

19-KGSG-194-CON

TESTIMONY



CONTAINS REDACTIONS



DIRECT TESTIMONY
OF
JOE A. KENT
ON BEHALF OF KANSAS GAS SERVICE,
A DIVISION OF ONE GAS, INC.

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Position and Qualifications

Q. Please state your name and business address.

A. My name is Joe A. Kent, and my business address is: 5848 E. 15th Street, Tulsa, OK 74112.

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

A. I am the Director of Business Development for ONE Gas, Inc., ("ONE Gas").

Q. Please describe your educational background and professional experience.

A. I earned an Associates of Applied Studies degree from Allen County Community College and a Bachelor of Business Administration degree from Baker University. From April 2004 to February 2012, I worked for ONEOK Energy Marketing Company, a Division of ONEOK, Inc., in various positions with varying levels of responsibility providing customer support, determining pricing and negotiating contracts with customers in Wyoming, Nebraska, Colorado, Kansas, Oklahoma and Texas. From February 2012 to August 2016, I worked for Texas Gas Service Company ("TGS"), a Division of ONE Gas, Inc., in various positions with varying

1 levels of responsibility providing support for our Energy Efficiency programs,
2 providing customer support, determining pricing, and negotiating contracts for
3 transportation and federal customers. Positions held at TGS included: Customer
4 Development Specialist, Industrial Service Representative and Manager of Key
5 Accounts and Market Development. From August 2016 to September 2017, I
6 worked for Oklahoma Natural Gas Company, a Division of ONE Gas, Inc., as the
7 Manager of Key Accounts and Market Development. In October 2017, I was
8 promoted to my current position as the Director of Business Development for ONE
9 Gas.

10 **Q. Was this testimony prepared by you or under your direct supervision?**

11 A. Yes, it was.

12 **Q. Have you previously testified before the Commission?**

13 A. No. I have not had an opportunity to testify before this Commission.

14 **Q. Have you participated in the negotiation of utility privatization contracts prior**
15 **to becoming involved in the Fort Riley privatization process?**

16 A. No, this is the first Government privatization process I have worked on that has
17 resulted in a Contract. However, during my time with ONE Gas, (and previously
18 ONEOK) I have held various levels of responsibility related to the Company's
19 provision of natural gas distribution services on both the Fort Sill and Fort Bliss
20 military installations. Also, I gained additional experience during the process of

1 analyzing other potential opportunities for ONE Gas to engage in the utility
2 privatization process.

3 Throughout the Fort Riley Privatization bid process, ONE Gas engaged the
4 services and relied on advice and counsel of independent professionals having
5 substantial experience in government contracting.

6 **Q. What is the purpose of your testimony?**

7 A. The primary purpose of my testimony is to introduce the highlights of the Fort
8 Riley Utility Privatization Contract ("Contract") recently awarded to Kansas Gas
9 Service, a division of ONE Gas, Inc., ("KGS" or "Company") by the U.S. Defense
10 Logistics Agency Energy ("DLAE") on behalf of the Department of the Army and
11 Fort Riley, generally referred to as the "Government". Also, I provide a discussion
12 on the privatization and negotiation process as it relates to Fort Riley.

13 **Q. Please provide a high-level summary of the terms of the Contract.**

14 A. The Contract contemplates that KGS will assume ownership and operation of the
15 Fort Riley natural gas distribution system after completion of an 18-month
16 transition period. The transition period includes two phases. The initial phase,
17 which is expected to extend over an 8-month period from the date of execution
18 of the Contract, requires KGS to seek and obtain Kansas Corporation Commission
19 ("KCC" or "Commission") approval of the Contract. The second phase commences
20 on receipt of such approval and will cover a 10-month period. During this
21 transition phase, KGS will perform several pre-ownership transition projects
22 identified in sub-section B.2.4.1 of the Contract. Upon the completion of the

1 Transition Period, the Government will issue a Bill of Sale to transfer ownership of
2 the Fort Riley natural gas distribution system to KGS.

3 The Company thereafter will be responsible for the operation,
4 maintenance, repair and replacement of the privatized system for a 50-year term.

5 Although containing a number of unique service requirements, such as
6 those related to access and security, the Contract generally requires that KGS
7 “shall provide utility service(s) in accordance with industry-standard construction,
8 operations, maintenance, management, environmental, safety, and other
9 relevant standards, that apply to similarly situated utility services providers
10 serving customers whose service characteristics are comparable to the service
11 characteristics of (Fort Riley).” The comparable service is what KGS currently
12 provides to its retail customers which serve broader community, health, and
13 safety functions, including police stations, fire and rescue facilities, and hospitals.

14 The Contract provides that the [REDACTED] purchase price¹ for the system
15 will be paid to the Government over 600 months at an annual interest rate of [REDACTED]
16 [REDACTED] through a monthly credit of [REDACTED] to be applied through the monthly
17 Utility Service Charge (“USC”).
18
19

¹ The purchase price may change if, during the transition period, the actual system inventory is determined to materially differ from the inventory that was the basis for the system valuation.

1 KGS will receive payment for the services provided utilizing the follow
2 mechanisms:

3 (a) A USC, which is comprised of a Contract Rate Charge ("CRC") and the
4 above-mentioned bill credit; and

5 (b) [REDACTED]

6 It is important to note that under the terms of the Contract, Fort Riley is
7 the sole customer, meaning, Fort Riley will remain responsible for the customer
8 service aspects of the utility service provided to the Fort's residents and
9 commercial entities. KGS will become responsible for all other regular operation
10 duties and responsibilities to include the provision of emergency response
11 services.

