

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

**IN THE MATTER OF THE APPLICATION)
OF ATMOS ENERGY CORPORATION)
FOR REVIEW AND ADJUSTMENT OF ITS)
NATURAL GAS RATES)** **Docket No.
23-ATMG- 359 -RTS**

DIRECT TESTIMONY OF KATHLEEN R. OCANAS

SEPTEMBER 9, 2022

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EXHIBITS:

Exhibit KRO-1 – Professional Biography and Employment History

Exhibit KRO-2 – Kansas System Map

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I. INTRODUCTION AND PURPOSE OF FILING

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS AND DESCRIBE YOUR ROLE AT ATMOS ENERGY CORPORATION.

A. My name is Kathleen R. Ocanas, and my business address is 25090 W. 110th Terrace, Olathe, Kansas 66061. I am the Vice President of Rates & Regulatory Affairs for the Colorado/Kansas Division of Atmos Energy Corporation¹ (“Atmos Energy” or the “Company”).

Q. PLEASE BRIEFLY DESCRIBE ATMOS ENERGY'S KANSAS GAS OPERATIONS.

A. In Kansas, Atmos Energy serves approximately 139,000 customers in 110 communities located in 32 counties. The communities are spread throughout the state. In the Kansas City metropolitan area, the Company serves Olathe, Bonner Springs, DeSoto and portions of Kansas City, Overland Park, Shawnee, Lenexa and Lawrence. In Southeast Kansas, the Company serves Independence, Coffeyville and Yates Center. In Central Kansas, the Company serves Council Grove and Herington. In South Central and Northwest Kansas, the Company serves Anthony and South Haven, near Wichita, and Ness City. In Southwest Kansas, the Company serves Ulysses and Johnson City. Attached as Exhibit KRO-2 is a map of our

¹ Atmos Energy is the largest fully regulated pure natural gas distribution company in the United States. The Company delivers natural gas to approximately 3.2 million residential, commercial, industrial and public-authority customers in eight states. Atmos Energy has six unincorporated gas utility operating divisions headquartered in Lubbock, Texas (West Texas division); Dallas, Texas (Mid-Tex division); Denver, Colorado (Colorado/Kansas division); Baton Rouge, Louisiana (Louisiana division); Jackson, Mississippi (Mississippi division); and Franklin, Tennessee and Owensboro, Kentucky (Kentucky/Mid-States division). In addition, Atmos Energy has an operating division, Atmos Pipeline - Texas, headquartered in Dallas, Texas which consists of a regulated intrastate pipeline that operates only within Texas.

1 Kansas service territory.

2 Atmos Energy's active Kansas customer base consists of approximately
3 128,000 residential customers, 9,900 commercial and public authority customers,
4 15 industrial customers, 270 irrigation customers and 465 transportation customers.
5 The Company's utility plant includes 4,136 miles of transmission and distribution
6 mains and 157,212 service lines.

7 **Q. WHAT IS THE PURPOSE OF THIS FILING?**

8 A. The purpose of this filing is to request the regulatory treatment that will support the
9 needed pace of increased systematic risk-based safety-related investment in Atmos
10 Energy's system. This regulatory treatment must include two primary features --
11 (1) a mechanism for timely recovery of Atmos Energy's risk-ranked safety-related
12 capital investments and (2) a rate of return that allows the Company to attract the
13 capital necessary to make these investments.

14 To this end, the filing has two main requests. First, as discussed further in
15 the direct testimony of John Willis, Atmos Energy is requesting certain changes
16 based on experience to date in its System Integrity Program ("SIP") and anticipated
17 safety investment needs. Specifically, Atmos Energy is seeking in this filing a
18 change to the budget for the remaining five-year period² and a five-year extension
19 of its pilot SIP mechanism. Second, this application requests an adequate return on
20 equity that will also provide financial support in conjunction with reduced lag to
21 allow the Company to finance the essential improvements to safety and reliability

² As approved in Docket19-ATMG-525-RTS, the Commission authorized a five-year time period from 2021 – 2025.

