In the Matter of the Application of Kansas Gas Service, a Division of ONE Gas, Inc. for Adjustment of its Natural Gas Rates in the State of Kansas.	))))	Docket No. 18-KGSG-560 - RTS

DIRECT TESTIMONY

OF

JUSTIN W. CLEMENTS

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

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I. <u>Position and Qualifications</u>

Q. Please state your name and Business Address.

A. My name is Justin W. Clements. My business Address is 7421 W. 129th Street, Overland Park, Kansas, 66213.

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

A. I am employed by Kansas Gas Service ("KGS" or "Company"), a Division of ONE Gas Inc., as Rates Analyst II.

Q. Please describe your education and professional experience.

A. I have a Bachelor of Arts Degree from the University of Kansas and a Masters of Business Administration from Baker University. I have worked for KGS since 2002 and joined the Rates and Regulatory Department in 2007 as Rates Analyst, helping support various Company regulatory efforts. I also serve as liaison to the division of Public Affairs and Consumer Protection of the Kansas Corporation Commission ("KCC" or "Commission") regarding Company tariff and Billing/Payment Standards compliance.

Q. Have you testified before the Kansas Corporation Commission?

A. Yes, I filed testimony in the Company's last two general rate cases, Docket Nos. 12-KGSG-835-RTS ("835 Docket") and 16-KGSG-491-RTS ("491 Docket"), respectively.

II. Executive Summary

Q. Please provide a summary of your testimony.

A. I am sponsoring certain pro forma adjustments that reflect known and measurable post-test year changes as well as those resulting from implementation of proposals I will discuss later in this testimony. Specifically, I am sponsoring income statement adjustments IS-10 regarding miscellaneous service charges, IS-11 relating to the reclassification of customer deposits, IS-12 regarding the elimination of royalty fees, and IS-13 relating to the funding of the Gas Technologies Institute's ("GTI") Operations Technology Development ("OTD") program.

I am also sponsoring Section 18 of the Minimum Filing Requirements ("MFR") with revisions to the Company's Rate Schedules ("tariffs") and General Terms and Conditions ("GTC" or "tariffs") which reflect rates recommended and supported by Company witness Mr. Paul Raab, as well as the additions of Indices 45 – Tax Change Rider ("TCR") and 49 - Revenue Normalization Adjustment ("RNA") as discussed by Company witness Ms. Janet Buchanan. Likewise, I am sponsoring the increases to three of the Company's miscellaneous service charges listed in GTC Section 12. Other tariff revisions include: a minor update to Section 9 relating to measurement standards; changes to Sections 10 and 11 relating to Required Daily Quantity ("RDQ") Balancing and Cash-Out Provisions for transportation customers; changes to the Electronic Flow Measurement ("EFM") Rider requirements; and various minor housekeeping revisions that correct formatting issues and typos of previously filed tariffs.

Finally, I will provide an overview of the Company's distribution system to include a discussion on the "k" and "t" systems. My testimony reviews tariff issues referenced in CenterPoint Energy's testimony as filed in the Company's prior rate case as memorialized in the 491 Docket.

III. Income Statement Adjustments

Q. Please explain Adjustment IS-10.

A. Adjustment IS-10 recognizes the projected revenue increase resulting from the proposed changes to Miscellaneous Charges that customers pay to include: initiating service; reconnecting service; and collection/disconnection of service due to non-payment. The projected revenue increase is based on the three-year average number of instances for each miscellaneous charge, applied to the incremental difference between 2017 charges and proposed charges. This adjustment results in an increase in revenues of $998,886. I will discuss the Company's proposed miscellaneous charges increase in more detail later in my testimony.

Q. Please explain Adjustment IS-11.

A. Adjustment IS-11 increases Miscellaneous General Expenses by $303,624 and is necessary to incorporate the interest expense on customer deposits into the KGS revenue requirement.