12 **Q. Generally speaking, please provide an overview of the Government's utility**
13 **privatization process.**

14 A. The process generally starts by the Government issuing a competitive Request for
15 Proposal ("RFP") for candidate systems. The process was standardized by
16 developing a generic, "template" RFP.

17 Proposals are submitted in accordance with the RFP's Section L proposal
18 preparation instructions and evaluated in accordance with the technical, price and
19 other criteria set forth in the RFP's Section M evaluation factors. There is then an
20 extended negotiation process during which the Government provides written
21 questions and comments on qualifying submitted proposals, after which there
22 usually are one or more face-to-face meetings to address unresolved issues.

Bidders are then afforded an opportunity to submit a “Final Revised Proposal” (i.e., a best and final offer). The final proposals are evaluated to determine if they are cost effective and to select the proposal that offers the best value for the Government, consistent with the RFP’s evaluation factors.

The selected bidder is then notified of its selection as the best value offeror and a privatization Contract is executed.

Q. Please explain the process ONE Gas experienced in obtaining the natural gas privatization contract for Fort Riley.

A. In 2014, the Government issued an RFP seeking bids for privatization of Fort Riley water, wastewater, natural gas and electric systems. KGS submitted its proposal for the natural gas system and began the four-year confidential process of negotiating the privatization contract. This process included multiple submissions of documents and responses to negotiation messages and questions. Also, Company representatives attended several meetings on the military base hosted by representatives of the DLAE and the Fort.

Q. What is the relationship between the RFP and the awarded contract?

A. The RFP serves the dual general purposes of providing the basis for proposals and as the basis for the final version of the awarded Contract. That is, the awarded Contract contains all sections contained in the initial RFP, with the exception of Section L which contained the RFP’s preparation instructions and Section M which explained the RFP’s evaluation factors.

1 **Q. Did the RFP template also contain standard Government contract clauses?**

2 A. Yes. All Government service and other contracts are awarded in accordance with
3 the Federal Acquisition Regulations ("FAR"). The FAR includes a number of
4 standard clauses that are required to implement various federal laws and
5 regulations. Some are relatively inconsequential, such as FAR 52.204-4, *Printed or*
6 *Copied Double-Sided on Postconsumer Fiber Content Paper*, which encourages but
7 does not mandate the use of recycled paper. Others are more substantive, such
8 as FAR 52.3222-21, *Prohibition of Segregated Facilities*, and FAR 52.222-26, *Equal*
9 *Opportunity*. The Fort Riley RFP included almost 100 FAR clauses.

10 Throughout the negotiating process, the parties work to identify those
11 clauses which can or should be omitted from the template RFP or modified in
12 some manner for inclusion in an awarded contract. For example, the parties
13 agreed to supplement the requirements of FAR 52.233-1, *Disputes*, to
14 acknowledge the Commission's jurisdiction over the Company's rates and rate
15 schedules. Section I.2.1 of the Contract accordingly includes the following:

16 *The requirements of the FAR 52.233-1 disputes clause were supplemented*
17 *to provide that in regard to the interpretation of retail rates, rate*
18 *schedules and items directly related to rates and rate schedules provided*
19 *under this contract, the parties agree to accept as authoritative the*
20 *interpretation of any statewide public utility regulatory authority with*
21 *jurisdiction over the contractor. The Government shall not be bound to*
22 *accept as authoritative interpretations that conflict with Federal law or*
23 *regulation or that are found by any administrative or judicial forum to: 1)*
24 *result in discrimination against the Installation; 2) have resulted from*
25 *abuse of discretion; or 3) have directly or indirectly resulted from any*
26 *failure on the part of the regulatory authority or its members to comply*
27 *with applicable laws and regulations.*

1 **Q. Please summarize the structure of the Fort Riley privatization Contract.**

2 A. The Contract is organized into ten sections, labeled A through J. Section A is the
3 Contract award form which contains the signatures of the parties and the effective
4 date of the Contract. The FAR requires that all contract awards have a stated value
5 for their full term. The stated 50-year Contract value for Fort Riley is [REDACTED]
6 [REDACTED], which reflects the transition expenses and applicable negotiated utility
7 service rates the base anticipates incurring over the 50-year Contract term. The
8 total Contract value will continually change over the life of the contract as price
9 modifications are implemented (such as the annual recalculation of the CRC). The
10 remaining sections are described as follows:

11
12 Section B - Describes the schedule of supplies and services and the associated
13 prices. The Contract pricing structure is discussed in more detail
14 below.

15 Section C - Sets out the general specifications and statement of work to be
16 provided under the contract. As discussed, these are standard for
17 all natural gas RFPs and privatized systems.

18 Section D - Reserved for issues related to Packing and Marking. There are no
19 terms in this section and the section is blank.

20 Section E - Reserved for Inspection and Acceptance matters, which are not
21 applicable to regulated service contracts such as the Fort Riley
22 contract. This section is blank.

23 Section F - Describes the contract term and commencement of service
24 thereunder. The maximum 50-year contract term allowed under

1 10 U.S.C. § 2688 applies to ownership of the privatized system. It
2 thus begins after the 18-month transition period when KGS
3 acquires ownership of the system. The ownership transfer occurs
4 on the "Contract Start Date."

5 Section G - Contains various administrative provisions, such as those related to
6 invoicing and accounting procedures.

