

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: Jay Scott Emler, Chairman
 Shari Feist Albrecht
 Pat Apple

In the Matter of the Application of Kansas)
Gas Service, a Division of ONE Gas, Inc. for) Docket No. 16-KGSG-491-RTS
Adjustment of its Natural Gas Rates in the)
State of Kansas.)

ORDER APPROVING UNANIMOUS SETTLEMENT AGREEMENT

This matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed the pleadings and record, the Commission makes the following findings and conclusions:

1. On May 2, 2016, Kansas Gas Service (Kansas Gas) filed its Application seeking a net revenue increase of \$28 million, resulting from increasing base rates by \$35.4 million and reclassifying \$7.4 million currently collected through the Gas System Reliability Surcharge (GSRS)¹ to base rates. The new rates would take effect January 1, 2017.²

2. Kansas Gas also sought to establish a Cost of Service Adjustment (COSA) mechanism, a three-year pilot program, under which Kansas Gas would make annual filings in place of the GSRS and the Ad Valorem Tax Surcharge (AVTS).³ The annual filings would include a revenue requirement calculation setting forth the actual test year data and prefiled testimony supporting the revenue requirement, and explaining any adjustments to the test year data.⁴ The proposed COSA mechanism would cap the eligible annual Operating and Maintenance cost

¹ Direct Testimony of David M. Dittmore (Dittmore Direct), May 2, 2016, p. 5.

² *Id.*, p. 3.

³ *Id.*, p. 30.

⁴ *Id.*, p. 35.

increases at four percent.⁵ Kansas Gas claims an annual mechanism would reduce the need for traditional, fully litigated rate cases.⁶

3. In support of its Application, Kansas Gas submitted the testimony of 14 witnesses and the schedules required by K.A.R. 82-1-231.⁷

4. On September 7, 2016, Staff filed its direct testimony, recommending a rate increase of \$12.1 million, but made no changes to the corporate asset depreciation rates proposed by Kansas Gas. Staff recommended adjustments to Kansas Gas's other proposed depreciation rates and raised several policy questions related to the calculation of depreciation rates. In addition, Staff made recommendations regarding return on equity and adjustments to the income statement and rate base. Staff opposed Kansas Gas's COSA mechanism,⁸ its request to eliminate the pension and other post-employment benefits (OPEB) trackers,⁹ its request to share pension expense savings with customers,¹⁰ and the Company's request to recover costs to fund Gas Technology Institute (GTI).¹¹

5. On September 7, 2016, the Citizens' Utility Ratepayer Board (CURB)¹² recommended an increase in base rates of \$3.7 million based upon adjustments to rate of return on equity, capital structure and the utility's rate base and income statement. CURB opposed both the proposed COSA mechanism and the Company's proposal to share pension expense savings with customers. CURB was not opposed to the elimination of Pension Expense Tracker 1, provided it

⁵ *Id.*, p. 31.

⁶ *Id.*, p. 32.

⁷ Application, ¶ 4, May 2, 2016.

⁸ Direct Testimony by Justin T. Grady, Sept. 7, 2016, p. 2.

⁹ Testimony in Support of Unanimous Settlement Agreement Prepared by Justin T. Grady (Grady Settlement Testimony), Oct. 7, 2016, p. 3.

¹⁰ *Id.*

¹¹ Direct Testimony of Leo M. Haynos, Sept. 7, 2016, p. 2.

¹² CURB was granted intervention on May 10, 2016.

was not conditioned upon approval of the proposed COSA mechanism.¹³ CURB also opposed Kansas Gas's request to participate in the GTI.

6. On September 7, 2016, CenterPoint Energy Services, Inc. (CES)¹⁴ filed testimony related to Kansas Gas's tariffs for transportation services and offered a recommendation with regard to cost allocation. CES took no position on the COSA mechanism, but if the Commission approved the COSA mechanism and denied CES's request for an elimination of the existing minimum annual usage requirements for Transportation Service, CES requested the opportunity to address the Transportation Service qualification requirements in the annual COSA filings.¹⁵

7. On September 19, 2016, CES filed cross-answering testimony on various cost allocation and rate design matters presented by CURB.¹⁶

8. On September 28, 2016, Kansas Gas submitted rebuttal testimony from fourteen witnesses.

9. On October 5, 2016, the Parties filed a Joint Motion to Approve Unanimous Settlement Agreement (Joint Motion), which addresses all outstanding disputed issues raised in the pre-filed testimony and exhibits.¹⁷ On October 7, 2016, the Parties filed testimony in support of the settlement¹⁸ and moved to convert the October 18, 2016 evidentiary hearing into a hearing on the

¹³ Direct Testimony of Andrea C. Crane Re: Revenue Requirements, Sept. 7, 2016, p. 34.

¹⁴ CES was granted intervention on August 9, 2016.

¹⁵ Direct Testimony of Rick Pemberton on Behalf of CES, Sept. 7, 2016.

¹⁶ Cross-Answering Testimony of Rick Pemberton on Behalf of CES, Sept. 19, 2016.

¹⁷ Joint Motion to Approve Unanimous Settlement Agreement, Oct. 5, 2016.

¹⁸ See David N. Dittmore Testimony in Support of Unanimous Settlement Agreement (Dittmore Settlement Testimony), Oct. 7, 2016; Grady Settlement Testimony; Andrea C. Crane Testimony in Support of Settlement, (Crane Settlement Testimony), Oct. 7, 2016; Rick Pemberton Testimony in Support of Settlement, (Pemberton Settlement Testimony), Oct. 7, 2016.

