

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas Gas	)	
Service, A Division of ONE Gas, Inc., for Approval	)	
of a Privatization Contract Establishing the	)	
Terms, Conditions, Rates, and Charges for	)	
Ownership and Operation of the Natural Gas	)	Docket No. 19-KGSG-194-CON
Distribution System Serving Fort Riley, Kansas,	)	
and for Approval of the Proposed Accounting	)	
Treatment of the System	)	

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**PUBLIC TESTIMONY OF JANET L. BUCHANAN**

**IN SUPPORT OF THE**

**UNANIMOUS SETTLEMENT AGREEMENT**

**ON BEHALF OF**

**KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.**

**\*\* Denotes Confidential Information\*\***

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1    **I.       INTRODUCTION**

2    **Q.       PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

5    **Q.       BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

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

8    **Q.       PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.**

9    A.       I earned a Bachelor of Arts degree and a Master of Arts degree in economics from the  
10           University of Kansas. From June 1993 through August 1998 and from May 1999 through  
11           August 2011, I worked for the Kansas Corporation Commission ("Commission") in various  
12           positions with varying levels of responsibility associated with: examining rates of natural  
13           gas, electric and telecommunications utilities; researching current policy issues within  
14           these industries; and managing projects. I held positions including Utility Rates Analyst,  
15           Senior Research Economist, Managing Research Economist, Telecommunications  
16           Economist, Senior Telecommunications Analyst, Senior Managing Research Analyst, Chief  
17           of Telecommunications and Chief of Energy Efficiency and Telecommunications. In  
18           September 2011, I joined Texas Gas Service Company, a Division of ONE Gas, Inc., as a  
19           Manager of Rates and Regulatory Analysis. I was promoted to my current position in  
20           October 2017.

21   **Q.       HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

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

1 Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

2 A. Yes, it was.

3 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

4 A. I am providing testimony in support of the Settlement Agreement ("Agreement") between  
5 KGS, the Staff of the Kansas Corporation Commission ("Staff") and the Citizens' Utility  
6 Ratepayer Board ("CURB"), (collectively, the "Parties"), which is being submitted to the  
7 Commission for approval.

8 I will also be providing background information regarding this matter, summarizing  
9 the terms of the Agreement, and addressing and applying the Commission standards for  
10 review of settlements to the Agreement in this case.

11 II. **BACKGROUND**

12 Q. CAN YOU PROVIDE SOME BACKGROUND INFORMATION REGARDING THIS MATTER?

13 A. Yes. On November 13, 2018, KGS filed an Application and supporting testimony of three  
14 witnesses seeking approval of a September 27, 2018, privatization contract ("Contract")  
15 between KGS and the Defense Logistics Agency Energy ("DLAE") which established the  
16 terms, conditions, rates, charges and costs for KGS's ownership and operation of the  
17 natural gas distribution system at Fort Riley, Kansas. KGS also sought approval of the  
18 proposed accounting treatment for the privatized system.

19 The Contract provides that KGS will purchase and operate the distribution system  
20 for a 50-year period following the completion of an 18-month transition period. The  
21 terms of the Contract address the purchase price and payment schedule for the distribution  
22 system, as well as the charges to be paid by Fort Riley for the provision of privatized natural

1 gas distribution service by KGS. The Contract provides for three discrete charges to be  
2 paid by Fort Riley: a Contract Rate Charge ("CRC"), an \*\* [REDACTED]  
3 [REDACTED] \*\*, and a Transition Charge. The CRC and \*\* [REDACTED] \*\* are  
4 monthly charges to be paid throughout the 50-year term of the agreement. The  
5 Transition Charge is a one-time payment made by Fort Riley at the end of the transition  
6 period. The CRC is to be recalculated at least annually. It includes a return on KGS's  
7 undepreciated investment in distribution system assets utilizing the rate of return most  
8 recently established by the Commission for KGS (if a rate of return is not specified, the  
9 carrying charge utilized for Gas System Reliability Surcharge filings will be used). Other  
10 components of the CRC are: recovery of operation and maintenance costs based on KGS's  
11 system average costs; allocated administrative and general costs (including corporate  
12 costs); and depreciation expense. The \*\* [REDACTED] \*\* is designed to provide for recovery of  
13 incremental costs required to operate and maintain the distribution system.

