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 State of Kansas.	))))	Docket No. 18-KGSG-560 - RTS

DIRECT TESTIMONY

OF

JEFFREY J. HUSEN

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

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ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

I. Introduction

Q. Please state your name and business address.

A. My name is Jeffrey J. Husen. My business address is 15 E. 5th Street Tulsa, Oklahoma 74103.

Q. By whom are you employed and in what capacity?

A. I am employed by ONE Gas, Inc., ("ONE Gas") as its controller. ONE Gas is the parent company of Kansas Gas Service ("KGS" or the "Company"). I have responsibility for the accounting, financial reporting and budgeting and forecasting functions for ONE Gas. These responsibilities include the selection and application of accounting policies and practices for ONE Gas and its divisions, including KGS.

Q. Please describe your educational background and professional experience.

A. I earned a B.S., (Accounting) from Oklahoma State University. For more than 20 years, I have worked in accounting and financial reporting roles. Prior to my current position, I was assistant controller - corporate accounting and reporting - responsible for corporate accounting, SEC reporting, Sarbanes Oxley and enterprise risk management processes for ONEOK, Inc., ("ONEOK") and ONEOK Partners. In my time at ONEOK, I also served as the director of accounting for the gathering and fractionation portion of ONEOK Partners' natural gas liquids business, and as director of accounting for Oklahoma Natural Gas, which is now part of ONE Gas. Prior to joining ONEOK, I was a senior manager in the audit practice with

KPMG LLP in Tulsa, Oklahoma. I served clients auditing accounting policies and practices for companies in the utility, transportation and manufacturing industries. I am licensed as a Certified Public Accountant in Oklahoma. I also am certified as a Chartered Global Management Accountant by the American Institute of Certified Public Accountants.

Q. Was this testimony prepared by you or under your direction?

A. Yes, it was.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is:

1. To discuss the newly passed Tax Cuts and Jobs Act of 2017 (which reduces the revenue requirement in this case by approximately $9 million) and sponsor schedules 11C through 11H in Section 11 of the rate case filing; and
2. Discuss our proposed rate change approach in this case to provide our customers the benefits of tax reform as early as possible.

II. <u>Tax Reform</u>

Q. Please summarize the main elements of tax reform under the Tax Cuts and Jobs Act of 2017 (“TCJA”)[1] that affect public utilities.

A. The new law includes significant changes to the Internal Revenue Code (“the Code”), including amendments which significantly change the taxation of business entities and includes specific provisions related to regulated public utilities. The more significant changes that impact the Company include reductions in the corporate federal statutory income tax rate to 21 percent from 35 percent, and the continuation of certain rate normalization requirements for accelerated depreciation benefits.

[1] The complete text of TCJA can be found at: https://www.congress.gov/115/bills/hr1/BILLS-115hr1enr.pdf.

Q. Has the Commission addressed the effect of tax reform on Kansas utilities and their customers?

A. Yes. The Commission issued an order opening Docket No. 18-GIMX-248-GIV ("248 Docket") on January 18, 2018, to address issues related to the TCJA. Company witness Janet Buchanan provides information concerning this docket and the Company's efforts to comply with the Commission's order.

Q. Will customers receive the benefit of tax reform for the period from January 1, 2018, through the date new rates become effective?

A. Yes, they will. In accordance with the Commission's Order Opening General Investigation and Issuing Accounting Authority Order Regarding Federal Tax Reform in the 248 Docket, KGS has calculated the difference in its cost of service as determined in our last general rate case (Docket No. 16-KGSG-491-RTS) using the new federal corporate tax rate. As required by the order, KGS has been, and will continue, accruing the monthly difference in a deferred revenue account through the period in which the rate change from this case becomes effective. Company witness Janet Buchanan addresses KGS's request to show how other components of its cost of service have more than offset the decrease in its income tax expenses.

Q. Please explain the benefit that KGS customers will receive from tax reform.

A. Kansas Gas Service customers will see the benefits in two ways:

1. Customers will benefit from a reduction of approximately $9 million in Kansas Gas Service's annual revenue requirement, that will continue to be reflected in rates in the future with the permanent reduction in the corporate federal tax rate; and

2. Customers will receive the benefit of 100% of the excess accumulated deferred income tax liability that resulted from the re-measurement of the Company's accumulated deferred income taxes associated with the reduction in the corporate

federal tax rate to 21% from 35% as the regulatory liability is credited back to customers through the Company's proposed Tax Change Rider.