Unanimous Settlement Agreement. On October 13, 2016, the Commission granted the Joint Motion to convert the evidentiary hearing to a settlement hearing.¹⁹

10. On October 18, 2016, the Commission held a hearing on the proposed Settlement. Each party appeared by counsel.²⁰ Four witnesses testified in support of the Settlement: David N. Dittmore on behalf of Kansas Gas, Justin Grady on behalf of Staff, Andrea C. Crane on behalf of CURB, and Richard Pemberton on behalf of CES.²¹

11. The Commission has full power, authority and jurisdiction to supervise and control natural gas public utilities doing business in Kansas, and is empowered to do all things necessary and convenient to exercise that power, authority and jurisdiction.²² Kansas Gas is a “natural gas public utility” as defined in K.S.A. 66-104.²³ Therefore, Kansas Gas is subject to the Commission’s jurisdiction and is “required to furnish reasonably efficient and sufficient service and facilities for the use of any and all products or services rendered, furnished, supplied or produced by such natural gas public utility, to establish just and reasonable rates, charges and exactions and to make just and reasonable rules, classifications and regulations.”²⁴

12. The Commission received 591 public comments from May 2, 2016, through September 30, 2016, plus one additional comment during the public hearing held on September 26, 2016.²⁵

¹⁹ See Order Granting Joint Motion to Convert Evidentiary Hearing to Settlement Hearing, Oct. 13, 2016.

²⁰ Hearing Transcript, Oct. 18, 2016, p. 4.

²¹ *Id.*, p. 3.

²² K.S.A. 66-1,200; 66-1,201.

²³ K.S.A. 66-1,200.

²⁴ K.S.A. 66-1,202.

²⁵ Notice of Filing of Public Comment, Oct. 11, 2016.

The Unanimous Settlement Agreement

13. **STIPULATED REVENUE REQUIREMENT.** The Parties propose Kansas Gas receives a net overall annual revenue increase of \$15,500,000.00.²⁶ Kansas Gas will roll the existing balance in the GSRS (\$7.46 million) into base rates. The existing balance in the GSRS is included in the \$15.5 million annual revenue increase.²⁷

14. **DEPRECIATION RATES.** The agreed upon revenue requirement includes implementation of Kansas Gas's proposed Corporate Asset depreciation rates and the depreciation rates on Kansas Gas's direct plant proposed by Staff witness Roxie McCullar. Kansas Gas has agreed to: (1) adopt the depreciation rates in Appendix A to the Settlement; and (2) record third-party reimbursements to the Accumulated Reserve on a going-forward basis. Kansas Gas is not required to reclassify third party reimbursements from 2007. By agreeing to the depreciation rates set forth in Appendix A, Kansas Gas is not agreeing to the policy recommendations made by Staff witness McCullar, nor is it precluded from advancing positions or arguments in future rate filings that differ from McCullar's recommendations.²⁸

15. **INCENTIVE COMPENSATION.** The Parties agree that nothing in the Settlement constitutes an agreement by Kansas Gas that Staff's and CURB's proposed adjustments to incentive compensation are appropriate, and the Settlement does not prevent Kansas Gas or other parties from challenging such adjustments in the future.²⁹

16. **WNA ISSUES.** Kansas Gas agrees to: (1) Staff's recommendations that four weather stations be used to calculate Kansas Gas's weather normalization adjustment rider (WNA);

²⁶ Dittmore Settlement Testimony, p. 6.

²⁷ *Id.*

²⁸ *Id.*, p. 5.

²⁹ *Id.*, pp. 6-7.

(2) Staff's proposed changes to Kansas Gas's WNA tariff, basing the WNA upon a 12-month calculation; and (3) Staff's recommendation that Kansas Gas will utilize three First Order weather stations (Kansas City International Airport, Topeka and Wichita) for the weather normalization of revenue requirement and the calculation of the heating coefficients for the WNA in its next general rate case filing.³⁰

17. PRE-TAX RATE OF RETURN FOR GSRS FILINGS. While the Settlement does not include a stated return on equity, the Parties agree Kansas Gas is authorized to use a carrying charge of 9.74% gross of tax, based on state and federal tax rates in effect at the time of the Settlement, until its next general rate proceeding for GSRS filings. In Kansas Gas's GSRS filings, these costs will be allocated based on the revenue allocation approved in this Docket. The Settlement explicitly provides the Parties' agreement to use the indicated overall pre-tax rate of return was for settlement purposes only and shall have no precedential effect.³¹

18. AD VALOREM TAX SURCHARGE RIDER. For purposes of filing Kansas Gas's AVTS Rider in December 2017, and in subsequent years until rebased in Kansas Gas's next general base rate case, \$20,954,008 in ad valorem tax expense will be embedded in base rates. Because the rates resulting from this Docket will go into effect on January 1, 2017, the Parties agree Kansas Gas will use the ad valorem expense agreed to in Kansas Gas's 2011 rate case, Docket No. 12-KGSG-835-RTS (12-835 Docket), to calculate the AVTS Rider for its December 2016 ad valorem filing (which shall be in effect for the 2017 collection period).³²

19. PENSION AND POST-RETIREMENT BENEFIT TRACKERS. To calculate Kansas Gas Service's pension trackers going forward, the Parties agreed that the base rates agreed to

³⁰ *Id.*, pp. 9-10.

³¹ *Id.*, pp. 8-9.

³² *Id.*, pp. 7-8.

in the Settlement shall include \$7,827,293 for Kansas Gas's pension expense and \$3,052,521 for Kansas Gas's OPEB expense.³³

20. AMORTIZATION PERIODS. The Parties agree actual rate case expense, plus any remaining uncollected balance from the 12-835 Docket, shall be amortized over three years; and pension and post-retirement trackers shall be amortized over three years.