14 KGS proposed to include revenues, investments and costs associated with providing  
15 the privatized service in its calculation of rate base, cost of service, and revenue  
16 requirement for its Kansas jurisdictional operations. KGS also proposed that certain  
17 Contract-related costs, including distribution system capital investments and related  
18 depreciation, be tracked and accounted for separately.

19 CURB requested intervention in the proceeding on November 15, 2018.  
20 Intervention was granted by the Commission in an Order dated November 17, 2018.

21 Staff filed pre-filed direct testimony of Mr. Justin Grady and Mr. Leo Haynos on  
22 March 29, 2019.

1           Mr. Grady stated his conclusion that the Contract exposes other KGS customers to  
2           potential risks that expenses will exceed revenues collected under the Contract and that  
3           revenues received from Fort Riley may not fully offset the revenue requirement  
4           attributable to serving Fort Riley. Mr. Grady acknowledged that other KGS customers  
5           may benefit from the Contract and recognized that if KGS's performance under the  
6           Contract does not result in a rate increase to other customers, the public interest will have  
7           been promoted by Commission approval of the Contract. Specifically, Mr. Grady  
8           reiterated that the privatization of the distribution system will advance the policy of the  
9           United States Department of Defense for privatizing utility functions on active military  
10          institutions. He also stated his belief that KGS should be able to offer safer and more  
11          reliable natural gas service on Fort Riley than the Government is able to provide. To  
12          address his concerns regarding customer impact and benefit, Mr. Grady recommended that  
13          the Commission should establish certain conditions to approval of the Contract.  
14          Specifically, he recommended that KGS should (a) establish and maintain identifiable  
15          subaccounts for all direct, incremental capital investments, revenues, and expenses  
16          associated with serving Fort Riley under the Contract; (b) provide testimony and supporting  
17          calculations in all future KGS rate cases or tariff change proceedings in Kansas detailing fully  
18          adjusted test year revenues, investments, accumulated depreciation and directly  
19          identifiable expenses associated with serving Fort Riley; (c) unequivocally agree that  
20          ratepayers should not experience a detriment from the Contract in future KGS rate cases  
21          or tariff changes affecting KGS rates; and (d) agree to file the CRC and underlying supporting  
22          documentation in a Commission compliance docket. Additionally, he recommended that

1 KGS should determine whether revenues recovered under the Contract in a subject test  
2 year exceed the revenue requirement associated with serving Fort Riley and identify  
3 adjustments necessary to eliminate any detriment to then current ratepayers.

4 Mr. Haynos' pre-filed testimony stated that the Fort Riley distribution system has  
5 not been subject to pipeline safety regulatory oversight since 1971 and that it does not  
6 appear that national pipeline safety standards have been applied to the system. Mr.  
7 Haynos noted that KGS's due diligence regarding the condition of the distribution system  
8 has been limited. He expressed the opinion that KGS's operation of the distribution  
9 system will enhance public safety, but also testified that he does not expect the distribution  
10 System to be in compliance with applicable safety standards on the day KGS assumes  
11 operations. Mr. Haynos identified the lack of known pressure test records as his greatest  
12 concern. Assuming other KGS customers are insulated from costs of addressing pipeline  
13 safety requirements, Mr. Haynos recommended approval of the Contract with the  
14 condition that KGS apply for a waiver of the requirements found in 49 C.F.R. Part 192.619  
15 as adopted by K.A.R. 82-11-4 (reduce pipeline operating pressure from current levels by at  
16 least 33% or pressure test old lines to 150% of operating pressure). He noted that the  
17 waiver request would also require approval from the Pipeline and Hazardous Materials  
18 Safety Administration ("PHMSA"). As part of the waiver request, he further  
19 recommended that KGS should: (a) complete semi-annual leak surveys for at least five  
20 years; (b) pressure test piping remaining in service if tests can be conducted safely and with  
21 minimal disruption; and (c) provide a replacement plan for obsolete piping.