7 Section H - Sets out various special provisions such as insurance requirements
8 and liability provisions and the Government's right to repurchase
9 the system. This section also includes the specific provision
10 requiring KCC approval of the Contract.

11 Section I - Sets out the standard FAR contract clauses. This section formally
12 incorporates by reference, several FAR contract clauses the
13 Government deems required and relevant to privatization
14 contracts.

15 Section J - Contains a listing of attachments, exhibits and reference
16 documents to the Contract.

17 **Privatization Contract Pricing**

18 **Q. How was the purchase price determined?**

19 A. The fair market value-based price was determined using the Original Cost New
20 Less Depreciation (OCNLD) valuation methodology. KGS applied the Company's
21 current installed prices to the itemized system inventory included in RFP
22 Attachment JA2. This number was then adjusted to reflect the original cost new
23 based on Handy-Whitman cost index values, physical depreciation, the usefulness
24 of the items being purchased, current system over capacity and special work
25 needed to conform the system to KGS standards.

1 **Q. Is the purchase price fixed?**

2 A. Generally, yes. However, the Government or KGS may request a change to the
3 purchase price if the actual system inventory, to be determined during the
4 transition period, is materially different from the Attachment JA2 inventory that
5 was the basis for the system valuation.

6 **Q. Does the Contract contain provisions to allow for the termination of the**
7 **Contract?**

8 A. Yes. As with any FAR-based service contract, the Government reserves the right
9 to terminate the Contract for default (e.g., should the Company remain in material
10 default of its contractual responsibilities after notice and an opportunity to cure
11 any defect) or in the unlikely event the Company becomes insolvent. The
12 Government also may terminate the Contract at any time and for any reason, for
13 its “convenience.” For example, future heightened threat levels might require
14 stricter security procedures which would severely restrict a utility’s access to the
15 base. In the unlikely event of a termination for convenience, the Government
16 would pay KGS for its unrecovered investment cost. The Government also has
17 reserved the option in Section H.7 to repurchase the privatized system at the end
18 of the (50-year) service term or sooner if the service Contract is otherwise
19 terminated.

20 **Q. How will the purchase price be paid?**

21 A. As discussed in Ms. Buchanan’s testimony, the purchase price will be paid in the
22 form of a monthly credit on privatized service invoices over the 50-year term of

the contract. The applicable interest rate is indexed to the Government's long-term discount rate when the proposal was submitted, which is [REDACTED]. As permissible under federal law, the bill credit is used to enable Fort Riley to benefit from the asset sale by having its utility service bill reduced. Based on the [REDACTED]

[REDACTED]. The monthly purchase price credit will be included in the USC until the Purchase Price is fully recovered.

Q. Please identify the remaining Contract charges to be paid by Fort Riley.

A. Similarly, as discussed in Ms. Buchanan's testimony, the Contract establishes three discrete charges to be paid by Fort Riley: a CRC, [REDACTED] and a Transition Charge. The CRC and [REDACTED] are monthly charges to be paid throughout the 50-year term of the Contract. The Transition Charge is a one-time payment of [REDACTED], to be made at the end of the transition period.

Utility Service Charge

Q. How will KGS recover its costs of service incurred in providing utility service to Fort Riley?

A. As provided in Section B, sub-section B.2.2, KGS will issue monthly invoices to Fort Riley for the USC Charge which will be inclusive of the CRC and the purchase price credit. In addition to the USC Charge, monthly invoices will also include an [REDACTED]

[REDACTED].

1 **Q. What recourse does KGS have if the Government refuses to approve a properly**
2 **documented CRC or another price adjustment?**

3 A. In this scenario, KGS would pursue a claim under the standard FAR 52.233-1
4 disputes clause.

5
6 [REDACTED]

7 **Q. What is the purpose of the [REDACTED]?**

8 A. The purpose of the [REDACTED]
9 [REDACTED].

10 **Q. How was the initial [REDACTED] determined?**

11 A. [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]

16 [REDACTED] Please see the additional detail on this topic as provided in Janet
17 Buchanan's testimony.

18 **Q. How did KGS determine that [REDACTED]?**

19 A. The Company relied heavily on its engineering judgment and the Company's
20 experience in operating other military distribution systems (Fort Sill and Fort Bliss)
21 in establishing the [REDACTED]. Consideration includes the unique
22 operational and mission requirements associated with the military installation (i.e.

special security protocols and excavation practices) and the current condition of the Distribution System. This estimate is primarily based on Company experience and judgement.

Transition Period

Q. What is the purpose of the transition period?

A. As per Section C.13, the transition period provides KGS time to perform additional due diligence functions, complete the required actual joint inventory, and stand up operations in support of the Contract. There are seven Transition projects identified in Section B sub-section B.2.4.1. Generally speaking, the transition period grants the time to prepare the system for the transfer of ownership to KGS.

Q. How will KGS recover costs expended during the Transition Period?

A. As per Section B, sub-section B.2.4.1 Schedule 3, the parties have identified specific projects to be addressed during the Transition Period. The costs associated with the completion of these projects are to be recovered as a lump-sum payment to KGS in the amount of [REDACTED], payable at the end of the transition period. Mr. Postlethwait will discuss these projects in more detail in his testimony.

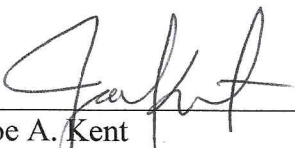
Q. Does this conclude your testimony?