21. RATE CASE EXPENSE. The Parties reserve their rights to litigate recovery of unamortized portions of this Docket's rate case expense in Kansas Gas's next full general rate proceeding. With respect to pension and OPEB deferrals, Kansas Gas has the right to recover any unamortized amount in its next rate case filing.³⁴

22. WITHDRAWAL WITHOUT PREJUDICE OF CERTAIN PROPOSALS MADE BY KANSAS GAS SERVICE. Kansas Gas agreed to withdraw without prejudice: (1) implementation of a COSA mechanism; (2) elimination of the pension and OPEB trackers; (3) sharing of pension expense savings with customers; and (4) funding for GTI.³⁵

23. CAPITAL STRUCTURE. The Parties agree that nothing in the Settlement constitutes an agreement on the capital structure proposals presented in this Docket, and the Settlement does not prevent the Parties from challenging such proposals in the future.³⁶

24. TRANSPORT THRESHOLD. Kansas Gas agrees to reduce the minimum threshold volumes to receive transportation service from 1500 Mcf per year to 800 Mcf per year. Kansas Gas also agrees to review the other tariff issues included in CES's testimony in its next general rate case, including analyzing the rate differential between Transportation Schedules STk

³³ *Id.*, p. 8.

³⁴ *Id.*

³⁵ *Id.*, p. 7.

³⁶ *Id.*

and STt as between those two classes, and an analysis of the rate differential between the Sales schedules GSS, GSL and GTSE where the “k” and “t” system customers are combined, as compared to the Transportation Schedules STk, STt, LVTk and LVTt where the “k” and “t” system customers are segregated.³⁷

25. GENERAL TERMS AND CONDITIONS. Kansas Gas agrees to include Staff’s proposed changes, including those changes relating to the Main Extension Agreement (MEA) contracts and the setting of the Electronic Flow Measurement (EFM) equipment charges at \$3,200 for a landline and \$4,800 for cellular in its general terms and conditions.³⁸

26. CLASS COST OF SERVICE/RATE DESIGN/EFFECTIVE DATE OF RATE CHANGE. The Parties agree the rate increase would be allocated among the respective classes of customers as shown on Appendix B to the Settlement.³⁹

27. EFFECTIVE DATE OF RATES. Because Kansas Gas Service is currently under a rate moratorium, the rates approved in this Order shall go into effect on January 1, 2017.⁴⁰

28. The law generally favors compromise and settlement of disputes between parties when they enter into an agreement knowingly and in good faith to settle the dispute.⁴¹ When approving a settlement, the Commission must make an independent finding that the settlement is supported by substantial competent evidence in the record as a whole, establishes just and reasonable rates, and is in the public interest.⁴²

³⁷ *Id.*, p. 10.

³⁸ *Id.*

³⁹ *Id.*, p. 9.

⁴⁰ Dittmore Direct, pp. 3, 10.

⁴¹ *Krantz v. Univ. of Kansas*, 271 Kan. 234, 241-42 (2001).

⁴² *Citizens’ Util. Ratepayer Bd. v. Kansas Corp. Comm’n*, 28 Kan. App. 2d 313, 316 (2000), *rev denied* March 20, 2001.

29. The Settlement is a unanimous settlement agreement as defined by K.A.R. 82-1-230a. Therefore, there is no need to apply the five-factor test.⁴³

30. Substantial competent evidence possesses something of substance and relevant consequence, which furnishes a substantial basis of fact to reasonably resolve the issues.⁴⁴ Whether another trier of fact could have reached a different conclusion given the same facts is irrelevant; a court can only find that a Commission decision is not supported by substantial competent evidence when the evidence shows “the [Commission’s] determination is so wide of the mark as to be outside the realm of fair debate.”⁴⁵ The Commission reviewed a record that consisted of pre-filed testimony from a total of 31 witnesses, including 16 on behalf of Kansas Gas, 11 on behalf of Staff, 3 on behalf of CURB, and one on behalf of CES,⁴⁶ live testimony of 4 witnesses in support of the Settlement, and the Joint Motion for Approval of Unanimous Settlement Agreement.

31. Having reviewed the record as a whole, the Commission finds and concludes that substantial competent evidence supports approval of the Unanimous Settlement in its entirety.

32. Every natural gas public utility in Kansas is required to provide reasonably efficient and sufficient service and establish just and reasonable rates.⁴⁷ Under Kansas Supreme Court precedent, rates must fall within a “zone of reasonableness” which balances the interests of investors versus ratepayers, present versus future ratepayers, and the public interest.⁴⁸ The Parties agree the Settlement results in reasonable rates.⁴⁹ Accordingly, we find the Settlement fairly represents a balance of their interests and reaches a reasonable result that is supported by the evidence.

⁴³ See Order on KCP&L’s Application for Rate Change, 15-KCPE-116-RTS, Sept. 10, 2015, ¶ 16.

⁴⁴ *Farmland Indus., Inc. v. Kansas Corp. Comm’n*, 25 Kan. App.2d 849, 852 (1999).

⁴⁵ *Id.* at 851.

⁴⁶ Joint Motion to Approve Unanimous Settlement, Oct. 5, 2016, ¶ 12.

⁴⁷ K.S.A. 66-1,202.

⁴⁸ *Kansas Gas*, 239 Kan. 483, 488 (1986).

⁴⁹ See Joint Motion to Approve Unanimous Settlement, ¶ 17; Dittmore Settlement Testimony, p. 12; Grady Settlement Testimony, pp. 11-12; Crane Settlement Testimony, pp. 7-8; Pemberton Settlement Testimony, p. 7.

33. The Parties represent a variety of interests, including investors, commercial and residential customers, and the public generally. The terms of the Settlement are fair and reasonable, and were fully and fairly negotiated by the Parties in conjunction with the acknowledgement that it is unlikely the Commission would accept wholesale any Party's pre-filed position.