Q. Has KGS taken the change in corporate tax rate into account in this rate case filing?

A. Yes. I will discuss the effect of the TCJA on income taxes included in this filing as well as the effect on accumulated deferred income taxes ("ADIT") as I discuss individual adjustments and excess ADIT ("EDIT").

III. Explanation of Adjustments

Q. Please describe schedules 11C through 11H in section 11 of the rate case filing.

A. Schedules 11-C through 11-H include information regarding taxes included in the Company's application and reflects the following:

Schedule 11-C, calculates taxable income and income taxes. In determining taxable income, the interest expense was synchronized by multiplying the weighted cost of debt in Section 7 by the rate base shown in Section 3. This schedule provides the necessary components to determine the appropriate taxable income based upon book revenues, expenses and all Pro Forma Adjustments to operations. These values are forwarded to Schedule 11-A;

Schedule 11-D provides a schedule of the taxable income;

Schedule 11-E shows Pro Forma Deferred income tax expense and investment tax credits;

Schedule 11-F describes the test period book/tax timing differences necessary to compute test period income tax expense;

Schedule 11-G shows the calculation of the tax gross-up ratio as well as providing the computation for the interest synchronization calculation; and

Schedule 11-H provides the historical activity of the balance of the deferred investment tax credits and deferred income taxes.

Q. Has KGS included an adjustment to reflect the change in federal income tax expense for the test year?

A. Yes. On Schedule 11-C, KGS includes pro forma adjustments to reflect the change in the corporate tax rate to 21% from 35%. This reduces income tax expense by approximately $9 million.

Q. Mr. Husen, you sponsor several adjustments to ADIT. Please begin your discussion of these adjustments by defining ADIT.

A. ADIT reflects the cumulative timing differences between Income Tax Expense recorded pursuant to accounting principles generally accepted in the United States ("GAAP") for financial reporting purposes and actual income taxes paid to taxing authorities. While there are several contributing factors impacting the ADIT balance, typically the ADIT is a net liability rather than an asset. Significant activity in this account is driven by accelerated tax depreciation contrasted with more conservative book depreciation. These differences in depreciation rates create a difference between 'book income' and 'taxable income' which, when applied to the effective tax rate, results in a deferred tax amount that is recorded to the ADIT account, usually creating a liability. The difference between book and tax depreciation rates reverses over time (i.e., tax depreciation is initially higher than book but then this trend reverses itself as the asset becomes fully depreciated for both book and tax purposes) and thus, is an example of what is termed a temporary difference. As an asset becomes fully depreciated for tax purposes, the book depreciation continues and the difference between the two cumulative depreciation balances is reduced until it is eventually eliminated, resulting in the elimination of the ADIT balance for that particular asset. Temporary differences affect the timing of the payment of income taxes contrasted with the recognition of Income Tax Expense pursuant to GAAP. Over time, however, these temporary differences are reversed there by eliminating the ADIT balance as the timing differences are reflected in current tax expense. During the period when the annual tax depreciation is greater than the annual book depreciation of an asset, the taxable income will be lower and thus taxes paid will be lower than the related book income tax expense, creating a deferred tax liability. When the turn-around occurs, the book depreciation will be higher than the tax depreciation, thus producing lower book income, resulting in lower income tax expense compared with taxes paid, which reduces the deferred tax liability.

Q. How is the ADIT account treated for ratemaking purposes?

A. The typical regulatory treatment of the net ADIT balance is to reflect it as an offset to Rate Base. This treatment is appropriate because the net ADIT liability represents a source of financing to the utility. The application of the net ADIT balance as a Rate Base offset is generally not a source of contention in rate proceedings. As shown in Section 6 at Schedule 6-D of the Application, KGS has recorded a net ADIT Liability of ($249.5) million as of December 31, 2017. The pro forma balance of ($203.0) million is treated as an offset to Rate Base, consistent with traditional regulatory treatment. The following table reconciles the net ADIT Liability recorded at December 31, 2017, with the adjustments that have been proposed.