A. Yes, it does at the current time.

VERIFICATION

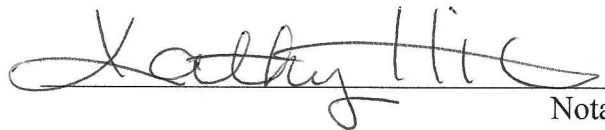
STATE OF OKLAHOMA)
)
COUNTY OF TULSA)

Joe A. Kent, being duly sworn upon his oath, deposes and states that he is the Director of Business Development for ONE Gas, Inc.; that he has read and is familiar with the foregoing Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.



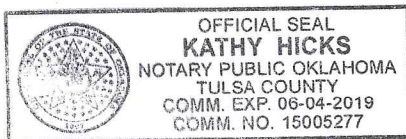
Joe A. Kent

SUBSCRIBED AND SWORN to before me this 12th day of November, 2018.



Notary Public

Commission/Appointment Expires:
6.4.2019



[REDACTED]

**DIRECT TESTIMONY
OF
JANET L. BUCHANAN
ON BEHALF OF KANSAS GAS SERVICE,
A DIVISION OF ONE GAS, INC.**

DIRECT TESTIMONY

OF

JANET L. BUCHANAN

ON BEHALF OF KANSAS GAS SERVICE,

A DIVISION OF ONE GAS, INC.

I. Position and Qualifications

Q. Please state your name and business address.

A. My name is Janet L. Buchanan, and my business address is 7421 W. 129th St., Overland Park, KS 66213.

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

A. I am Director of Rates and Regulatory Reporting for Kansas Gas Service ("KGS" or the "Company"), which is a division of ONE Gas, Inc., ("One Gas").

Q. Please describe your educational background and professional experience.

A. I earned a Bachelor of Arts degree and a Master of Arts degree in economics from the University of Kansas. From June 1993 through August 1998 and from May 1999 through August 2011, I worked for the Kansas Corporation Commission ("Commission") in various positions with varying levels of responsibility for examining rates for natural gas, electric, and telecommunications utilities, researching current policy issues within the industries and managing projects. Positions held include: Utility Rates Analyst, Senior Research Economist, Managing

1 Research Economist, Telecommunications Economist, Senior
2 Telecommunications Analyst, Senior Managing Research Analyst, Chief of
3 Telecommunications and Chief of Energy Efficiency and Telecommunications.
4 From September 1998 through April 1999, I worked as a Policy and Program
5 Analyst with the Kansas Department of Revenue. In September 2011, I joined
6 Texas Gas Service Company, a Division of ONE Gas, Inc., as a Manager of Rates and
7 Regulatory Analysis. I was promoted to my current position with KGS in October
8 2017.

9 **Q. Was this testimony prepared by you or under your direct supervision?**

10 A. Yes, it was.

11 **Q. Have you previously testified before the Commission?**

12 A. Yes. I have testified before the Commission on numerous occasions.

13 **Q. What is the purpose of your testimony?**

14 A. The primary purpose of my testimony is to introduce and explain the financial
15 aspects of the Fort Riley Privatization Contract ("Contract"). My testimony will
16 include a discussion of the method of payment for the agreed contract price for
17 the natural gas distribution system, and an explanation of the cost recovery
18 mechanisms to be used for recovering the cost of providing utility service to Fort
19 Riley. More specifically, I will explain the Contract terms related both to the
20 manner of payment of the purchase price and the calculation of costs of the

1 natural gas service to be provided to Fort Riley. Additionally, I provide a brief
2 discussion of the potential benefits the Contract may have upon KGS and its
3 customers. I will also introduce the other witnesses who provide support for
4 approval of the Contract.

5 **Q. Why has KGS filed this Application?**

6 A. KGS has filed this Application to request approval of the Contract between KGS
7 and the Defense Logistics Agency Energy ("DLAE") pursuant to K.S.A. 66-117,
8 K.S.A. 66-1,201, and K.S.A. 66-1,202. KGS is requesting approval of the Contract
9 and approval of the rate adjustment mechanisms contained within the Contract.

10 **Q. Please identify the witnesses submitting testimony in this filing on behalf of KGS.**

11 A. In addition to my testimony, the Company offers the testimony of Joe Kent and
12 Sean Postlethwait. Mr. Kent describes the negotiation process with Fort Riley and
13 the DLAE and explains various provisions of the Contract. Mr. Postlethwait
14 discusses the Fort Riley natural gas distribution system ("Distribution System"),
15 the anticipated capital expenditures that will be necessary to bring the
16 Distribution System to KGS's system standards and staffing plans to meet
17 contractual and safety standards.

18 **Q. When does KGS anticipate it will commence operations under the Contract?**

19 A. As detailed in the testimony of Mr. Kent, the transition process is expected to
20 extend over a period of about 18 months beginning with the execution of the

1 contract. Assuming that Commission approval of the Contract will be completed
2 by May 2019, and that an additional 10 months of transition effort will be
3 necessary for KGS to be prepared to commence operating the system, KGS
4 anticipates its operation of the system will begin in April 2020.

5 **Q. What is the purchase price for the natural gas facilities subject to the Contract?**

6 A. The negotiated price for the Distribution System is [REDACTED]
7 [REDACTED] payable over 600 months (50 years). Please see the testimony of Mr.
8 Kent for an explanation of the method used to reach the purchase price.