34. The requirement of just and reasonable rates incorporates the "zone of reasonableness" test, and is used to determine whether the rate is within an elusive range of reasonableness in calculating a fair rate of return.⁵⁰ The Commission acts within its discretion in finding an "in-between point, where the rate is most fair to the utility and its customers."⁵¹ The Commission considered the competing interests it must take into account in setting rates, and finds the agreed upon revenue requirement falls within the "zone of reasonableness." There is substantial evidence in the record that the agreed-upon rate will provide Kansas Gas sufficient revenues and cash flows to meet its financial obligations, yet will keep rates as low as possible while maintaining reliable service for its customers. The Commission finds and concludes approval of the Settlement will result in just and reasonable rates for Kansas Gas and its customers. The evidence in the record demonstrates the Settlement will result in just and reasonable rates.

35. The Commission finds that approval of the Settlement is in the public interest. The Parties agree the terms of the Settlement are in the public interest and should be approved by the Commission.⁵² The Parties explain the terms of the Settlement represent an equitable balancing of

⁵⁰ *Kansas Gas*, 239 Kan. at 490.

⁵¹ *Id.*

⁵² See Joint Motion to Approve Unanimous Settlement, ¶¶ 9, 19; Dittmore Settlement Testimony, p. 12; Grady Settlement Testimony, p. 14; Crane Settlement Testimony, pp. 8, 10; Pemberton Settlement Testimony, p. 7.

the interests of all parties.⁵³ The public interest is served by minimizing the cost of litigation that would be passed on to ratepayers.⁵⁴

36. The Commission finds the agreed-upon rate will provide Kansas Gas sufficient revenue to meet its financial obligations and provide safe and reliable service at just and reasonable rates to its customers. After considering all of the terms of the Settlement, the Commission finds it is in the public interest. The Settlement is a balanced agreement that is fair to all of the parties. Therefore, the Commission finds the proposed rate design is fair and reasonable, and is in the public interest.

37. After a careful review and consideration of the evidence in the record, the Commission finds that the attached Settlement is supported by substantial competent evidence in the record as a whole, will result in just and reasonable rates, and is in the public interest. The Commission approves the Unanimous Settlement in its entirety.

THEREFORE, THE COMMISSION ORDERS:

A. The Joint Motion to Approve the Unanimous Settlement Agreement is granted. The Unanimous Settlement is approved in its entirety. The terms of the attached Unanimous Settlement Agreement are incorporated into this Order.

B. The Commission approves a base revenue requirement increase of \$15,500,000.00, which is inclusive of the \$7.46 million currently recovered under the GSRS surcharge, from Kansas Gas's current revenue requirement. The GSRS surcharge shall be reset to zero.

C. The effective date of the rates approved in this Order shall be January 1, 2017.

⁵³ Joint Motion to Approve Unanimous Settlement, ¶ 13.

⁵⁴ Grady Settlement Testimony, pp. 14-15; Dittmore Settlement Testimony, ¶ 3.

D. Parties have 15 days from the date of electronic service of this Order to petition for reconsideration.⁵⁵

E. The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further orders as it deems necessary.

BY THE COMMISSION IT IS SO ORDERED.

Emler, Chairman; Albrecht, Commissioner; Apple, Commissioner

Dated: NOV 29 2016.



Amy L. Green
Secretary to the Commission

BGF

EMAILED

NOV 29 2016

⁵⁵ K.S.A. 66-118b; K.S.A. 77-529(a)(1).

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas)
Gas Service, a Division of ONE Gas, Inc. for)
Adjustment of its Natural Gas Rates in the) Docket No. 16-KGSG-491-RTS
State of Kansas.)

UNANIMOUS SETTLEMENT AGREEMENT

This Unanimous Settlement Agreement ("Agreement") is entered into between and among the Staff of the State Corporation Commission of the State of Kansas ("Staff"), Kansas Gas Service, a Division of ONE Gas, Inc. ("ONE Gas") ("KGS"), the Citizens' Utility Ratepayer Board ("CURB"), and CenterPoint Energy Services, Inc. ("CES") (collectively referred to herein as the "Parties"). This Agreement is being submitted to the Commission for its approval pursuant to K.A.R. 82-1-230a.

I. KGS'S APPLICATION

1. On May 2, 2016, KGS filed an Application with the Commission to make certain changes in its rates and charges for natural gas service, which was docketed as the above-captioned proceeding. Pursuant to the Commission's Order dated May 10, 2016, the effective date of the Application was suspended until December 28, 2016. On June 8, 2016, the prehearing officer issued an Order establishing a procedural schedule. This matter is currently set for hearing on October 18-20, 2016.

2. The schedules filed with KGS's Application indicated a need to increase base rates by \$35,446,665, based upon normalized operating results for the 12-months ended December 31, 2015, adjusted for known and measurable changes in revenues, operating and maintenance expenses, cost of capital and taxes, and other adjustments. The \$35,446,665 increase in base rates

includes \$7,461,497 relating to rebasing Gas System Reliability Surcharge ("GSRS") revenues. In its Application, KGS also requested approval to establish an annual rate mechanism referred to as a Cost of Service Adjustment ("COSA") mechanism. The COSA mechanism is a proposed three-year pilot formula rate mechanism that will provide, according to KGS, a stream-lined, transparent and cost-effective annual review of KGS's cost of operations and actual return on equity. The COSA mechanism will adopt all of the regulatory procedures, principles and the rate of return established by the Commission in the Order issued in this docket and will include certain safeguards such as a cap on operating expenses that will benefit customers. KGS is also seeking to discontinue the Pension and Post-Employment Benefit ("OPEB") trackers that were established in Docket Nos. 10-KGSG-130-ACT and 07-GIMX-1041-GIV. KGS is also seeking approval to share the savings between customers and shareholders that have resulted from pension expenses having been pre-funded by ONE Gas's shareholders. The amount of savings to be shared is \$5.1 million with one-third of the savings provided to the customers and two-thirds to ONE Gas's shareholders. Additionally, KGS has included a corporate asset depreciation study and is seeking new corporate asset depreciation rates as part of this Application, and KGS has updated its depreciation rates as appropriate for utility plant. In support of its Application, KGS submitted the testimony of 14 witnesses and the schedules required by K.A.R. 82-1-231.