Net ADIT Asset (Liability) *($ in millions)*	ADIT	ADIT - NOL	ADIT Net
Balance per book at December 31, 2017	**$ (305.3)**	**$ 55.8**	**$ (249.5)**
Adjustments:			
WC 3 – Eliminate Pension/ OPEB funding ADIT	54.2		54.2
WC 4 – Eliminate NOL related to Pension/OPEB funding ADIT		(15.6)	(15.6)
WC 7 – Eliminate COGR ADIT	7.9		7.9
Pro Forma balance at December 31, 2017	**$ (243.2)**	**$ 40.2**	**$ (203.0)**

In addition to the KGS net ADIT liability, Adjustment WC-9, totaling $6.3 million, reduces the Company's rate base for an additional ADIT liability attributable to Corporate deferred tax balances allocated to KGS.

Q. What is adjustment WC 3 and why is it necessary?

A. Adjustment WC 3 reduces the ADIT Liability (thus increasing Rate Base) $54.2 million. This adjustment is necessary to eliminate the impact of pension and other post-employment benefits (OPEB)[2] funding on KGS ADIT balance as agreed to as part of the Stipulation and Agreement in Docket No. 10-KGSG-130-ACT ("130 Docket").

Q. Please provide an overview of the 130 Docket.

A. The 130 Docket dealt with complex accounting/funding issues related to utility pension and OPEB costs. The Order in the 130 Docket consisted of two major elements. First, it permitted KGS to defer, as a regulatory asset or liability, differences between current year GAAP pension and OPEB expense and those corresponding expense levels included in each utility's revenue

[2] Essentially, OPEB costs are those costs accrued to provide retiree benefits such as medical and dental coverage.

requirement determined in its most recent rate case.[3] Second, the Order required KGS to make contributions to an external trust fund. KGS has greatly exceeded the funding requirements set forth in the Order. Company witness, Mr. Mark Smith addresses this in his testimony.

Q. What is the implication of this over-funding on the ADIT balance?

A. The cumulative pension and OPEB funding in excess of the cumulative book expense has resulted in an ADIT balance timing difference because the funding of pension and OPEB costs is deductible for tax purposes when the contributions are made rather than the lower book expense within the calculation of the deferred tax expense for GAAP purposes. This difference between the funding level and the book expense creates a deferred tax liability at December 31, 2017 of approximately $54.2 million, calculated using the new corporate federal tax rate of 21%.

Q. Do customers benefit from the funding of pension and OPEB in excess of that required in the 130 Docket?

A. Yes, and Company witness, Mr. Mark Smith addresses this benefit in his testimony.

Q. Does the excess funding result in an asset that is included in rate base?

A. No. The Order in the 130 Docket provided that there would be no rate base recognition for any excess contributions beyond the pension/OPEB funding requirements. Accordingly, KGS has not included a rate base additive for its level of funding in this application. The pertinent language from the KCC's order in the 130 Docket is:

> KGS's application with respect to Tracker 2, to establish a regulatory asset/liability account to accumulate the difference between the current year pension/OPEB contribution to its established trusts and

[3] The amortization of this regulatory asset or liability balance is presented as adjustment IS 27.

> current year GAAP pension/OPEB costs, not as a component of rate base as set forth by Staff's recommendation is hereby approved.

As indicated by Mr. Smith in his testimony in this docket we are not requesting rate base recognition in this filing, but instead, are proposing a sharing of the savings between customers and shareholders.

Q. How does the language quoted from the 130 Docket support your adjustment to eliminate the ADIT liability associated with the excess pension/OPEB funding?

A. Absent this adjustment, KGS would be penalized for its excess funding through a reduction in rate base. The excess funding has benefited customers and KGS should not be faced with a reduction to its rate base, through its ADIT account, as a direct result of its level of funding. The language in the Order indicates there should be no rate base recognition of the excess funding as an additive to rate base. Likewise, it is consistent with the intent of the Order, to also not recognize the impact of the deferred tax liability generated as a result of the funding in the rate base.