1 related infrastructure.

2 The filing also seeks a general increase in revenues to reflect the Company's
3 actual cost of service to serve its Kansas customers, which is primarily driven by
4 safety-related infrastructure investments placed in service and additional safety-
5 related operation and maintenance ("O&M") related expenses since our last general
6 rate case.

7 As outlined in the direct testimony of Gary Smith, the filing also requests
8 certain changes to our tariffs to clarify and modernize the language and offerings.
9 These changes include modernization of the Kansas Rules and Regulations section
10 and the addition of a Carbon Offset tariff. Mr. Rob Leivo addresses in his testimony
11 changes to the Transportation tariff as a result of Storm Uri and Mr. John Willis
12 addresses changes to the SIP tariff.

13 **Q. PLEASE PROVIDE A BRIEF BACKGROUND OF THE HISTORY OF**
14 **NATURAL GAS SYSTEM INTEGRITY INVESTMENT POLICY IN THE**
15 **STATE OF KANSAS.**

16 A. The Kansas Corporation Commission (the "Commission") and the Kansas
17 Legislature have taken very seriously the Call to Action issued by United States
18 Secretary of Transportation Ray LaHood on March 28, 2011, seeking to engage
19 state regulators, technical experts, and pipeline operators in identifying pipeline
20 risks and repairing, rehabilitating and replacing the highest risk infrastructure. The
21 Commission, in conjunction with the utilities and other stakeholders such as the
22 Citizens' Utility Ratepayer Board ("CURB"), has been examining and considering
23 the necessity of increased safety-related infrastructure investment for many years

1 now and has concluded in its orders that such investment on an accelerated time
2 line is necessary for the safety of Kansas customers. In fact, the Commission's
3 Order in Docket No. 15-GIMG-343-GIG (the "343 Docket") expressed a desire to
4 have certain types of high-risk infrastructure replaced within a ten-year time-
5 frame.³ In conjunction with that docket, Staff, CURB, and Atmos Energy agreed
6 that a system integrity program that provided adequate regulatory treatment to
7 accelerate safety-related investments was in the public interest. In Atmos Energy's
8 previous rate case, the Commission approved the current SIP mechanism as a
9 solution to achieve the mutual goal of accelerating the pace of safety-related
10 investment in Atmos Energy's system. We're seeking an extension of that
11 mechanism with a \$75 million cap over five years. As outlined in Mr. Wills'
12 testimony, the Company has made great progress under the SIP program. After
13 completing our replacement plans in Year 1, we received positive comments from
14 the Commissioners emphasizing public safety and the importance of this program
15 and the need to keep our critical infrastructure safe. The Company is currently
16 working through replacement plans for Year 2 of the pilot and our plan for Year 3
17 replacement was filed on August 1, 2022 and is currently pending before the
18 Commission.

19 **Q. PLEASE GENERALLY DESCRIBE THE IMPACT OF THE OUTCOME OF**
20 **THIS FILING ON THE SAFETY OF ATMOS ENERGY'S CUSTOMERS IN**
21 **KANSAS.**

22 **A.** The outcome of this filing has far-reaching implications as Atmos Energy continues

³ Final Order dated Sept. 12, 2017, Docket No. 15-GIMG-343-GIG, at ¶¶ 91, 98.

1 its vision to provide safe, reliable service to its customers in Kansas. A risk-based
2 systematic approach to safety investments with a long-term view is necessary to
3 ensure that our distribution system remains safe for decades to come. The current
4 condition of the natural gas distribution system throughout the nation is a result of
5 several decades of operational and policy decisions regarding the appropriate
6 method for addressing near-term and long-term risk. The Commission's decision
7 in this docket will influence operational and policy approaches to risk management
8 that will impact natural gas safety in Kansas for decades. Though they may seem
9 to be short-term decisions, they ultimately have a generational effect.