The balance of accrued customer deposits (a liability) is reflected as a reduction to rate base as identified in Schedule 6-A. As established in the December 19, 2017, Commission Order in Docket No. 98-GIMX-348-GIV, the liability balance represents the customer provided capital and a 1.62% corresponding cost applied to the customer deposits. Thus, a pro forma adjustment applying the authorized customer deposit interest rate to the test year-end balance is required.

Q. Please explain Adjustment IS-12.

A. Adjustment IS-12 reduces administrative and general costs by eliminating corporate royalty fee charges from the test period. The adjustment decreases operating expense by $9,086,138.

Q. Please explain Adjustment IS-13.

A. Adjustment IS-13 increases expenses to correspond with the Company's proposed funding of GTI's OTD Program. This program performs research and development in technologies that, among other things, increases safety, enhances deliverability, and thereby constrains operations and maintenance costs. Some of the technologies developed or tested for potential industry use include: inflatable stoppers, infrared ethane detectors, and acoustic pipe locators. The amount of the adjustment is based on the pro forma adjusted customer count times the annual contribution of $0.50 per meter. This adjustment increases operating expense by $316,479.

IV. Rate Schedules

Q. Please summarize your proposed changes to the Company's rate schedules.

A. I am proposing changes to existing rate schedules and the creation of Schedule CNGt as supported in the testimony of Company witness Mr. Paul Raab. I also propose the addition of Index 45 – Tax Change Rider and Index 49 - Revenue Normalization Adjustment to reflect the proposals described by Company witness Ms. Janet Buchanan. In accordance with the RNA proposal, I added language to Index 43 that sunsets the WNA Rider (as also described by Ms. Buchanan). Other proposed changes include the updated Gas System Reliability Surcharge monthly rates discussed by Company witness Lorna Eaton and updates to the EFM Rider provisions.

Q. What changes are you proposing for the EFM Rider found in Index 42 of the Company's tariffs?

A. First, the Applicability section of the EFM Rider was modified to include customers under the Compressed Natural Gas rate schedules. Next, the EFM equipment exemption for transportation customers with less than 1,500 Mcf peak monthly usage was removed. This change will require all new transportation accounts (or those experiencing a change in character of service) to have EFM equipment installed to allow for accurate daily metering. Finally, the Company removed the $25.00 per month EFM meter charge in the rider's Net Monthly Bill section. It is the intent that all new transportation customers will have EFM equipment; therefore, there is no longer a need to separately bill for the recovery of fees to maintain EFM equipment. This charge should be absorbed into the transportation customer charge.

V. <u>General Terms and Conditions</u>

Q. What revisions do you propose for Section 9: Measurement Standards?

A. I propose changes to Section 9.03.01 - Quality of Gas Received that update the gas quality specifications terminology from "grains" to "parts per million" ("ppm") when measuring hydrogen sulfide and Sulphur per 100 cubic feet. Given that the approximate conversion factor from grains to ppm is 16.5, the existing tariff's current standard of 0.25 grains of hydrogen sulfide per 100 cubic feet and 0.50 grains of total sulphur per 100 cubic feet can be converted to 4 ppm of hydrogen sulfide and 8ppm of total Sulphur. In other terms, if 1 grain ≈ 16.5 ppm then 0.25 grains x 16.5 PPM = 4.125 PPM and 0.50 grains x 16.5 PPM = 8.25 ppm. The proposed revision to 4 ppm hydrogen sulfide per 100 cubic feet and 8 ppm of total Sulphur remains safely within any standard still measured in grains. These updates are proposed to allow for the use of terms more commonly recognized by others when addressing these issues.

I also propose inserting an additional standard to be identified as 9.03.01(9) that provides a general expectation of the gas quality to be received into the KGS system.

Q. What revisions do you propose for Section 10: Requirements for Transportation Service?

A. I propose changes to Section 10.09 of the Company's GTC relating to calculation of the monthly cash out prices of transportation customers. KGS seeks to modify the "Cash Out Price" as defined in Section 10.09.03 to provide better protection for gas sales customers against imbalances experienced in the provision of service to transportation customers.