Q. What is adjustment WC 4 and why is it necessary?

A. Adjustment WC 4 reflects an adjustment to ADIT for the Company's net operating loss ("NOL") associated with pension/OPEB using the new federal corporate tax rate of 21%. WC 4 reduces rate base approximately $15.6 million by reducing the NOL balance within the deferred tax liability associated with excess pension and OPEB funding as discussed in Adjustment WC 3. The justification for Adjustment WC 4 is identical to that of Adjustment WC 3. Similar adjustments were proposed and accepted in the last KGS base rate case.

Q. What is adjustment WC 7 and why is it necessary?

A. Adjustment WC 7 increases the ADIT liability approximately $7.9 million, calculated using the new federal corporate tax rate of 21%, and is necessary to remove the impacts associated with KGS's Cost of Gas Rider from our ADIT liability. At any point in time, customers have either under or over funded the cost of gas and /or the transportation and storage costs KGS incurs to deliver natural gas to consumers. KGS monitors the status of the over/under account and reports monthly to the KCC Staff. This difference is either taxable or tax deductible depending upon the balance. Since there is an equal likelihood of a positive or negative balance in this account going forward, I recommend that the impact of the balance at the end of the test period be removed for purposes of establishing the appropriate ADIT liability balance used as a rate base deduction. There is no income statement impact from this issue, thus an adjustment to pro forma revenues or expenses is unnecessary.

Q. What is adjustment WC 9 and why is it necessary?

A. Adjustment WC 9 reduces rate base by approximately $6.3 million and is necessary to attribute a portion of the Corporate ADIT liability to KGS associated with the allocation of corporate plant as described by Company witness Maxx Goad in Adjustment PLT 3. As discussed in his testimony, these assets are used in the provision of utility service and because they are not recorded on the books of KGS, they must be allocated. Similarly, the ADIT liability associated with these assets is not recorded on the books of KGS and thus, an adjustment is necessary to properly allocate this customer provided capital to KGS.

IV. <u>ADIT and EDIT</u>

Q. Please explain EDIT.

A. After a change in the income tax rate, a utility must remeasure the ADIT balance on its books to reflect the new tax rate at which it expects the related timing differences to reverse. The difference between the ADIT balance on the day before the tax change became effective and the ADIT balance if it were determined by assuming the new, lower corporate rate was in effect for all prior periods, is the EDIT. For regulated public utility property, Accounting

Standards Codification ("ASC") 980-740-25 requires that a regulatory asset or liability be recorded for the resulting re-measurement of ADIT if it is probable that the excess will be collected from customers or returned to customers through future rates. The regulatory liability is grossed-up for the income tax effect of the increase or decrease in revenues. The regulatory asset or liability is also itself a temporary tax timing difference for which a deferred tax asset or liability will be recognized. The Company proposes to treat the refund of this EDIT liability as a separate bill credit, outside of base rates, to allow for easier tracking of the item and to ensure 100% of the EDIT is returned to customers. This proposal is discussed further in the discussion of the Tax Change Rider ("TCR") below.

Q. What is the amount of EDIT for KGS?

A. Exhibits JJH-1 and JJH-2 detail the effect of the change in statutory federal tax rate on the ADIT of KGS and the allocated corporate ADIT. When the Company's books closed in December 2017, they were closed using estimates of temporary ADIT differences derived from the best information available at the time. The actual amount of EDIT will not be known until the Company files its Federal income tax return in late third quarter or early fourth quarter of 2018. The following table reconciles the net ADIT Liability recorded at December 31, 2017, with the adjustments that have been proposed.

Net Regulatory Liability *($ in millions)*	Regulatory Liability	Regulatory Liability-NOL	Net Regulatory Liability
Balance per book at December 31, 2017	**$ (149.8)**	**$ 45.3**	**$ (104.5)**
Adjustments:			
WC 5 – Regulatory liability associated with Adjustment WC 3	26.6		26.6
WC 6 – Regulatory liability associated with Adjustment WC 5		(7.7)	(7.7)
WC 8 – Regulatory liability associated with Adjustment WC 7	3.9		3.9
Pro Forma balance at December 31, 2017	**$ (119.3)**	**$ 37.6**	**$ (81.7)**

In addition to the KGS net Regulatory liability, Adjustment WC-10, totaling $3.1 million, reduces the Company's rate base for an additional regulatory liability attributable to the re-measurement of ONE Gas Corporate deferred tax balances allocated to KGS (associated with adjustment WC 9).