10 **II. OVERVIEW OF ATMOS ENERGY'S APPLICATION FOR ADJUSTMENT**
11 **OF NATURAL GAS RATES**

12 **Q. WHAT IS THE LEVEL OF THE COMPANY'S PROPOSED REVENUE**
13 **INCREASE?**

14 A. Atmos Energy is requesting an overall revenue increase of approximately \$8.3.
15 The increase excludes moving or rebasing the \$3.5 million currently collected
16 through the Company's Gas System Reliability Surcharge Rider ("GSRs") into
17 base rates and setting to zero, as well as \$0.6 million of the Company's Ad Valorem
18 Tax Surcharge being adjusted into Ad Valorem Expense and collected in base rates
19 going forward rather than through the Ad Valorem surcharge.

20 **Q. HAS THE COMPANY EXAMINED THE IMPACT OF THE PROPOSED**
21 **RATE INCREASE ON CUSTOMER BILLS?**

22 A. Yes. The estimated impact of the revenue requirement increase on the average
23 monthly bill of a residential customer is \$5.60. If the Company's extension of the

1 SIP mechanism is approved, the resulting safety-related infrastructure investment
2 will also have a modest, gradual annual impact to customer rates.

3 **Q. WHAT ARE THE PRINCIPAL FACTORS REQUIRING ATMOS ENERGY**
4 **TO FILE THIS RATE APPLICATION AT THIS TIME?**

5 A. The rates currently in effect in Kansas do not allow us to earn our authorized return
6 on equity or recover our cost of providing service to our Kansas customers. The
7 main driver of the rate action is the Company's capital investment since its previous
8 case, primarily for system safety, which represents \$3.5 million of the revenue
9 deficiency. Other principal factors driving the deficiency include the critical need
10 for the Company to improve its allowed return on its invested capital to access the
11 capital markets on reasonable terms and facilitate continuing direct capital
12 investment in the Kansas pipeline system, the need to update depreciation rates,
13 and the increase in O&M expense to the Company.

14 The proposed net increase is needed to allow Atmos Energy to recover its cost of
15 providing service to Kansas customers and to sustain its current pipe replacement
16 activities within the State.

17 **Q. YOU MENTIONED THAT ATMOS ENERGY HAS A NEED TO MODIFY**
18 **THE PARAMETERS OF THE SIP PROGRAM. ARE THERE**
19 **CHARACTERISTICS SPECIFIC TO ATMOS ENERGY THAT DRIVE**
20 **THAT NEED WHEN COMPARED TO OTHER KANSAS UTILITIES?**

21 A. Yes. The characteristics of each utility's system are unique. The quantity and
22 location of relatively higher risk assets in Atmos Energy's distribution system is
23 different from the larger natural gas utility in Kansas. For example, Atmos Energy's

1 service territory includes both a significant number of rural areas with low customer
2 densities, as well as a significant amount of higher-density areas. Atmos Energy
3 carefully monitors its system, devotes additional resources as necessary, and
4 accelerates work when appropriate. This includes a comprehensive risk-based
5 approach that specifies how Atmos identifies, assesses, prioritizes, and evaluates
6 relative risks to the integrity of distribution lines and the manner in which those
7 risks should be mitigated or eliminated. To maximize the benefits of this approach,
8 the Company needs the flexibility to take into account a variety of risk factors,
9 rather than making decisions focused primarily on the type of materials and age of
10 the asset. This approach is intended to proactively protect our customers and the
11 public in general and permits Atmos Energy to monitor and inspect its system and
12 renew pipe when needed, rather than doing so reactively.

13 **Q. WHEN WAS THE COMPANY'S MOST RECENT GENERAL RATE**
14 **PROCEEDING IN KANSAS?**

15 A. The Company's most recent rate proceeding, in Docket No. 19-ATMG-525-RTS
16 ("525 Docket"), was filed on June 28, 2019 and was based upon a 12-month test
17 year ending March 31, 2019. The current rates went into effect April 1, 2020.

