

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

In the Matter of the Application of Atmos)
Energy Corporation for Approval of the) Docket No. 25-ATMG-133-TAR
Commission for Gas System Reliability)
Surcharge per K.S.A. 66-2201 through 66-)
2204.)

**NOTICE OF FILING OF STAFF'S REVISED
REPORT AND RECOMMENDATION**

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (“Staff” and “Commission,” respectively), and files the instant Revised Report and Recommendation regarding Atmos Energy Corporation’s (“Atmos”) request for an update to its Gas System Reliability Surcharge (“GSRS”) rider to reflect several revisions, specifically:

1. Staff’s calculation of the incremental revenue requirement increase has been corrected from \$2,659,917 to \$1,998,440;
2. Staff revised language on page three to correct an error in recitation of the GSRS Act; and
3. Staff revised its calculation of the amount of Government Mandated Relocation Projects that should be eligible for recovery, from \$1,998,159 to \$2,034,037.

Staff has included both redlined and clean versions of its Revised Report and Recommendation for review.

WHEREFORE, Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and reasonable.

Respectfully submitted,
/s/ Carly R. Masenthin
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**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Andrew J. French, Chairperson
Dwight D. Keen, Commissioner
Annie Kuether, Commissioner

FROM: Ashlyn Hefley, Utilities Engineer
Kristina Luke Fry, Managing Auditor
Paul Owings, Chief Engineer
Chad Unrein, Chief of Accounting and Financial Analysis
Justin Grady, Deputy Director of Utilities
Jeff McClanahan, Director of Utilities

DATE: ~~October 18~~ November 21, 2024

SUBJECT: Docket No. 25-ATMG-133-TAR – In the Matter of the Application of Atmos Energy Corporation for Approval of the Commission for Gas System Reliability Surcharge per K.S.A. 66-2201 through 66-2204.

EXECUTIVE SUMMARY

On August 19, 2024, Atmos Energy Corporation (“Atmos”) filed an Application for approval of its updated Gas System Reliability Surcharge (“GSRS”) rider to recover, which was based on a proposed revenue requirement increase of \$2,659,917 associated with \$22,775,939 of additional capital costs for eligible infrastructure system investments.¹ Staff reviewed all testimony, exhibits, and discovery responses from Atmos in this Docket and discovered a non-material accounting error, which will be further discussed below, in its audit related to project coding. Notwithstanding this error, Staff found the proposed infrastructure system investments to meet both the eligibility and financial criteria as contained in the Gas Safety and Reliability Policy Act.² Given that Staff found the replacements met the statutory criteria, and the error discovered was immaterial, Staff recommends the Commission approve the Atmos’ Application for an incremental increase of

¹ Throughout this Report, “infrastructure system investments” may be used interchangeably with “projects.”

² K.S.A. 66-2201, *et seq.*

GSRs revenue requirement ~~of \$1,998,440 as filed.~~³ If approved, the GSRs rate will increase residential customer bills by \$0.80 per month, from the current rate of \$0.80 to \$1.60, per month.

BACKGROUND:

On August 19, 2024, Atmos filed its request for an updated tariff schedule reflecting revised surcharge rates for its GSRs Rider. The GSRs Rider was designed for the yearly adjustment of Atmos' rates and charges for recovery of capital costs related to eligible infrastructure system investments. In this filing, Atmos requested ~~an increase to its GSRs revenue requirement of \$2,659,917, associated with the recovery of \$22,775,939~~ of eligible infrastructure system investments of \$22,775,939, resulting in a net GSRs revenue requirement increase of \$1,998,440.

K.S.A. 66-2204 requires Staff to examine information from the utility and confirm that the underlying costs are in accordance with the statutory provisions of the Gas Safety and Reliability Policy Act. Staff is required to file a Report and Recommendation in this Docket by October 18, 2024. The Commission is required to issue a Final Order on the Application within 120 days of the filing date which, in this Docket, is by December 17, 2024.