Q. Does the EDIT regulatory liability include any associated tax gross up?

A. No, it does not. The Company has not included a gross up of the regulatory liability because the regulatory liability is a refund obligation to customers and not a reduction of future revenues. If the regulatory liability were treated as a reduction of future revenues, ASC 980-740-25 would require the regulatory liability to be grossed-up for the income tax effect of the increase or decrease in future revenues. The gross-up regulatory asset or liability associated with EDIT would itself be considered a temporary tax timing difference for which a deferred tax asset or liability would be recognized. Because the gross-up regulatory liability would generate an offsetting deferred tax asset, recording a tax gross-up associated with the EDIT regulatory liability has no effect on rate base. Also, because the EDIT liability is a refund obligation and not a reduction of future revenues, the Company has not included either an associated gross up or the corresponding deferred tax asset in rate base. Rate base reflects only the remeasured deferred taxes using the current enacted federal tax rate and the related regulatory liability resulting from re-measurement.

Q. Please describe protected and unprotected excess ADIT.

A. With the implementation of tax reform in 1986, the term "protected excess ADIT" was adopted to refer to excess ADIT balances that were described in Section 203(e) of the Tax Reform Act of 1986 ("TRA 1986"). The TRA 1986 allowed the reduction to the excess tax reserve under Section 203(e) to occur no more rapidly than the rate under the average rate assumption method ("ARAM"). "Unprotected excess ADIT" referred to all other balances.

Q. Does the TCJA provide for comparable treatment?

A. Yes. A similar provision is included in the TCJA at Section 13001(d). To maintain a normalization method of accounting, this provision requires that the utility reduce its protected excess tax reserve no faster than it would be reduced under ARAM. The provision also allows for use of another alternative method if the utility does not have the data needed for ARAM. The Company has the data needed for ARAM, so the alternative method is not applicable.

Q. What items on KGS and ONE Gas books are protected under the normalization rules?

A. The EDIT attributable to federal method/life depreciation differences are protected. There are other items protected in addition to federal method/life depreciation differences; however, the Company does not have any of the other categories of protected excess ADIT. In the Company's books and records, all other excess ADIT amounts are unprotected under the normalization rules.

Q. What would happen if a utility violated normalization rules?

A. The penalties associated with a normalization violation can be very punitive. The Company could lose the ability to take accelerated depreciation. Furthermore, the TCJA calls for an additional penalty that is assessed for the amount by which the excess tax reserve was reduced more rapidly than was allowed using a normalized method of accounting. These penalties would be severely detrimental to both the Company and the Company's customers and would significantly increase the cost of service.

Q. How does the Company propose to treat unprotected excess ADIT?

A. The Company proposes to amortize the unprotected EDIT using the same amortization rate and period as the ARAM amortization of the protected EDIT. A significant component of the unprotected EDIT total relates to the timing difference of certain capital expenditures that are considered repairs deductions for tax purposes and are capitalized as utility assets under GAAP. Because the Code treats these as a current period deduction, they effectively have a different life for tax purposes (i.e., deducted/expensed in the period incurred) than they do for GAAP purposes (i.e., depreciated over its estimated regulatory life) similar to the method/life differences that are protected. As a result, the Company believes the proper amortization period for the EDIT associated with the repairs deduction is the remaining lives of the related property, plant and equipment. These timing differences are tracked using the same accounting system that tracks the federal method/life differences and calculates the ARAM amortization amounts. When combined, the EDIT associated with the repairs deduction and the protected EDIT represents approximately 112% of the total EDIT balance as the aggregate total of these items exceeds the total net regulatory liability. Because of the similar nature of the timing differences and the significance of the aggregated protected EDIT balance and the repairs deduction timing difference to the total EDIT, the ARAM amortization period would be the least administratively burdensome amortization method for crediting the unprotected EDIT amount to customers.