18 **Q. WHY HAS ATMOS ENERGY WAITED THREE YEARS AFTER THOSE**
19 **RATES WENT INTO EFFECT TO FILE ITS NEXT RATE CASE?**

20 A. The Final Order in the 525 Docket, the Commission approved the parameters of a
21 SIP mechanism conditioned upon Atmos Energy's agreement to a three-year rate
22 moratorium.

1 **Q. IS ATMOS ENERGY CURRENTLY EARNING A REASONABLE RETURN**
2 **ON ITS KANSAS OPERATIONS?**

3 A. No. Atmos Energy is not earning a reasonable return under current rates. Atmos
4 Energy's actual return on investment based upon the information contained in this
5 rate application is 6.01%. Atmos Energy is requesting Commission approval to
6 increase rates to allow it a reasonable opportunity to earn an overall return on its
7 Kansas operations of 8.18%.

8 **Q. HOW DOES THE 8.18% COMPARE TO WHAT THE COMMISSION**
9 **AUTHORIZED IN FEBRUARY OF 2020?**

10 A. The rate of return specified in the 525 Docket was 7.03%. Thus, even with two
11 GSRS increases the Company has been unable to achieve a reasonable return on its
12 investment as compared to Commission's last approval.

13 **Q. BASED ON THE FOREGOING, HOW IS THE COMPANY PROPOSING**
14 **TO INCORPORATE THE REQUESTED INCREASE INTO CUSTOMER**
15 **RATES?**

16 A. In order to collect the proposed revenue increase, Atmos Energy proposes to
17 increase the Residential monthly Customer Charge by \$5.51 and the Residential
18 Consumption Charge by \$0.00134. Atmos Energy is not proposing an increase the
19 Commercial monthly Customer Charge or the Commercial Consumption Charge.

1 **III. TARIFF CHANGES**

2 **Q. WHAT TARIFF CHANGES IS THE COMPANY SEEKING IN THIS**
3 **PROCEEDING? WHAT CHANGES DOES ATMOS ENERGY PROPOSE**
4 **FOR ITS SCHEDULE OF SERVICE FEES (SCHEDULE - II)?**

5 A. In addition to the changes supported by Mr. Smith, Mr. Leivo and Mr. Willis, I am
6 supporting the removal of fees on Schedule-II. The Company proposes to eliminate
7 those charges, as shown in the redlined Tariff Sheets included in Section 18 of the
8 Company's filing. Specifically, the Company seeks to eliminate all charges for
9 rendering the services set forth in the schedule.

10 **Q. WHY DOES THE COMPANY SEEK TO ELIMINATE THESE CHARGES**
11 **AND RECOVER THE COSTS RELATING TO THE SCHEDULED**
12 **SERVICES THROUGH BASE RATES?**

13 A. The Company does not believe that these charges vary greatly from year to year
14 and it would be administratively easier to simply recover them through base rates.
15 Additionally, we believe it would promote equity and assist disproportionately
16 impacted communities by spreading these costs over all customers.

17 **IV. WITNESSES**

18 **Q. WHO ELSE WILL BE PRESENTING DIRECT TESTIMONY IN THIS**
19 **CASE?**

20 A. In addition to my testimony, Atmos Energy will present the direct testimony and
21 exhibits of seven other witnesses.

22 * Mr. John Willis, Vice President of Technical Services for the
23 Colorado/Kansas Division, provides testimony addressing our Kansas distribution

1 system and what steps need to be taken to effectively remove and replace obsolete
2 piping within a reasonable period of time, consistent with industry standards
3 reflected in federal and state regulation and the Company's Distribution Integrity
4 Management Plan. He also explains how the SIP mechanism will accomplish these
5 goals and align with the Commission's policy goals outlined in the 343 Docket and
6 he supports Atmos Energy's request to increase the budget under the current SIP
7 tariff and to extend the SIP tariff for an additional five-year term with a budget of
8 \$75 million over that 5-year period.

