen Mountaineer's first IREP Application, Case Number 15-1256-G-390P, that will begin at 9:30 a.m. on October 5, 2016, and continue on October 6, 2016, if necessary, in the Howard M. Cunningham Hearing Room at the Commission's offices at 201 Brooks Street, Charleston, West Virginia.

Anyone desiring to intervene should file a written petition to intervene within 20 days following the date of this publication unless otherwise modified by Commission order. All petitions to intervene should briefly state the reason for the petition to intervene and comply with the rules on intervention set forth in the Commission's Rules of Practice and Procedure, 150 C.S.R. 1. The Commission will receive public comments until the beginning of the hearing. All written comments and petitions to intervene should state the case name and number and be addressed to Ingrid Ferrell, Executive Secretary, P.O. Box 812, Charleston, West Virginia 25323. Public comments may also be filed online at <http://www.psc.state.wv.us/scripts/onlinecomments/default.cfm> by clicking the "Formal Case" link.

MOUNTAINEER GAS COMPANY