9 **Q. Please identify the Contract charges to be paid by Fort Riley.**

10 A. The Contract establishes three discrete charges to be paid by Fort Riley: a Contract
11 Rate Charge ("CRC"), an [REDACTED]
12 [REDACTED], and a Transition Charge. The CRC and [REDACTED] are monthly charges to be
13 paid throughout the 50-year term of the Contract. The Transition Charge is a one-
14 time payment made by Fort Riley at the end of the transition period.

15 **Q. Does the Contract specify the manner in which KGS is to pay the Contract price?**

16 A. Yes. Pursuant to the Contract, KGS will treat monthly purchase price payments as
17 a credit to the charges for utility service provided to Fort Riley. The monthly credit

1 is [REDACTED] [REDACTED]¹). This will be discussed further later
 2 in my testimony.

3 **Q. How is the CRC calculated?**

4 A. The CRC is based on the cost of service methodology typically employed by the
 5 Commission in setting utility rates. It provides for a Commission-approved return²
 6 on KGS's undepreciated investment in the Fort Riley distribution system (rate
 7 base) and recovery of associated operating and maintenance ("O&M") expense,
 8 administrative and general expense, and depreciation expense.

9 **Q. How is the return (gross of tax) on KGS's investment determined for inclusion in**
 10 **the CRC?**

11 A. The rate base included in the CRC is comprised of the purchase price of the facility,
 12 KGS's capital investments in the system and an allocation of general and intangible
 13 plant, reduced by accumulated depreciation and amortization. The Commission-
 14 approved rate of return (pre-tax) is then applied to this rate base. If a rate of
 15 return has not been specified by the Commission, the carrying charge utilized for
 16 Gas System Reliability Surcharge ("GSRS") purposes will be used to determine the
 17 necessary return on rate base.

¹ [REDACTED]
 [REDACTED]
 [REDACTED]

² The Commission-approved return is the rate of return established in a rate case. A rate of return specific to Fort Riley will not be determined.

1 **Q. Please provide an example of the calculation of total rate base and the required**
2 **return that will be included in the CRC.**

3 A. This example and those that follow will be based on the CRC calculation found in
4 the Contract. Thus, for this example, assume that no additional capital investment
5 in the Distribution System has been made. Plant in service will be based on the
6 purchase price of [REDACTED] and an allocation of general and intangible plant.
7 The allocation of general and intangible plant is based on a ratio of the Distribution
8 System plant to the KGS's production and storage, transmission, distribution
9 plant. Using the purchase price and the 2016 FERC Form 2 data³, this ratio is
10 \$[REDACTED] divided by the sum of \$852,915 (production and storage),
11 \$269,224,937 (transmission) and \$1,382,641,341 (distribution) or 0.349 percent.
12 This ratio is applied to KGS's intangible and general plant. Again, using the 2016
13 FERC Form 2 data, the intangible and general plant total to [REDACTED].
14 Applying the ratio results in an allocation of general and intangible plant of
15 [REDACTED]. Total plant in service is then [REDACTED].

16 Next, accumulated depreciation would be deducted from plant in service.

17 In this example, we are assuming no accumulated depreciation associated with
18 the purchase price. There will be an allocation of accumulated depreciation
19 associated with general and intangible plant. It is calculated in the manner
20 described above for plant in service but uses the FERC Form 2 values for

³ While more current data is available, I have utilized 2016 data to be consistent with the examples provided in the Contract and to minimize confusion.

1 accumulated depreciation. This results in a total accumulated depreciation of
2 \$[REDACTED] to be deducted from plant in service.

3 Total rate base is calculated as plant in service less accumulated
4 depreciation (or [REDACTED] less [REDACTED]) which in this case totals [REDACTED].
5 The current carrying charge approved for KGS's use in GSRS filings (adjusted for
6 the effect of the Tax Change and Jobs Act, grossed up for taxes, or 8.33 percent),
7 is then applied to rate base to determine the required return. In this example the
8 result is [REDACTED].

9 **Q. How are the O&M and administrative and general expenses calculated for the**
10 **purposes of the CRC?**

11 A. The O&M included in the CRC calculation is based on KGS's overall system
12 distribution O&M costs. Similarly, the administrative and general costs accounted
13 for under the CRC are based on KGS's system cost and an allocation of corporate
14 costs. The level of expense to be included in the CRC will be calculated using a
15 formulaic approach reflecting a proportionate allocation of KGS's system costs.
16 For example, the distribution O&M expenses included in the CRC will be
17 determined by finding the ratio between KGS's distribution system O&M and
18 KGS's distribution plant in service as reported on the FERC Form 2 and then
19 multiplying the Fort Riley plant in service by that ratio. For example, utilizing the
20 2016 FERC Form 2 data, the ratio between system O&M and KGS's distribution
21 plant in service is [REDACTED] divided by \$[REDACTED] percent. This

percentage would then be applied to the Fort Riley distribution plant, which is currently the purchase price of \$ [REDACTED], to obtain the O&M component of the CRC of \$ [REDACTED].

A similar process will be followed for administrative and general expenses. To allocate administrative and general expenses, a ratio between KGS's administrative and general expense to total O&M, less purchased gas expense, less administrative and general expense is applied to the amount of allocated distribution O&M. Using data from the 2016 FERC Form 2, the ratio is calculated to be 61 percent. This ratio is applied to the [REDACTED] (as calculated above) resulting in an allocation of administrative and general expense equal to \$ [REDACTED].

Thus, the total O&M expense included in this example is \$ [REDACTED].