Q. What amount of EDIT will be refunded to customers in 2019?

A. Exhibit JJH-1 shows the calculation of the estimated amortization amount using the ARAM methodology and the best information currently available. For 2019, the Company estimates approximately $3.4 million will be credited to customers if the Company's proposal is approved. The calculation in Exhibit JJH-1 utilizes the EDIT balance calculated by the Company and estimated ARAM amortization percentages derived from the Company's fixed asset accounting system that tracks the tax and financial reporting balances and depreciation for the Company and ONE Gas Corporate property plant and equipment. The estimated ARAM percentages assume that all assets that existed at December 31, 2017, will continue to be in service at the end of 2018. While the Company routinely replaces and retires assets in the normal course of its operations, it does not expect the retirement or replacement of assets to materially impact the 2018 ARAM amount to be refunded in 2019. The ARAM amortization percentages reflect an estimated ARAM percentage for the Company's assets. The Company continues to refine these percentages and will update the amortization schedule with an ARAM percentage when new information becomes available. Updates to the ARAM percentages will occur as we estimate our 2018 tax accrual and will not be finalized until we file our 2018 tax return in 2019.

Q. Is the Company providing a schedule of refunds to be made in future periods?

A. No. It is not possible to provide the estimated amortization amounts over the remaining regulatory lives of the protected EDIT using the ARAM methodology because it would require the Company to know when assets will be replaced or abandoned in the future. Any estimate of future amounts would have to assume that all assets that existed will be used for their full remaining regulatory lives, and that is not a reasonable assumption. The refund amounts in future periods could change as the Company's property, plant and equipment (as existed at December 31, 2017), is retired or replaced, which would impact the timing of the amount of ARAM amortization that is refunded in the future. As these assets are retired or replaced, the timing of the amortization of the EDIT will change each year; however, the total amount to be refunded (once the amount is finalized after ONE Gas files its 2017 tax return in late 2018), will not change over the life of the assets. The Company will provide the actual ARAM amounts in the annual Rate Schedule TCR filing.

Q. How does the Company intend to refund this liability back to customers.

A. As amounts are identified by the ARAM calculation for refund within a given year, the Company intends to identify those amounts and the associated customer bill credits consistent with the terms of proposed Rate Schedule TCR. The Company also intends that the amount of the EDIT credit be applied as an annual one-time bill credit as reflected in Rate Schedule TCR. The Company intends to return this excess deferred liability as a separate bill credit outside of base rates to ensure 100% of the EDIT is returned to customers.

Q. Why does the Company propose to refund the EDIT back to customers through a tariff rider?

A. The Company proposes to flow the EDIT back to customers through a separate rider instead of through base rates because it pertains to a period prior to when new rates become effective in 2019. The net accumulated balance is not an ongoing cost of service and is best treated as a separate bill credit. This approach helps ensure our customers will receive the benefit in a timely manner. In addition, under ARAM, the amount of the amortization will vary from year to year. Because base rates are typically set for a number of years, it would be difficult to determine the amount of EDIT flow back to include in base rates to prevent a normalization violation. Including the flow back in a separate rider provides the ability to flow back a different amount each year and not incur a normalization violation. Refunding the EDIT liability through a rider will also ensure that customers are credited the correct amount in full.

Q. What is the amount of the amortization to be flowed back through the TCR during the first year?

A. The current estimate of the first year's EDIT amortization is $3.4 million. As further refinements to the estimate become available, KGS will provide updated information. The amount of the first year's EDIT amortization cannot be finalized until ONE Gas' 2018 tax return is filed in late 2019, but a reasonable estimate will be available when ONE Gas' 2017 tax return is filed in late 2018. To avoid undue delay in flowing back the EDIT amortization to customers, the Company will calculate the first year's credit per customer in late 2018 based upon the estimated first year's EDIT amortization and will apply the credit to customer bills in 2019.

Q. How do you propose to allocate the bill credit to customers?

A. We propose to allocate the total amount of the bill credit among the customer classes utilizing the spread of the revenue requirement as approved in this rate case. The refund will consist of fixed and variable components based on the rated design approved in this rate case. A true-up provision is included.

Q. How will the EDIT refund be addressed after the first year?

A. In late 2019, after ONE Gas' 2018 tax return is filed, the Company will true up the first year's EDIT amortization to the final amount. The resulting true-up amount will be added to the second year's estimated EDIT amortization to calculate the second year's credit per customer, which will be applied to customer bills in 2020. The Company will continue making annual calculations and annual true-ups in the same fashion until the full amount of the EDIT is amortized and credited back to customers.

