

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Filing by Kansas Gas)
Service, a Division of ONE Gas, Inc., Seeking) Docket No. 18-KGSG-540-CON
Approval of a Wholesale Gas Sales Contract as)
prescribed by Commission Order Dated June)
21, 2001, in Docket No. 106,850-U / 75-)
GIMC-009-GIG)

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION
(PUBLIC VERSION)

The Staff of the Kansas Corporation Commission (Staff and Commission, respectively), having investigated the issues presented in this docket, hereby files its Report and Recommendation (R&R). Staff recommends that the Commission approve the Application filed by Kansas Gas Service, a Division of ONE Gas, Inc. (KGS) regarding its Wholesale Gas Sales Contract with Kansas Industrial Energy Supply Company (KIESCO).

WHEREFORE, Staff submits its R&R, attached hereto, for Commission consideration.

Respectfully Submitted,



Michael Neeley, S. Ct. #25027
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STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

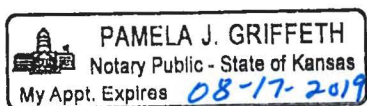
VERIFICATION

Michael Neeley, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Notice of Filing of Staff's Report and Recommendation (Public Version)* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Michael Neeley # 25027
Kansas Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 5th day of September, 2018.



Notary Public

My Appointment Expires: August 17, 2019

STATE OF KANSAS

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GOVERNOR JEFF COLYER, M.D.

SHARI FEIST ALBRECHT, CHAIR | JAY SCOTT EMLER, COMMISSIONER | DWIGHT D. KEEN, COMMISSIONER

REPORT AND RECOMMENDATION UTILITIES DIVISION [PUBLIC VERSION]

TO: Shari Feist Albrecht, Chair
Jay Scott Emler, Commissioner
Dwight D. Keen, Commissioner

FROM: Darren Prince, Managing Economist
Lana Ellis, Deputy Chief of Economics and Rates
Robert Glass, Chief of Economics and Rates
Jeff McClanahan, Director of Utilities

DATE: September 5, 2018

SUBJECT: Docket No. 18-KGSG-540-CON: In the Matter of the Filing by Kansas Gas Service, a Division of ONE Gas, Inc., Seeking Approval of a Wholesale Gas Sales Contract as prescribed by Commission Order Dated June 21, 2001, in Docket No. 106,850-U / 75-GIMC-009-GIG

EXECUTIVE SUMMARY:

On June 18, 2018, Kansas Gas Service (KGS), a Division of ONE Gas, Inc., submitted an Application with the Kansas Corporation Commission (Commission) seeking approval of a Wholesale Gas Sales Contract (Sales Contract) entered into on June 4, 2018, between it and Kansas Industrial Energy Supply Company (KIESCO).¹ To determine whether KGS made a prudent decision, Staff evaluated the basis for the price and compared the contract price to prices gas companies charge for similar services.

Staff's analysis shows that executing into the Sales Contract is a reasonable and prudent course of action for KGS. Though the Sales Contract is at a price above the index price, the price is based on KIESCO's cost and is below the price KGS pays under comparable gas supply agreements and KGS's own transport rate. Additionally, the Sales Contract is temporary and will enable KGS to provide service to the new customers until the negotiations for the purchase of the line is complete. Therefore, Staff recommends the Commission find that entering into the contract was a prudent business decision and approve the Sales Contract.

¹ Application, Docket No. 18-KGSG-540-CON, June, 18, 2018, p. 1.

BACKGROUND:

A new subdivision and sanitary sewer pump are being constructed within KGS' certificated service territory in Wichita. While KGS is reviewing other long-term gas supply alternatives,² KGS plans to purchase the natural gas required to serve these customers under a Sales Contract with KIESCO.³

The term of the Sales contract is thirty days and will extend month-to-month until cancelled by either party. KGS expects limited volumes to be purchased off the line and considers the purchase agreement to be temporary in nature as the Company is currently in active negotiations with KIESCO for the purchase of the line. KGS anticipates the transfer of the KIESCO assets to be completed before the end of 2018.⁴

Because it was expected that the subdivision and the sanitary sewer pump will require natural gas service by July 30, 2018, the Sales Contract was negotiated rather than competitively bid.⁵ In accordance with Commission requirements that gas purchase contracts not awarded through a competitive bidding process be reviewed and approved by the Commission prior to becoming effective, KGS requests the Commission find the negotiation of the contract was a reasonable and prudent business decision and approve the Sales Contract.