4. On September 7, 2016, Staff filed its direct testimony, including supporting schedules and exhibits in the above docket recommending an increase in base rates for KGS in the amount of \$12,163,063. Staff made no changes to the corporate asset depreciation rates proposed by KGS. Staff recommended adjustments to KGS's other proposed depreciation rates and raised several policy questions related to the calculation of depreciation rates. Staff also made recommendations regarding return on equity and adjustments to the income statement and rate base.

includes \$7,461,497 relating to rebasing Gas System Reliability Surcharge ("GSRS") revenues. In its Application, KGS also requested approval to establish an annual rate mechanism referred to as a Cost of Service Adjustment ("COSA") mechanism. The COSA mechanism is a proposed three-year pilot formula rate mechanism that will provide, according to KGS, a stream-lined, transparent and cost effective annual review of KGS's cost of operations and actual return on equity. The COSA mechanism will adopt all of the regulatory procedures, principles and the rate of return established by the Commission in the Order issued in this docket and will include certain safeguards such as a cap on operating expenses that will benefit customers. KGS is also seeking to discontinue the Pension and Post-Employment Benefit ("OPEB") trackers that were established in Docket Nos. 10-KGSG-130-ACT and 07-GIMX-1041-GIV. KGS is also seeking approval to share the savings between customers and shareholders that have resulted from pension expenses having been pre-funded by ONE Gas's shareholders. The amount of savings to be shared is \$5.1 million with one-third of the savings provided to the customers and two-thirds to ONE Gas's shareholders. Additionally, KGS has included a corporate asset depreciation study and is seeking new corporate asset depreciation rates as part of this Application, and KGS has updated its depreciation rates as appropriate for utility plant.

3. In support of its Application, KGS submitted the testimony of 14 witnesses and the schedules required by K.A.R. 82-1-231.

4. The following parties have requested and been granted intervention in this proceeding: CURB and CES.

II. STAFF AND OTHER PARTIES' PREFILED POSITIONS

5. On September 7, 2016, Staff filed its direct testimony, including supporting schedules and exhibits in the above docket recommending an increase in base rates for KGS in the

amount of \$12,163,063. Staff made no changes to the corporate asset depreciation rates proposed by KGS. Staff recommended adjustments to KGS's other proposed depreciation rates and raised several policy questions related to the calculation of depreciation rates. Staff also made recommendations regarding return on equity and adjustments to the income statement and rate base. Staff opposed KGS's COSA mechanism and its request to eliminate the Pension and OPEB trackers. Staff also opposed KGS's proposal to share pension expense savings with customers.

6. On September 7, 2016, CURB filed testimony in which it recommended a rate increase of \$3,700,300 based upon its recommendation concerning rate of return on equity, capital structure and several adjustments to KGS's income statement and rate base. CURB opposed KGS's COSA mechanism and its proposal to share pension expense savings with customers. CURB was not opposed to the elimination of Tracker 1 as long as it was not conditioned upon approval of the proposed COSA mechanism.

7. On September 7, 2016, CES filed testimony. CES requested changes to KGS's tariffs relating to transportation services provided by KGS, and offered a recommendation with regard to cost allocation. CES offered no position with regard to approval of the COSA but did request the opportunity to address the Transportation Service qualification requirements as part of the annual COSA filings in the event the Commission approved the COSA and denied CES' request for an elimination of the existing minimum annual usage requirements for Transportation Service. On September 19, 2016, CES filed cross-answering testimony to address the cost allocation recommendation presented by CURB.

8. KGS filed rebuttal testimony on September 28, 2016.

9. Subsequently, on October 3, 2016, KGS, Staff, CURB and CES met to discuss the possible settlement of the issues in this matter. The settlement discussions continued on October 4,

2016, and a settlement in principle was reached by the Parties. On October 5, 2016, the Parties executed and filed this Agreement with the Commission. Because it is executed by all parties to this docket, this Agreement is considered a unanimous settlement agreement under the Commission's regulations (K.A.R. 82-1-230a).

III. SETTLEMENT PROVISIONS

A. STIPULATED REVENUE REQUIREMENT

10. The Parties agree that the Commission should authorize an overall annual increase in base rates of Fifteen Million Five Hundred Thousand Dollars (\$15,500,000.00). This increase includes \$7,461,497 related to rebasing GSRS surcharge revenues.

B. MISCELLANEOUS ISSUES

11. The Parties agree the revenue requirement specified in paragraph 10 above includes implementation of KGS's proposed corporate asset depreciation rates and the depreciation rates proposed by Staff witness Roxie McCullar and set forth in Appendix A to this Agreement. KGS agrees it will adopt the depreciation rates in Appendix A. KGS agrees to record third-party reimbursements to the Accumulated Reserve on a going-forward basis. KGS is not required to reclassify third party reimbursements from 2007. By agreeing to the depreciation rates set forth in Appendix A, KGS is not agreeing to the policy recommendations made by Ms. McCullar. KGS is not precluded from advancing positions or arguments in future rate filings that differ from the policy recommendations made by Ms. McCullar.

12. Pursuant to the Commission's Order in Docket No. 12-KCPE-764-RTS, Staff addressed the issue of incentive compensation in pre-filed testimony. Testimony regarding incentive compensation was also filed by KGS in its direct and rebuttal testimony. CURB also filed testimony regarding incentive compensation. The Parties agree that nothing in this

Agreement constitutes an agreement by KGS that Staff's and CURB's proposed adjustments to incentive compensation are appropriate and this Agreement does not prevent KGS or other parties from challenging such adjustments in the future.

13. The Parties agree that nothing in this Agreement constitutes an agreement by the Parties to the capital structure proposals presented in this case and this Agreement does not prevent the Parties from challenging such proposals in the future.