History

The Gas Safety and Reliability Policy Act was enacted by the Kansas Legislature in July 2006 and revised in 2018. The statutory provisions allow natural gas public utilities to recover costs for infrastructure system investments through a monthly customer surcharge as long as the infrastructure investments:

- 1) Do not increase revenue by directly connecting the infrastructure system to new customers.
- 2) Are in service and used and required to be used; and
- 3) Were not included in the natural gas public utility's rate base in its most recent general rate case.⁴

In order to be eligible for recovery, the infrastructure investments must also meet at least one of the following five criteria:

- 1) Pipeline system components installed to replace, upgrade or modernize obsolete⁵ facilities;

³ See the Direct Testimony of Kathleen Ocanas, Exhibit 1 for Atmos' calculation of the net increase in GSRs revenues of \$1,998,440, which includes: (1) \$2,659,917 of revenues related to eligible GSRs Project investment of \$22.8 million; (2) \$1,794,731 of revenues related to \$16.2 million of eligible project investment in the 24-132 Docket; (3) a true-up adjustment for under-recoveries of \$5,815; Less: (4) Commission-authorized recoveries of \$1,752,432 in the 24-132 Docket; and (5) the Statutory Limit Adjustment of \$709,592.

⁴ K.S.A. 66-2202(d)(1-3).

⁵ "Obsolete facility" is defined as a facility: (1) Comprised of materials that are no longer produced or supported by the manufacturer; (2) that shows signs of physical deterioration; or (3) does not meet current safety codes or industry standards. K.S.A. 66-2202(h).

- 2) Projects extending the useful life or enhancing the integrity of pipeline system components, for example, projects undertaken to comply with state or federal safety requirements;
- 3) Facility relocations required due to public works projects;
- 4) System security costs including allocated corporate costs incurred by a natural gas public utility; and
- 5) Investments made in accordance with the utility's safety and risk management programs.⁶

In addition to each project meeting the eligibility criteria above, the Act requires the infrastructure investments meet the following financial criteria in order to be recovered:

1. The annualized GSRS revenues requested are not below the lesser of \$1,000,000 or 0.5% of the natural gas public utility's base revenue level approved by the Commission in the natural gas public utility's most recent general rate proceeding;⁷
2. The total annualized GSRS revenues do not exceed 20% of the utility's base revenue level approved by the Commission in the natural gas public utility's most recent general rate proceeding; and
3. The utility has had a general rate proceeding decided or dismissed by issuance of a Commission Order within the past 60 months.⁸

In its review of the Application, Staff investigates the infrastructure investments included in the Application to determine if they meet the eligibility and financial criteria contained in the Act. Staff also evaluates the proposed surcharge to ensure it has been derived solely from infrastructure investments that meet the eligibility criteria. To make the determination of recommending a given project for inclusion in the GSRS, Staff reviews the projects descriptions to ensure the replaced facilities do not support increased revenues by connecting to new customers, are in service and used and required to be used, and were not included in Atmos's rate base in its most recent general rate case. Projects satisfying the conditions are then considered an infrastructure investment eligible for the recovery of costs.

If each of the infrastructure investments included in the GSRS Application satisfy at least one of the five project criteria and all of the financial criteria, the Commission is required to approve the Application.

ANALYSIS:

Pipeline Safety

Atmos requested \$22,775,939 of capital expenditures be included in the proposed surcharge for recovery. The capital expenditures were associated with the completion of 24 identifiable safety related projects, 15 projects associated with road relocation or public improvements, and 20 functional or bundled projects. To support the recovery of the infrastructure investments, Atmos

⁶ K.S.A. 66-2202(f).

⁷ K.S.A. 66-2203(a).

⁸ K.S.A. 66-2203(b).

provided Exhibit 5, attached to the Direct Testimony of witness Kathleen R. Ocanas. Exhibit 5 details the specific projects and performs the calculation of depreciation, accumulated reserve and accumulated deferred income taxes.⁹ Staff reviewed Exhibit 5, as well as Atmos' responses to Staff discovery requests, and have determined that broadly, the infrastructure investments requested for GSRS recovery can be categorized in two groups: investments defined as safety related system improvements; and investments related to government mandated relocation projects that have not been fully reimbursed to Atmos.