ANALYSIS:

K.S.A. 66-128a provides that the Commission shall have the ability to review and evaluate the efficiency or prudence of any actions or operating practices of any public utility for the purpose of establishing fair and reasonable rates.⁶ The Kansas Supreme Court has explained that prudence involves "carefulness, precaution, attentiveness and good judgment."⁷ To determine whether KGS made a prudent decision, Staff evaluated the basis for the price and compared the contract price to prices gas companies charge for similar services. While the Sales Contract is at a price above the index price, the price is based on KIESCO's cost and is below the price KGS pays under comparable gas supply agreements and KGS's own transport rate.

Basis for Proposed Contract Price

KGS provided an explanation of how the rate to be paid for gas purchased and delivered to KGS at the KIESCO/KGS Delivery Point was determined. The contract rate was negotiated with KIESCO to provide temporary gas service to KGS at KIESCO's cost. KIESCO purchases its gas

² As part of its due diligence, KGS obtained a construction cost estimate to build a line in lieu of using KIESCO's line to serve the subdivision and sanitary sewer pump.

³ KGS is seeking to purchase natural gas from a tap located on the Rock Road Line portion of the KIESCO system, for the purpose of providing supply to a new housing development being built nearby. DR KCC-03.

⁴ DR KCC-03.

⁵ The anticipated customer need-by date has subsequently been postponed to September 1, 2018. DR KCC-04.

⁶ See K.S.A. 66-128a; see also K.S.A. 66-128c.

⁷ *Kansas Gas & Elec. Co. v. State Corp. Comm'n*, 239 Kan. 483, 495, 720 P.2d 1063, 1075 (1986) (The thrust of the KCPL argument claiming vagueness is that "prudence" is not defined anywhere in the statutes. In our judgment, the statutory provisions are as definite and clear as reasonably could be expected in a statute of this type. The Kansas statutory provisions are much more definite and certain than statutes involving the same subject matter found in other jurisdictions. We also note that K.S.A. 66-128g(12), in effect, states that "prudence or lack thereof" means as that term is commonly used. Black's Law Dictionary 1104 (5th ed. 1979) defines "prudence" as "carefulness, precaution, attentiveness and good judgment.")

in the Southern Star Production Area Pool using a combination of fixed and index prices. The **[REDACTED]** adder was based on taking the difference between KIESCO's Cost of Gas and the average of the monthly Southern Star Central Pipeline (SSCGP) index and adding transportation, distribution, administration, insurance, management, and other operation expenses as shown in Table 1 below.⁸

****Table 1****

KIESCO Commodity premium compared to 2017 SSC index	[REDACTED]
KIESCO SSCGP Firm Transportation (total cost ÷ total throughput)	[REDACTED]
KIESCO Distribution (total tenants distribution cost ÷ total throughput)	[REDACTED]
KIESCO Administrative Expense (Salaries)	[REDACTED]
KIESCO Insurance	[REDACTED]
KIESCO Management (KGS fee to operate lines)	[REDACTED]
KIESCO Other Operation Expenses (Utilities, facilities, supplies, misc.)	[REDACTED]
Total	[REDACTED]

Comparable Gas Supply Prices

For comparison, KGS provided an explanation of the services provided and the price paid for comparable gas supply.

Black Hills Bundled Service

As a point of comparison, KGS purchases a similar bundled service from Black Hills Energy for the delivery of natural gas to certain towns and locations where KGS lacks its own pipe lines.⁹ The total monthly charges of the invoices for the May billing cycles divided by the total BTU adjusted throughput is **[REDACTED]** per MMBTU. Subtracting the Southern Star First of Month index for the month of May, the comparable adder is **[REDACTED]** (**), which is well above the **[REDACTED]** adder offered by KIESCO.¹⁰

KGS Transport Service

An additional point of comparison is the rate KGS charges its own customers for transport service. Under the Company's "General Sales Transport" Tariff, the delivery charge alone would be \$1.5293, which is also well above the **[REDACTED]** offered by KIESCO.¹¹

⁸2017 KIESCO Average Cost of Gas (Fixed and Index) - 2017 Southern Star Central First of Month Index (avg.) = KIESCO Commodity premium compared to 2017 SSC index = **[REDACTED]**
DR KCC-02.

⁹ City of Mt. Hope, City of Haven, Mt. Vernon-Kingman Co., 56th St Hutch-Reno, City of New Salem, and Obeeville.

¹⁰ DR KCC-03.

¹¹ DR KCC-03.

RECOMMENDATION:

Because Staff's analysis shows that KGS demonstrated carefulness, precaution, attentiveness and good judgment in its decision to purchase gas from KEISCO to serve its customers' needs, Staff recommends the Commission find entering into the contract was a prudent business decision and approve the Sales Contract.

CERTIFICATE OF SERVICE

18-KGSG-540-CON

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served by electronic service on this 5th day of September, 2018, to the following:

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