Q. Briefly explain the nomination and cash out process.

A. Each day, a customer's agent or marketer nominates natural gas to the Company in the amount needed to meet the expected volume of gas for the customer's daily service requirement. The Company currently allows monthly balancing for all customers. Each billing period, the amount of gas provided by the customer or marketer to the Company (receipts) is compared to the actual usage delivered to the customer's meter. The Company buys any excess gas beyond 5% that was provided by the customer or marketer, and sells to the customer or marketer any shortage of supply with gas sales customers' gas costs reflecting the cost of this imbalance.

Q. Why is it important to protect against imbalances?

A. The imbalances between the receipts and the amount of gas delivered to transportation customers can cause several consequences for KGS's gas sales customers. First, imbalances can create cross subsidization between transport and sales customers and between transportation customers on different systems. Additionally, these imbalances cause KGS to incur additional charges from gas suppliers. The gas marketers who provide natural gas to KGS transportation customers do not have to currently reimburse the Company for these additional charges that flow to KGS' gas sales customers.

Q. How will modifying the Cash Out Price definition and calculation help keep deliveries and receipts balanced?

A. The current cash out policy of averaging the midpoint gas price each day allows marketers to use KGS storage in lieu of buying index priced gas or cutting their supply of low priced gas and thereby gains the advantage of paying KGS a cash out price that is less than market price. This practice causes KGS to withdraw or inject into storage gas that carries associated storage fees plus any differential in the daily index price. Under the current structure for cash outs, KGS is experiencing significant imbalances due to transporters not providing accurate nominations. By establishing a cash out price that creates a comparable price for supplying gas on any day of a given month, encourages marketers to supply their customers natural gas according to more accurate usage without the need of relying on KGS for "a free service" associated with their excessive balancing.

Q. What other GTC changes do you propose that may affect transportation customers?

A. Revisions to Section 11.05.03, limit the Required Daily Quantity ("RDQ") balancing qualification to existing customers that do not already have EFM equipment installed and removes the 30-day RDQ assignment notification for new transport customers. The Company will no longer allow new transportation customers the option of RDQ balancing as EFM equipment will be required.

Q. What revisions do you propose for Section 12: Miscellaneous Charges?

A. Kansas Gas Service seeks to increase three charges relating to work performed at the Customer's premises. First, the Service Initiation Charge listed in 12.01 of GTC Section 12 will be modified to be included on the first customer bill following the: (1) initial connection of service; or (2) connection of service requested 30 days after being disconnected for non-payment. KGS also proposes to increase this charge from $5.00 to $10.00. This modified charge is still significantly lower than similar charges by other gas utilities in Kansas. Secondly, the Collection or Disconnection Charge listed in 12.05 of GTC Section 12, will be modified to be included on a customer's bill following a disconnection for non-payment or collection attempt made at the property. This charge is currently $10.00 and KGS proposes increasing this charge to $15.00. This modified charge is still significantly lower than similar charges by other gas utilities in Kansas. Finally, the Reconnection Charge listed in 12.06 in the GTC, Section 12 is being modified to be included on customer bills for reconnection of service within 30 days following a disconnection for non-payment. KGS proposes to increase this charge from $15.00 to $20.00. This modified charge is still significantly lower than similar charges assessed by other gas utilities in Kansas.

V. <u>Distribution System Analysis: 'k' and 't' Systems</u>

Q. What points raised by CenterPoint Energy Services in the 491 Docket are you addressing here?

A. As part of the settlement in the Company's last general rate case, KGS agreed to provide an analysis of the rate differential between the Small transportation customer classes, Small Transportation 'k' system ("STk") and Small Transportation 't' system ("STt"). KGS also agreed to provide a comparison of the general sales classes, General Sales Small ("GSS"), General Sales Large ("GSL") and General Sales Transport Eligible ("GSTE") where there is no distinction between the 'k' and 't' system.