14. KGS agrees to withdraw, without prejudice, (1) its proposed COSA mechanism; (2) its request to eliminate the Pension and OPEB trackers; and (3) its proposal to share pension expense savings with customers.

C. ACCOUNTING MATTERS

15. For purposes of filing KGS's Ad Valorem Surcharge Rider in December 2017 and subsequent years until rebased in KGS's next base rate case, the Parties agree that the ad valorem expenses embedded in base rates shall be \$20,954,008. Because the rates resulting from this rate proceeding will be implemented on January 1, 2017, for the December 2016 ad valorem filing, which shall be in effect for the 2017 collection period, KGS shall use the ad valorem expense agreed to in KGS's 2011 rate case, Docket No. 12-KGSG-835-RTS, to calculate the Ad Valorem Surcharge Rider.⁸

16. Amortization periods are established as follows:

- (a) KGS's actual rate case expenses - three years;
- (b) KGS's Pension and OPEB deferrals – three years
- (c) With respect to item 16(a) above, and consistent with the policy position in the Direct Testimony of Staff witness Justin Grady in this docket, Staff reserves the right to

⁸ The amount of ad valorem expense that was included in Docket No. 12-KGSG-835-RTS and that will be used for purposes of KGS's December 2016 ad valorem filing is \$22,471,188.

recommend the Commission disallow recovery of any unamortized rate case expense balance in KGS's next full general rate proceeding. In KGS's next full general rate proceeding, any other party may assert any position regarding recovery of unamortized portions of this docket's rate case expense and KGS reserves its right to seek recovery of the unamortized balance of any rate case expense in the next rate case filing.

(d) With respect to item 16 (b) above, KGS shall have the right to recover any unamortized amount relating to Pension and OPEB deferrals.

17. For the purposes of calculating KGS's pension tracker going forward, the Parties agree that the base rates agreed to in this Agreement include the following expenses:

(a) KGS's Pension Expense:

\$7,827,293

(b) KGS's OPEB Expense:

\$3,052,521

18. For purposes of calculating KGS's GSRS, the carrying charges to be applied to recoverable investments in such filings shall be calculated using a carrying charge of 9.74% gross of tax, which is based on state and federal tax rates in effect as of the date of this Agreement. The Parties agree this carrying charge is solely for purposes of subsequent GSRS filings and is not precedential for any other purpose.

19. For allocating costs among customer classes in a GSRS filing, such costs shall be allocated among KGS's classes of customers based on the rate allocation approved in this rate case.

D. CLASS COST OF SERVICE AND RATE DESIGN

20. The Parties agree the rate increase shall be allocated among the respective classes of customers according to the amounts indicated for each class as shown in Appendix B attached

hereto.

E. WNA ISSUES

21. KGS agrees to Staff's recommendation in this case relating to the four (4) weather stations to be used with respect to calculating KGS's monthly WNA and the changes recommended by Staff to KGS's WNA tariff so the WNA is based upon a 12-month calculation. During KGS's next general base rate case, KGS will utilize three First Order weather stations (Kansas City International Airport, Topeka, and Wichita) for the weather normalization of revenue requirement and the calculation of the heating coefficients for the WNA.

F. TRANSPORT THRESHOLD

22. KGS agrees to reduce the minimum threshold volumes for a customer to be eligible to receive transportation service from 1500 Mcf per year to 800 Mcf per year. KGS also agrees to review the other tariff issues included in CES's testimony in its next general rate case. Specifically, the review will include an analysis of the rate differential between Transportation schedules STk and STt as between those two classes, and also an analysis of the rate differential between the Sales schedules GSS, GSL, and GTSE where the "k" and "t" system customers are combined, as compared to the Transportation schedules STk, STt, LVTk, and LVTt where the "k" and "t" system customers are segregated.

G. GENERAL TERMS AND CONDITIONS

23. KGS agrees to include in its general terms and conditions the proposed changes included in Justin Clements' rebuttal testimony, including those changes relating to MEA contracts and to set EFM charges at \$3,200 for a landline and \$4,800 for a cellular.

IV. MISCELLANEOUS PROVISIONS

A. THE COMMISSION'S RIGHTS

24. Nothing in this Agreement is intended to impinge or restrict, in any manner, the exercise by the Commission of any statutory right, including the right of access to information, and any statutory obligation, including the obligation to ensure that KGS is providing efficient and sufficient service at just and reasonable rates.

B. PARTIES' RIGHTS

25. The Parties, including Staff, shall have the right to present pre-filed testimony in support of this Agreement. Such testimony shall be filed formally in the docket and presented by witnesses at a hearing on this Agreement. Such testimony shall be filed on or before October 7, 2016.

C. WAIVER OF CROSS-EXAMINATION AND POST-HEARING BRIEFS

26. The Parties waive cross-examination on all testimony filed prior to the filing of this Agreement, and further waive the filing of Post-Hearing Briefs. The Parties agree that all such pre-filed testimony and exhibits may be incorporated into the record without objection.

D. NEGOTIATED SETTLEMENT

27. This Agreement represents a negotiated settlement that fully resolves the issues in this docket among the Parties. The Parties represent that the terms of this Agreement constitute a reasonable resolution of the issues addressed herein. Except as specified herein, the Parties shall not be prejudiced, bound by, or in any way affected by the terms of this Agreement (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Agreement in the instant proceeding. If the Commission accepts this Agreement in its entirety and incorporates the same into a final order without modification, the Parties shall be bound by its terms and the Commission's order

incorporating its terms as to all issues addressed herein and in accordance with the terms hereof, and will not appeal the Commission's order on these issues.