Q. Please explain how depreciation expense will be calculated for inclusion in the CRC.

A. Depreciation and amortization expense will be determined by applying KGS's Commission-approved depreciation rates to the Distribution System's plant balances. The Commission approved rates in effect at the time of each CRC calculation will be utilized to calculate depreciation expense for each class of assets throughout the term of the Contract until the asset is either fully depreciated or removed from service. For the initial CRC, a depreciation rate is estimated based on an average life of 40 years for all distribution plant or 2.5

1 percent. This depreciation rate is then applied that to the purchase price of
2 [REDACTED] resulting in distribution depreciation expense of \$144,268.

3 Additionally, the CRC will include an allocation of depreciation and
4 amortization expense associated with general plant, intangible plant and common
5 plant. That allocation is based on the ratio of Fort Riley plant in service to the sum
6 of KGS production and storage, transmission and distribution plant. Using the
7 Purchase Price and 2016 FERC Form 2 data, the allocation is [REDACTED] divided
8 by the sum of [REDACTED] (production and storage), \$[REDACTED] (transmission)
9 and [REDACTED] (distribution) or [REDACTED] percent. This allocation factor is
10 applied to KGS's general, intangible and common depreciation expense of
11 \$[REDACTED] resulting in [REDACTED] of such depreciation expense being included in
12 the CRC.

13 The total depreciation expense included in the CRC in this example is
14 \$[REDACTED]

15 **Q. Please provide an example of the CRC calculation.**

16 A. For an example of the CRC calculation see Table 1 below. This calculation is based
17 on the examples discussed above. Recall that the examples are based on the
18 purchase price or initial value of the distribution system, data from the Company's
19 2016 FERC Form 2 filing and the carrying charge approved for GSRS use adjusted
20 to reflect the effect of the Tax Change and Jobs Act. The required return, the total
21 O&M Expense and total depreciation expense are summed to reach the total

- 1 annual revenue requirement or [REDACTED] This amount is divided by 12 to
- 2 determine the monthly CRC.

[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1 **Q. How frequently will the CRC be adjusted?**

2 A. The Contract provides for the CRC to be adjusted at least annually to reflect work
3 completed as of December 31st of the previous calendar year as well as any
4 changes in the Commission-approved rate of return and depreciation rates. The
5 CRC is to be updated in May of each year using Distribution System and FERC Form
6 2 data for the previous year. The new CRC will become effective June 1 for the
7 following 12-month period.

8 **Q. Will KGS submit the annual calculation of the CRC to the Commission?**

9 A. Yes. KGS proposes that a process similar to that within the Cost of Gas Rider be
10 utilized for the Commission's review of the CRC calculation. Under the Cost of Gas
11 Rider, KGS submits a monthly report describing the costs included in the rider. The
12 Company is allowed to move forward with billing even if Staff has not completed
13 its review. For the CRC, KGS will submit the proposed CRC to the KCC for its review
14 of the calculation at the same time such information is provided to the
15 government in May of each year. The template to be used in making the annual
16 rate adjustment filing is reflected in Table 1.

17 **Q. What is the amount of the initial monthly CRC?**

18 A. The CRC will not become effective until KGS assumes operation of the system. As
19 I previously testified, that is not likely to occur until April 2020. At that time, KGS
20 plans to update the CRC using the most recent FERC Form 2 data. As a result, an
21 initial monthly CRC cannot be known at this time. Additionally, the amount of the

1 the initial CRC could change if the purchase price changes as KGS completes its
2 transition period activities and/or if the KCC-approved rate of return changes.

3 **Q. The Contract utilizes the term Utility Service Charge. Please explain this term.**

4 A. The Utility Service Charge ("USC") consists of the CRC less a monthly credit of
5 [REDACTED]. As mentioned earlier in my testimony, the credit reflects the purchase
6 price of the natural gas distribution system ([REDACTED]) plus interest (at [REDACTED]
7 [REDACTED]) payable over the 600-month term of the Contract. Assuming a CRC in
8 the previous example of [REDACTED], the monthly Utility Service Charge would be
9 [REDACTED]). As the CRC is adjusted, the Utility Service Charge
10 will be adjusted in tandem.

11 **Q. [REDACTED]?**

12 A. [REDACTED]
13 [REDACTED] [REDACTED]
14 [REDACTED] [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED] [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED].

1 Q. [REDACTED]?

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED] [REDACTED] [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED].

11 Q. **What is the total monthly amount payment that will be made by Fort Riley?**

12 A. The total monthly payment made by Fort Riley will be the sum of the [REDACTED] and the

13 [REDACTED] The given the earlier example, the monthly payment is the sum of [REDACTED]

14 [REDACTED] or [REDACTED].

15 Q. **What is the Transition Charge?**

16 A. The Transition Charge is a one-time payment of \$ [REDACTED], to be made by Fort

17 Riley at the end of the transition period. The Transition Charge covers costs

18 associated with additional due diligence performed by the company to prepare

19 for the operation of the Distribution System. Mr. Postlethwait discusses transition

20 projects in his testimony supporting the Application.

1 **Q. What, if any, costs generally included in KGS customer rates will not be reflected**
2 **in the CRC or [REDACTED]?**

3 A. Ad valorem tax expense will not be considered in the calculation of the CRC or the
4 [REDACTED]. Kansas has expressly exempted military facilities from the state's statutory
5 ad valorem requirements. Additionally, because the CRC already addresses
6 recovery of capital investment on an annual basis, the Company will not seek
7 recovery of Fort Riley improvement projects in its GSRS filings or apply the GSRS
8 tariff rate to Fort Riley.