Safety Related System Improvements:

Exhibit 5 supports safety related system improvements, providing line-item descriptions for 24 safety related projects. The majority of the projects with descriptions provided are related to the replacement of bare steel piping or the replacement of equipment that is obsolete. Based on Staff's review of Atmos' Application and discovery requests, each project fits into one of the criteria of K.S.A. 66-2204. Staff recommends all 24 safety related projects totaling \$6,060,256 be considered eligible for capital cost recovery through the GSRS.

Exhibit 5 also identifies 20 projects as functional or bundled system replacement projects. Past GSRS filings have identified a blanket project as a group of work orders of similar projects that are of relatively small dollar amounts that are bundled together to form one line item in the GSRS filing. Based on the descriptions of the functional projects included in Exhibit 5, the bundled projects fit into one of the criteria of K.S.A. 66-2204. Staff recommends the Commission find that the functional projects are eligible for recovery under GSRS. The capital cost amount associated with the functional category that Staff considers eligible for recovery is \$14,681,645.

Government Mandated Relocation Projects:

There are 15 government mandated relocation projects listed in Exhibit 5 for which costs have not been fully reimbursed to Atmos. After review, Staff concludes each project is a facility relocation required due to public works. Staff recommends the Commission find that the 15 relocation projects meet the criteria for recovery of capital costs through the GSRS. The capital cost amount associated with the relocation category that Staff considers eligible for recovery is ~~\$1,998,159~~ 2,034,037.

Staff recommends the Commission find the total cost of \$22,775,939 for all 59 projects to be eligible for capital cost recovery through the GSRS.

Accounting

Staff recommends approval of Atmos' requested increase of \$1,998,440 of \$2,659,917 in incremental GSRS revenue to be collected by Atmos via the monthly GSRS surcharge, as supported by Exhibit 1 of the Application. During Staff's review of the Application, Staff discovered that one of the projects listed in Exhibit 5 had the incorrect Department code for the project. Staff brought this to Atmos' attention, and after review, Atmos discovered two additional projects with the incorrect department codes. These projects are:

⁹ See Direct Testimony of Kathleen R. Ocanas, p. 2 (Aug. 19, 2024) (Ocanas Direct).

- 1) Project 060.53194, originally coded to Herington but should be Yates Center;
- 2) Project 060.53294, originally coded to Independence but should be Johnson;
- 3) Project 060.53508, originally coded to Yates Center but should be Independence.

Atmos has corrected the department codes for these projects, and these corrections have no financial impact on the filing. Staff has found no material issues with Atmos' calculations.

RECOMMENDATION:

Staff recommends that the Commission approve Atmos' Application for an incremental increase of GSRS revenue requirement of ~~-\$1,998,440~~^{\$2,659,917}, to be collected via the per-customer surcharge amount found on Exhibit 2 of the Application, which lists the surcharges for each customer class, including a \$0.80 per month surcharge for the Residential class. Staff will ensure that any over or under collection of Commission approved GSRS revenues will be reflected in a future GSRS filing or a future true-up filing.

REPORT AND RECOMMENDATION UTILITIES DIVISION

TO: Andrew J. French, Chairperson
Dwight D. Keen, Commissioner
Annie Kuether, Commissioner

FROM: Ashlyn Hefley, Utilities Engineer
Kristina Luke Fry, Managing Auditor
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² K.S.A. 66-2201, *et seq.*

³ See the Direct Testimony of Kathleen Ocanas, Exhibit 1 for Atmos’ calculation of the net increase in GSRS revenues of \$1,998,440, which includes: (1) \$2,659,917 of revenues related to eligible GSRS Project investment of \$22.8

BACKGROUND:

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CERTIFICATE OF SERVICE

25-ATMG-133-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Revised R&R was served via electronic service this 21st day of November, 2024, to the following:

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