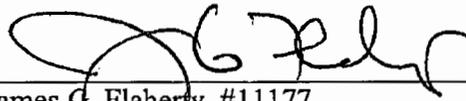
E. INTERDEPENDENT PROVISIONS

28. The provisions of this Agreement have resulted from negotiations among the Parties and are interdependent. In the event that the Commission does not approve and adopt the terms of this Agreement in total, the Agreement shall be voidable and no party hereto shall be bound, prejudiced, or in any way affected by any of the agreements or provisions hereof. Further, in such event, this Agreement shall be considered privileged and not admissible in evidence or made a part of the record in any proceeding.

F. SUBMISSION OF DOCUMENTS TO THE COMMISSION OR STAFF

29. To the extent this Agreement provides for information, documents or other data to be furnished to the Commission or Staff, such information, documents or data shall be filed with the Commission and a copy served upon the Commission's Director of Utilities. Such information, documents, or data shall be marked and identified with the docket number of this proceeding.

IN WITNESS WHEREOF, the Parties have executed and approved this Stipulated Settlement Agreement, effective as of the 5th day of October, 2016, by subscribing their signatures below.



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KANSAS GAS SERVICE

SUMMARY OF DEPRECIATION RATES

Account	Description	Current			Staff Recommendation			Difference from Current
		Investment	Net Salvage	Total	Investment	Net Salvage	Total	
		N	O	P=N+O	U	V	W=U+V	
TRANSMISSION PLANT								
365.20	Rights of Way	1.34%	-0.01%	1.33%	1.32%	-0.01%	1.31%	-0.02%
366.10	Compressor Station Structures	1.82%	0.73%	2.55%	1.76%	0.74%	2.50%	-0.05%
366.20	Meas. and Reg. Station Structures	1.53%	0.45%	1.98%	1.49%	0.45%	1.94%	-0.04%
367.00	Mains	1.82%	0.00%	1.82%	1.80%	0.05%	1.85%	0.03%
368.00	Compressor Station Equipment	2.49%	0.82%	3.31%	2.26%	0.74%	3.00%	-0.31%
369.00	Meas. and Reg. Station Equipment	2.30%	0.61%	2.91%	2.31%	0.64%	2.95%	0.04%
	Total Transmission Plant	1.89%	0.13%	2.02%	1.85%	0.16%	2.02%	0.00%
DISTRIBUTION PLANT								
374.20	Rights of Way	1.39%	0.00%	1.39%	1.38%	0.00%	1.38%	-0.01%
375.00	Structures and Improvements	3.19%	0.53%	3.72%	3.08%	0.53%	3.61%	-0.11%
376.10	Mains - Metallic	1.34%	0.19%	1.53%	1.34%	0.33%	1.67%	0.14%
376.20	Mains - Plastic	1.90%	0.33%	2.23%	1.89%	0.37%	2.26%	0.03%
376.40	Mains - Cathodic Protection	1.34%	0.19%	1.53%	1.34%	0.33%	1.67%	0.14%
378.00	Meas. and Reg. Station Equip. - General	1.93%	0.44%	2.37%	1.90%	0.44%	2.34%	-0.03%
379.00	Meas. and Reg. Station Equip. - City Gate	1.58%	0.30%	1.88%	1.57%	0.36%	1.93%	0.05%
380.10	Services - Metallic	1.61%	0.94%	2.55%	1.62%	1.99%	3.61%	1.06%
380.20	Services - Plastic	2.04%	0.88%	2.92%	2.07%	1.04%	3.11%	0.19%
381.00	Meters	2.50%	0.00%	2.50%	2.48%	0.01%	2.49%	-0.01%
381.50	AMR Communication Devices	6.67%	0.00%	6.67%	6.67%		6.67%	0.00%
382.00	Meter Installations	2.01%	1.01%	3.02%	1.98%	1.04%	3.02%	0.00%
383.00	House Regulators and Installations	1.84%	0.07%	1.91%	1.87%	0.07%	1.94%	0.03%
386.00	Other Property - Customer Premises	7.07%	0.00%	7.07%	0.25%	0.00%	0.25%	-6.82%
	Total Distribution Plant	1.93%	0.49%	2.43%	1.94%	0.61%	2.55%	0.12%
GENERAL PLANT								
Depreciable								
390.10	Structures and Improvements	1.57%	0.04%	1.61%	1.48%	0.04%	1.52%	-0.09%
392.00	Transportation Equipment	6.22%	-1.19%	5.03%	5.86%	-1.13%	4.73%	-0.30%
396.00	Power Operated Equipment	7.06%	-0.86%	6.20%	5.13%	-0.68%	4.45%	-1.75%
	Total Depreciable	4.12%	-0.55%	3.58%	3.64%	-0.50%	3.15%	-0.43%
Amortizable								
391.10	Office Furniture and Equipment	5.00%		5.00%	5.00%		5.00%	0.00%
391.25	Computer Equipment	12.75%		12.75%	12.75%		12.75%	0.00%
393.00	Stores Equipment	5.00%		5.00%	5.00%		5.00%	0.00%
394.00	Tools, Shop and Garage Equipment	6.51%		6.51%	6.51%		6.51%	0.00%
395.00	Laboratory Equipment	6.67%		6.67%	6.67%		6.67%	0.00%
397.00	Communication Equipment	6.61%		6.61%	6.61%		6.61%	0.00%
398.00	Miscellaneous Equipment	5.00%		5.00%	5.00%		5.00%	0.00%
	Total Amortizable	8.28%	0.00%	8.28%	8.28%	0.00%	8.28%	0.00%
	Total General Plant	5.31%	-0.39%	4.92%	4.97%	-0.36%	4.61%	-0.31%
	TOTAL GAS UTILITY	2.13%	0.38%	2.51%	2.11%	0.48%	2.59%	0.08%

Sources:

Current Rates from "Order Approving Stipulated Settlement Agreement" in Docket No. 12-KGSG-835-RTS