9 **Q. For general rate-setting purposes, will revenues attributable to the Fort Riley**
10 **operations reflect the Utility Service Charge or revenues attributable to the CRC**
11 **and the [REDACTED]?**

12 A. In the context of a general rate case, the revenues associated with the CRC and
13 [REDACTED] would be used in establishing KGS's revenue requirement. The monthly
14 purchase credit of [REDACTED] will not be included.

15 **Q. Will revenues, expenses and investments attributable to this privatized service**
16 **(including allocated costs) be included in the calculation of KGS's overall revenue**
17 **requirement or will they be segregated and eliminated from that calculation?**

18 A. KGS will treat the Fort Riley contract as it does any other customer served under
19 a contract. The expenses and investments associated with Fort Riley will be
20 included in the revenue requirement. The revenues associated with the CRC and

1 ████ will be used as an offset to the revenues required to be recovered from other
2 KGS customers.

3 **Q. Will KGS track costs for Fort Riley distinctly from other portions of its service**
4 **area?**

5 A. To facilitate and manage its budgeting process, KGS has assigned cost centers to
6 track cost information for geographically defined areas of its service territory.
7 Similarly, KGS will assign a cost center specific to Fort Riley. However, this cost
8 center will not capture all costs of serving Fort Riley since, among other things, it
9 will not reflect Fort Riley's allocation of corporate and other administrative and
10 general expenses. KGS will also set up an expense project to track costs associated
11 with the transition period discussed by Mr. Kent and Mr. Postlethwait.

12 **Q. What financial impact will KGS operation of the privatized Fort Riley distribution**
13 **system have on other KGS customers?**

14 A. Because the CRC will provide for recovery of return on rate base, depreciation
15 expense and a proportionate share of O&M and administrative and general
16 expenses, and because the █████ will be in place to ensure other customers do not
17 subsidize Fort Riley, no customers will be financially harmed by KGS's operation of
18 the Fort Riley distribution system. The Contract also advances the Department of
19 Defense policy of privatizing functions that are not central to the mission of the
20 Department while ensuring that utility systems are operated, and services are
21 delivered, in accordance with applicable industry and regulatory standards.

1 **Q.** **Does this conclude your testimony?**

2 **A.** Yes.

VERIFICATION

STATE OF KANSAS)
)
COUNTY OF JOHNSON)

Janet L. Buchanan, being duly sworn upon her oath, deposes and states that she is the Director, Rates and Regulatory Reporting for Kansas Gas Service, a Division of ONE Gas, Inc.; that she has read and is familiar with the foregoing Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.


Janet L. Buchanan

SUBSCRIBED AND SWORN to before me this 12th day of November, 2018.


Notary Public

Commission/Appointment Expires: 06/05/22





DIRECT TESTIMONY
OF
SEAN C. POSTLETHWAIT
ON BEHALF OF KANSAS GAS SERVICE,
A DIVISION OF ONE GAS, INC.

DIRECT TESTIMONY

OF

SEAN C. POSTLETHWAIT

ON BEHALF OF KANSAS GAS SERVICE,

A DIVISION OF ONE GAS, INC.

I. Position and Qualifications

Q. Please state your name and business address.

A. My name is Sean C. Postlethwait, and my business address is 1021 E. 26th Street North, Wichita, KS 67219.

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

A. I am the Managing Director of Field Operations for Kansas Gas Service, a Division of ONE Gas, Inc., ("KGS" or "Company").

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science Degree in Business, with some course of study in Aeronautical Engineering. I began my career in the utility industry as an auxiliary equipment operator with KG & E, Western Resources in 1990. I held this position until 1997 when I accepted a position as a Tech Analyst with Westar/Kansas Gas Service, responsible for engineering and design of new and replacement projects, district regulator stations, and large meter installations. In 1998, I was promoted to a Supervisor position with KGS and became responsible for supervising Company and contract crews.

Direct Testimony of Sean C. Postlethwait

1 Between 1998 and 2008, I continued to assume positions of increasing responsibility
2 until being named as Director of South-East and South-Central Kansas field operations
3 where I was responsible for all required 1 field operations, including the safety,
4 regulatory compliance and budget for the Company's South-East and South-Central
5 Kansas area. In 2013 and continuing through mid-2018, I served the Company as
6 Director of Field Services for the Outside Areas. In this position, my area of
7 responsibilities expanded to include 17 Outside Area divisions located in Kansas and NE
8 Oklahoma. In July of this year, I assumed my current position which is now Managing
9 Director of Field Operations.

10 Q. **Was this testimony prepared by you or under your direct supervision?**

11 A. Yes, it was.

12 Q. **Have you previously testified before the Commission?**

13 A. No. I have not yet had an opportunity to testify before the Commission.

14 Q. **What is the purpose of your testimony?**

15 A. The primary purpose of my testimony is to provide an introduction of the Fort Riley
16 natural gas distribution system ("Distribution System") which is the subject of the Utility
17 Privatization Contract awarded to KGS. I also discuss the Transition process and
18 establish the anticipated timeline of the work as contemplated in the Contract.

19 Q. **Please provide a high-level description of the Fort Riley Distribution System.**

20 A. The Distribution System (as defined under the terms of the Contract) includes 115 miles
21 of pipe and a service area as contained within the boundaries of Fort Riley's military

1 installation and any facilities and areas under the Fort Riley's control. Please see, "SCP
2 Confidential Exhibit 1" for a map which is representative of the Distribution 1 System's
3 service area. (*See also*, Contract, Section C.4).