Q. Does this conclude your testimony.

A. Yes, it does.

VERIFICATION

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

Jeffrey J. Husen, being duly sworn upon his oath, deposes and states that he is Controller for ONE Gas, Inc.; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

Jeffrey J. Husen

Subscribed and sworn to before me this 26th day of June 2018.

JOANNE C. DAVIS
NOTARY
05009895
EXP. 10/25/21
PUBLIC
STATE OF OKLAHOMA

NOTARY PUBLIC

My appointment Expires:

October 25, 2021

Kansas Gas Service
Detail of Regulatory Liability
31-Dec-17

DEFERRED TAX CATEGORY	**REG LIAB/(ASSET) TOTAL**	**P**	**NP**
Plant - Book vs. Tax Depreciation	112,901,306	112,901,306	-
Repairs	16,543,223	-	16,543,223
Pension	28,607,278	-	28,607,278
Accrued Expenses & Other			
Bad Debts	(308,000)	-	(308,000)
CIAC	(3,200,790)	-	(3,200,790)
Employee Benefits	5,914	-	5,914
Leasehold Improvements	(400,890)	-	(400,890)
Legal Reserve	-	-	-
PGA	4,188,595	-	4,188,595
Rate Case Expense	7,402	-	7,402
Reg Assets	2,665,496	-	2,665,496
STI	257,085	-	257,085
Workers Comp	(206,683)	-	(206,683)
TOTAL	**161,059,936**	**112,901,306**	**48,158,630**
ODC NOL	(45,258,124)	**(45,258,124)**	-
Federal Benefit of State (FBOS)	(11,274,195)		(11,274,195)
TOTAL REG LIAB W/ FBOS	**104,527,616**	**67,643,182**	**36,884,434**
ADJUSTMENT for FAS87/106, NOL ADJ, and COGR (PGA)	(22,832,716)	7,667,445	(30,500,162)
	81,694,900	75,310,627	6,384,272

Kansas Gas Service
Detail of Regulatory Liability
31-Dec-17

KGS					
	Amortization Period		**Amortization**		
	Protected (ARAM)	**Unprotected (ARAM)**	**Protected**	**Unprotected**	**Regulatory Liability net refund**
Year 1	2.85%	2.85%	1,926,531	1,050,498	2,977,029

Corporate ADIT Adjustment					
	Amortization Period		**Amortization**		
	Protected (ARAM)	**Unprotected (ARAM)**	**Protected**	**Unprotected**	**Regulatory Liability net refund**
Year 1	14.08%	14.08%	564,208	(130,223)	433,986

TOTAL					
	Amortization Period		**Amortization**		
	Protected (ARAM)	**Unprotected (ARAM)**	**Protected**	**Unprotected**	**Regulatory Liability net refund**
Year 1			2,490,739	920,275	3,411,015

KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
Docket No. 18-KGSG-XXX-RTS