9 * Mr. Gary Smith, Director of Rates and Regulatory Affairs (Shared
10 Services), sponsors testimony related to Billing Determinants and tariff changes,
11 including the Company's proposed voluntary SmartChoice Carbon Offset program
12 ("SCCO") rider.

13 * MR. William Matthews, Manager of Rates & Regulatory Affairs (Shared
14 Services), sponsors testimony regarding Revenue Requirement, Cost of Service
15 Model, Rate Base and Rate Base Adjustments, Operations and Maintenance
16 ("O&M") Adjustments, and Depreciation Expense.

17 * Ms. Michelle Faulk, Director, Accounting Services & Financial Reporting
18 (Shared Services), sponsors the Company's Books and Records and Cost Allocation
19 Manual ("CAM").

20 * Mr. Matthew Howard, who is with the firm ScottMadden, Inc., sponsors the
21 Company's Return on Equity and Capital Structure.

22 * Mr. Paul Raab, an independent economic consultant, provides testimony
23 regarding Rate Design and Class Cost of Service.

1 * Mr. Dane Watson, who is the managing partner for Alliance Consulting
2 Group, provides testimony regarding the Company’s proposed new depreciation
3 rates for the Company’s allocated utility plant.

4 V. CONCLUSION

5 **Q. ARE THE COMPANY’S PROPOSED RATES AND SIP MECHANISM JUST**
6 **AND REASONABLE?**

7 A. Yes. The Company’s application, if adopted, will result in just and reasonable rates
8 that balance the interest of the Company and the customer.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes, it does.

VERIFICATION

STATE OF KANSAS)
)
COUNTY OF JOHNSON)

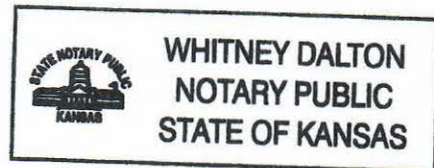
Kathleen R. Ocanas, being duly sworn upon her oath, deposes and states that she is Vice President Rates and Regulatory Affairs of Atmos Energy Corporation's Colorado-Kansas Division; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information and belief.

Kathleen Ocanas
Kathleen R. Ocanas

Subscribed and sworn before me this 30th day of August, 2022.

Whitney Dalton
Notary Public

My appointment expires: 11.25.2024



Kathleen R. Ocanas
Vice President Rates & Regulatory, Colorado-Kansas Division
Atmos Energy Corporation

CURRENT RESPONSIBILITIES AT ATMOS ENERGY CORPORATION

In my current role, I am responsible for leading and directing the rates and regulatory activity in the Atmos Energy's Colorado-Kansas Division. This responsibility includes executing and managing the rate strategy for both states.

PROFESSIONAL AND EDUCATIONAL BACKGROUND

I received my Bachelor of Science degree from Wayland Baptist University in 2008. I was hired by Atmos Energy's West Texas Division in 2008 within the Finance department and shortly thereafter was promoted to a Rate Analyst in the Rates and Regulatory Affairs department. In 2015, I received a Master of Business Administration degree, minoring in Accounting from the University of Texas A&M – Commerce and relocated to the Company's Mid-Tex Division as a Sr. Rates Analyst. In 2018, I was promoted to a Rates & Regulatory Project Manager. There, I coordinated, organized, and implemented various rate case activity, maintained relationships with key stakeholders, and supported the public affairs and governmental affairs teams. In July of 2021, I assumed my current role as the Colorado-Kansas Division Vice President of Rates and Regulatory Affairs.

PREVIOUS TESTIMONY BEFORE THE KANSAS CORPORATION COMMISSION

I testified in Docket No(s). 21-ATMG-333-GIG and 22-ATMG-538-TAR.

Atmos Service Territories - Kansas