4 **Q. What types of pipes do you expect to find in the Distribution System during the**
5 **Transition Period?**

6 A. During the Transition Period, KGS will begin potholing and exposing the Distribution
7 System's piping for the purpose of identifying the pipe types and verifying the condition
8 of the pipes. Based on the information presented by the Government in the negotiation
9 process, KGS anticipates confirming that the Distribution System currently contains a
10 variety of pipe type to include vintage cast iron material and newer steel and
11 polyethylene ("PE") piping.

12 **Q. How many customers will KGS serve from this system?**

13 A. Fort Riley is the only customer KGS will serve from this system. Fort Riley will continue
14 to be responsible for the services (such as meter reading and billing) it now provides to
15 its internal customers.

16 **Q. What responsibilities will KGS assume upon transfer of ownership of the system?**

17 A. Upon transfer, which will occur after KGS receives the Bill of Sale and the Kansas
18 Corporation Commission ("Commission") approves the Contract, KGS will become the
19 owner and operator of the Distribution System. KGS will become responsible for
20 providing safe and reliable natural gas utility service to Fort Riley. More specifically, KGS
21 shall be responsible for furnishing all necessary labor, management, supervision,

1 administrative responsibilities, maintenance and services commonly associated with the
2 operation of a natural gas distribution 1 system. (See, Contract, Section C.3, subsection
3 C.3.1).

4 **Q. How do you envision the KGS staffing the base?**

5 A. In the service plan for Fort Riley, KGS has included 5 employees that will be responsible
6 for the daily operation of the Distribution System. Emergency response and after-hours
7 responses will be handled by KGS's normal call procedures and the Company will have
8 26 area employees, in addition to these five, with the ability to respond on emergency,
9 after-hours and weekend service calls. The entire Fort Riley, Junction City and
10 Manhattan community will benefit from the additional head count.

11 **Q. As it relates to performance standards included in the Contract, will KGS be required**
12 **to operate the Distribution System in a manner that differs from KGS's current**
13 **operations of its regulated natural gas systems?**

14 A. No. Although, the Contract requires KGS to comply with applicable Fort Riley rules and
15 requirements, the Contract also requires KGS to provide natural gas utility service in a
16 manner which complies with Federal, State and local laws and regulations. (See,
17 Contract, Section C.3, subsections C.3.1 and C.5.2.4). KGS does not anticipate any
18 material deviations from the Company's practices as it relates to the operation of the
19 Distribution System.

20 **Q. Does the Contract transfer any assets to the Company in addition to the Distribution**
21 **System?**

1 A. Yes. The Contract also transfers the ownership of a building identified as “Building 1693”
2 for the nominal consideration of \$1. KGS will use the building to store vehicles,
3 equipment and tools necessary for the operation and maintenance of the Distribution
4 System. This building also contains small office spaces that will provide shelter and work
5 space for the Company’s crews. As agreed in the Contract, the Bill of Sale for Building
6 1693 will transfer to KGS within ten days following Commission Approval of the
7 Contract. (See, Contract, Section C.5, subsection 5.1.4 Contractor Facilities).

8 **Q. Please explain the transition process.**

9 A. The transition period officially began on the Contract award date and will end no earlier
10 than the date of the issuance of the Bill of Sale. KGS anticipates that the transition
11 period will be approximately 18 months covering the KCC approval process and
12 allowing 10 months for the Company to perform additional due diligence and to
13 prepare to operate the Distribution System. During the transition period, the Company
14 will: map the system, perform leak surveys, and complete the transition projects
15 outlined in the Contract. Additionally, Fort Riley and the Company will prepare a joint
16 inventory of the system in preparation for attachment to the Bill of Sale. (See, Contract,
17 C.13 – Operational Transition Plan).

18 **Q. Please describe the transition projects contained in the Contract.**

19 A. As provided in Section B.2, subsection B.2.4.1, Schedule 3, the agreed upon transition
20 projects require the Company to: perform an initial leak survey; map the Distribution
21 System; inspect and inventory the Distribution System and either make or obtain an

Direct Testimony of Sean C. Postlethwait

1 agreement from Fort Riley for any required repairs; perform pothole inspections;
2 conduct a Phase 1 Environmental Site Assessment; conduct a cathodic protection
3 assessment; and prepare the on-site yard as may be necessary for Company vehicles
4 and equipment. Also, during the transition phase, the Company will identify any initial
5 system deficiencies that may require special adjustment to the Utility Service Charge for
6 recovery of any expenses for unanticipated work and/or equipment. (*See also*, Section
7 B2, subsection B.2.5).

8 **Q. Does this conclude your testimony?**

9 **A.** Yes, it does at the current time.

VERIFICATION

STATE OF KANSAS)
)
 COUNTY OF SEDGWICK)

Sean C. Postlethwait, being duly sworn upon his oath, deposes and states that he is the Managing Director of Field Operations for Kansas Gas Service, a Division of ONE Gas, Inc.; that he has read and is familiar with the foregoing Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

Sean C. Postlethwait

Sean C. Postlethwait

SUBSCRIBED AND SWORN to before me this 8TH day of November, 2018.

Michelle Knetzer

Notary Public

Commission/Appointment Expires:



SCP CONFIDENTIAL EXHIBIT 1

EXHIBIT FULLY REDACTED