Exhibit REW-1

Schedule RMM-1

KANSAS GAS SERVICE

SUMMARY OF DEPRECIATION RATES CORPORATE PLANT

		KGS Proposed		
		Investment	Net Salvage	Total
		Q	R	S=Q+R
GENERAL PLANT				
Depreciable				
390.20	Leasehold Improvements	10.15%		10.15%
392.60	Aircraft	8.08%	-1.80%	6.28%
Amortizable				
391.10	Office Furniture and Equipment	←15 Year Amortization→		6.67%
391.30	Office Machines	←20 Year Amortization→		5.00%
391.40	Audio Visual Equipment	← 5 Year Amortization→		20.00%
391.50	Purchased Software	←13 Year Amortization→		7.69%
391.80	Micro Computer Equipment	← 5 Year Amortization→		20.00%

Sources:

Exhibit REW-2 Statement A

KANSAS GAS SERVICE

RATES/PROOF OF REVENUE

Class	Staff Customer Count	Staff Volumetric Total	Staff's Proof of Revenue								Revenue Increase	Percentage Increase
			Current Service Charge	Current Delivery Charge	Revenues at Current Rates	Proposed Service Charge	Proposed Delivery Charge	Revenues at Proposed Rates				
Residential	579,541	43,459,596	\$ 15.35	\$ 2.1267	\$ 199,176,975	\$ 16.70	\$ 2.2316	\$ 213,124,451	\$ 13,947,476	7.0%		
General Service - Small	36,849	3,725,753	\$ 28.65	\$ 2.1267	\$ 20,592,245	\$ 28.65	\$ 2.3472	\$ 21,413,774	\$ 821,529	4.0%		
General Service - Large	11,905	6,369,279	\$ 36.00	\$ 1.6819	\$ 15,855,256	\$ 36.00	\$ 1.7810	\$ 16,486,451	\$ 631,196	4.0%		
General Service - Transport Eligible	566	1,426,535	\$ 60.00	\$ 1.4598	\$ 2,489,976	\$ 60.00	\$ 1.5293	\$ 2,589,120	\$ 99,144	4.0%		
Small Generator Service	649	10,703	\$ 52.20	\$ 0.6427	\$ 413,412	\$ 52.20	\$ 0.6427	\$ 413,412	\$ -	0.0%		
Irrigation Sales	225	138,200	\$ 36.00	\$ 1.6819	\$ 329,639	\$ 36.00	\$ 1.6819	\$ 329,639	\$ -	0.0%		
Kansas Gas Supply	1	33,689	\$ 350.00	\$ 0.8673	\$ 33,418	\$ 350.00	\$ 0.8673	\$ 33,418	\$ -	0.0%		
Sales for Resale	16	66,051	\$ 85.00	\$ 1.2497	\$ 98,864	\$ 85.00	\$ 1.2497	\$ 98,864	\$ -	0.0%		
Small Transport k-System	3,357	5,810,313	\$ 60.00	\$ 1.4598	\$ 10,899,050	\$ 60.00	\$ 1.4598	\$ 10,899,050	\$ -	0.0%		
Small Transport t-System	1,120	1,704,867	\$ 60.00	\$ 1.9170	\$ 4,074,630	\$ 60.00	\$ 1.9170	\$ 4,074,630	\$ -	0.0%		
Compressed Natural Gas	3	131,290	\$ 60.00	\$ 0.8199	\$ 109,805	\$ 60.00	\$ 0.8199	\$ 109,805	\$ -	0.0%		
Irrigation Transport	508	839,690	\$ 36.00	\$ 1.6819	\$ 1,631,731	\$ 36.00	\$ 1.6819	\$ 1,631,731	\$ -	0.0%		
Large Transport k - Tier 1	188	887,449	\$ 208.00	\$ 0.8714	\$ 1,242,904	\$ 208.00	\$ 0.8714	\$ 1,242,904	\$ -	0.0%		
Large Transport k - Tier 2	110	1,607,211	\$ 252.00	\$ 0.8714	\$ 1,732,660	\$ 252.00	\$ 0.8714	\$ 1,732,660	\$ -	0.0%		
Large Transport k - Tier 3	64	1,794,876	\$ 323.00	\$ 0.8714	\$ 1,812,765	\$ 323.00	\$ 0.8714	\$ 1,812,765	\$ -	0.0%		
Large Transport k - Tier 4	60	6,376,210	\$ 392.00	\$ 0.8714	\$ 5,839,253	\$ 392.00	\$ 0.8714	\$ 5,839,253	\$ -	0.0%		
Large Transport t - Tier 1	33	199,414	\$ 288.00	\$ 1.3103	\$ 375,340	\$ 288.00	\$ 1.3103	\$ 375,340	\$ -	0.0%		
Large Transport t - Tier 2	38	521,762	\$ 367.00	\$ 1.3103	\$ 851,017	\$ 367.00	\$ 1.3103	\$ 851,017	\$ -	0.0%		
Large Transport t - Tier 3	24	725,602	\$ 495.00	\$ 1.3103	\$ 1,093,316	\$ 495.00	\$ 1.3103	\$ 1,093,316	\$ -	0.0%		
Large Transport t - Tier 4	29	3,774,256	\$ 621.00	\$ 1.3103	\$ 5,161,516	\$ 621.00	\$ 1.3103	\$ 5,161,516	\$ -	0.0%		
Wholesale Transport	28	968,190	\$ 85.00	\$ 1.2497	\$ 1,238,507	\$ 85.00	\$ 1.2497	\$ 1,238,507	\$ -	0.0%		
Total	635,314	80,570,937			275,052,279			\$ 290,551,624	\$ 15,499,344	5.6%		

CERTIFICATE OF SERVICE

16-KGSG-491-RTS

I, the undersigned, certify that the true copy of the attached Order has been served to the following parties by means of

Electronic Service on NOV 29 2016.

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CERTIFICATE OF SERVICE

16-KGSG-491-RTS

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/S/ DeeAnn Shupe
DeeAnn Shupe

EMAILED

NOV 29 2016