These analyses were included as part of the settlement as CenterPoint Energy Services ("CES") sought clarification as to why KGS maintains distinct and differing rate schedules for transportation classes between the 't' and 'k' systems while maintaining combined rate schedules for general service classes on the two systems.

Q. Please describe the key components which make up the Company's distribution system.

A. Kansas Gas Service receives gas deliveries from suppliers into two distribution systems known as the 't' system and 'k' system. Both systems are supported by deliveries from several interstate pipelines, at various interconnects, to serve KGS sales and transportation customers. While the two systems are connected by a third-party pipeline interconnect, both are considered distinct systems that are utilized in different ways and with gas supplies served by different gas contracts.

The 't' system serves customers from a single intrastate transmission pipeline wholly owned and operated by Kansas Gas Service. Interstate pipelines often use the 't' system transmission lines to facilitate the shipping of supplies to destinations outside the state. However, KGS does serve a number of communities and customers directly from this system.

Likewise, the 'k' system receives gas from interstate pipelines. However, the Company does not operate or own transmission pipelines on the 'k' system, as it is a more typical distribution system as it receives gas from third party suppliers at city gates which is used to serve KGS communities and customers. An important distinction is the fact that the service on the 't' system is a bundled transmission and distribution service

Q. What are KGS's positions regarding the issues raised by CES in the 491 Docket??

A. While KGS maintains separate transportation classes for the 'k' and 't' systems, the Company has maintained combined general sales classes between the two systems pursuant to the Commission's final order in Docket No. 00-KGSG-162-PGA. In that Order, the Commission approved the Company's request to recover associated transportation costs for sales customers on both systems through the Company's Cost of Gas Rider ("COGR").

Sales service provided by KGS on the two systems is a fully bundled service. Transmission related expense for sales customers is recovered through the COGR. For sales customers in proximity of the 't' system, KGS utilizes its transmission line for some portion of their bundled service. To provide bundled service to sales customers on the 'k' system, however, KGS must utilize transmission service from a third party and incur additional upstream transportation costs. Additionally, because KGS owns the facilities on the ‘t’ system, there are associated operation and maintenance costs which are not incurred on the ‘k’ system. Another difference arises from the fact that the Company generally incurs higher upstream transportation costs from third party gas suppliers to serve the sales customers on the ‘k’ system, which are also included in the COGR. In approving the combination of the Residential ‘t’ system and Residential ‘k’ system customer classes, the Commission found that once the COGR was consolidated, the rates were very similar for the two residential classes. For sales customers, there are cost trade-offs that justify one composite rate between the two systems.

Q. Why shouldn’t the Company combine ‘t’ and ‘k’ rates for transportation customers?

A. KGS maintains separate rates schedules for transportation customers on the two systems since some transportation customers utilize the Company owned transmission line and some customers do not. All transportation customers arrange for their own upstream transportation service from third party gas suppliers, which may vary depending upon the geographic location of the customer. Because transportation customers are not billed transportation charges by the Company and do not pay the Company’s COGR charges, the discrepancy between upstream costs incurred by ‘k’ and ‘t’ system transportation customers are not reflected in the rates charged to customers by KGS. KGS continues to maintain distinct rate schedules for transportation customers or otherwise, ‘k’ system customers would be paying (subsidizing ‘t’ transmission customers) for transmission related costs incurred by the Company for the Company owned transmission line to which they are not connected. In his Direct Testimony, Mr. Raab provides additional support for maintaining distinct ‘t’ and ‘k’ rate schedules for transportation customers.

Q. Does this conclude your testimony?

A. Yes, it does.

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

Justin W. Clements, being duly sworn upon his oath, deposes and states that he is Rates Analyst II for Kansas Gas Service, a division of ONE Gas, Inc.; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

Justin W. Clements

Subscribed and sworn to before me this 15th day of June 2018.

NOTARY PUBLIC

My appointment Expires:

06/05/2022

STATE OF KANSAS NOTARY PUBLIC
STEPHANIE FLEMING
My Appointment Expires
June 5, 2022