Adjustment WC 9 Corporate ADIT Adjustment

ONE Gas, Inc.
Deferred Tax Liabilities
As of 12/31/2017

Description (Timing Differences)	ASC 740 as of 12/31/2016	2017 Forecasted Additions to ASC 740	Adjustments	Forecasted Deferred Tax (DT) Balance at 12/31/2017	Allocation to KGS Ratio	Dollars Allocated to KGS	
Bad Debts	0	0		0			
Contingent Liabilities / Reserves	(8,216,764)	(1,188,833)		(9,405,597)	33.04%	$ (3,107,581.03)	
Active Employee Benefits	687,463	1,036,476		1,723,939	33.04%	$ 569,584.27	
Mark to Market	0	0		0			
Purchased Gas Adjustment	0	0		0			
Workers Compensation	0	0		0			
2012 FAS 109 Reclasses	0	0		0			
FAS 87 - Pensions & Related OCI	113,041,765	128,187,080		241,228,845			(1)
FAS 106 - OPEB & Related OCI	(27,461,721)	(1,706,404)		(29,168,125)			(1)
SERP & Related OCI	12,439,407	3,154,248		15,593,655			(1)
SERP - OCI	0	0		0			
Deferred Compensation	6,535,678	(1,323,892)		5,211,786			(2)
Deferred Compensation - COLI	(6,029,223)	0		(6,029,223)			(2)
Debt Expense	2,762,669	706,171		3,468,840	33.04%	$ 1,146,094.25	
Utiliplant - Depreciation	(42,066,803)	5,824,658		(36,242,145)	See Line Below		(3)
Bonus Depreciation	(60,661,569)	(6,075,661)		(59,307,345)			(3)
AIRCRAFT				(7,429,885)			(3)
Repairs	0	0		0			
Synthetic Leases	0	0		0			
CIAC	0	0		0			
Line Extension Deposits Received/Forfeited	0	0		0			
Franchise Cost	0	0		0			
Take or Pay	0	0		0			
Phantom Stock - BOD	4,221,608	1,089,077		5,310,685	33.04%	$ 1,754,634.36	
Restricted Stock	4,597,949	(50,227)		4,547,722	33.04%	$ 1,502,553.66	
Performance Stock	8,174,132	(89,293)		8,084,839	33.04%	$ 2,671,206.50	
Synthetic Leases	0	0		0			
Rate Case Expenses	0	0		0			(4)
Regulatory Assets - Current	0	0		0			
Stock Options	0	0		0			
FAS 112	312,983	(31,133)		281,850	33.04%	$ 93,122.37	
REG ASSET ROADMAP TECHNOLOGY	0	0		0			
DEF CR WRI PRE ALLIANCE	5,902,934	0		5,902,934			(5)
DEF CR HRA RESERVE	0	0		0			
Gain On Sale/Leaseback Austin	0	0		0			
Amortization - Restacking	0	0		0			
Deferred Investment Credit	0	0		0			
Flow-Through	0	0		0			
Non-Deductible Goodwill: WRI	0	0		0			
OCI -Other Comprehensive Income - Terminated Swaps	0	0		0			
OCI	0	0		0			
Other State NOL	0	0		0			

KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
Docket No. 18-KGSG-XXX-RTS

Adjustment WC 9 Corporate ADIT Adjustment

ONE Gas, Inc.
Deferred Tax Liabilities
As of 12/31/2017

Description (Timing Differences)	ASC 740 as of 12/31/2016	2017 Forecasted Additions to ASC 740	Adjustments	Forecasted Deferred Tax (DT) Balance at 12/31/2017	Allocation to KGS Ratio	Dollars Allocated to KGS		
Incentives	7,494,145	0		7,494,145	33.04%	$ 2,476,043.07		
Federal NOL	58,340,462	8,483,423	28,524,688	95,348,573				(7)
Charitable Contributions Carryfoward	1,543,652	0		1,543,652				(7)
OK STATE NOL								
Total NonCurrent Deferred Tax Liability Timing Differences	**81,618,767**	**138,015,689**	**28,524,688**	**248,159,145**		**$ 7,105,657.44**	**$ 7,105,657.44**	
Add Back Federal NOLs	(59,884,114)	(8,483,423)	(28,524,688)	(96,892,225)		26.53%	39.55%	(8)
Add Back: State NOLs						1,885,130.92	2,810,287.52	Net Adjustment
Cumulative Difference (net of Add Backs)	21,734,653	129,532,266	0	151,266,919		(8,167,609.68)	(12,175,987.59)	(3)
Times Tax Rate	**38.50%**	**25.01%**		**25.01%**		$ (6,282,478.76)	$ (9,365,700.07)	
Deferred Tax Asset/(Liability) Before NOLs and Credits	**8,367,841**	**32,396,020**		**37,831,857**				
							$ (3,083,221.31)	Reg Liability

Notes

(1) DEFERRED TAXES ASSOCIATED WITH PENSIONS AND OPEBs at Corporate level. Represent funding in excess of book expense; thus, since he balance of excess funding is not receiving rate base recognition, neither should the liability be recognized for ratemaking purposes.

(2) Corporate items for pensions, etc.

(3) Source: Kristi Bolles calculation of ADIT on Corporate assets (Company 101).

(4) Associated with Corporate SERP Regulatory Asset.

(5) Related to environmental expenses from the ONEOK acquisition of Western Resources gas proper ies in Kansas. Expense not reflected in rates.

(6) Associated with an ONG prepaid pension.

(7) NOLs. Handled seperately.

(8) Kansas composite tax rate.