22 On April 18, 2019, KGS provided rebuttal testimony of three witnesses. In the

1        rebuttal testimony, KGS generally agreed with the conditions proposed by Mr. Grady and  
2        Mr. Haynos.    Concerning the conditions set out in Mr. Grady's pre-filed testimony, KGS  
3        indicated agreement with the provision that the conditions be revisited in 2025.    KGS  
4        believes that it will have gained sufficient knowledge and experience regarding the  
5        distribution system to ascertain whether any detriment to other customers has been  
6        identified.    KGS's rebuttal testimony notes that direct, incremental expenses attributable  
7        to serving Fort Riley exclude expenses allocated on a causal or ONE Gas Distrigas basis.  
8        KGS also expresses the view that, with or without the conditions, approval of the Contract  
9        as presented serves the public interest and identifies reasons for that view.

10                In response to Mr. Haynos' recommendations, KGS indicated it has no objection to  
11        filing a request with the Commission (to be forwarded to PHMSA upon approval by the  
12        Commission) seeking a waiver of 49 C.F.R. 192.619, as adopted by K.A.R. 82-11-4.    In  
13        conjunction with the waiver request, KGS proposed an alternative compliance plan detailed  
14        in the rebuttal testimony of Randal B. Spector.    The alternative compliance plan states  
15        that KGS will:    (a) perform a complete leak survey of the distribution system during the  
16        transition period; (b) conduct a pot-hole survey of the distribution system; (c) conduct a  
17        review of all available records to identify any portion of piping where Maximum Allowable  
18        Operating Pressure ("MAOP") verifications are not available; (d) establish a minimum  
19        requirement of at least a bi-annual leak survey schedule for all portion of the distribution  
20        system where MAOP verifications are not available; (e) maintain the minimum leak survey  
21        frequency for a period of 5 years from the date of ownership of the distribution system (or  
22        until such time as adequate system repairs and upgrades have been made); (f) establish a

1 minimum requirement of at least a bi-annual leak survey schedule for portions of the  
2 distribution system where KGS has determined that pressure testing is unreasonable; (g)  
3 complete GIS mapping of the distribution system within 24 months of assuming ownership;  
4 and (h) enter relevant data into the Company's Asset Investment Planning and  
5 Management System to track, monitor, risk assess and plan for replacement of the pipeline  
6 system in a systematic, effective and efficient manner. Additionally, Mr. Spector stated  
7 that KGS will commit to operating untested piping at the lowest pressure necessary to  
8 provide safe, reliable service.

9 **III. TERMS OF THE AGREEMENT**

10 **Q. ARE YOU FAMILIAR WITH THE TERMS OF THE AGREEMENT?**

11 A. Yes, I am as I was personally involved in negotiating the terms of the Agreement. The  
12 Agreement specifies the following:

13 1) KGS will establish and maintain a cost center(s) specific to Fort Riley that will enable  
14 the Company to separately track and account for all direct, incremental capital investments  
15 and expenses, as well as the revenues associated with providing service to Fort Riley under  
16 the Contract. In all KGS rate cases or tariff rate change proceedings filed prior to 2030  
17 (after which this provision will be revisited), KGS will provide testimony and supporting  
18 calculations that detail:

19 a. The revenue recorded during the test year that is associated with the  
20 Contract, any adjustments to test year revenue, and the fully adjusted test year  
21 revenue reflected in the cost of service schedules;

22 b. The capital investments and accumulated depreciation recorded during the  
23 test year that is associated with the Contract, any adjustments to capital or  
24 accumulated depreciation, and the fully adjusted test year values for these  
25 categories as reflected in the cost of service schedules;

26 c. The direct, incremental expenses associated with serving Fort Riley under  
27 the Contract. Direct expenses are those expenses for which the responsibility  
28 can be specifically traced or attributed to serving Fort Riley. This includes:  
29 direct operating and maintenance expense, meter reading expense, payroll



1 expense, employee benefit expense, and any other direct expense specifically  
2 related to service Fort Riley under the Contract. (The Parties agree that this  
3 calculation specifically excludes all expenses allocated on a causal or ONE Gas  
4 Distrigas basis). These expenses will be identified for the test year, any  
5 adjustments to the test year, and for the fully adjusted test year;

6 d. The determination of whether the fully adjusted test year Contract revenues  
7 (as identified in (a) above) exceed the Commission authorized return on net  
8 investments and expense cost of service items specified in (b) and (c) above;  
9 and

10 e. The adjustment to the test year revenue that is necessary to eliminate any  
11 detriment of the Contract for current KGS customers. A detriment would  
12 occur if the result of the calculation in (d) above shows that the fully adjusted  
13 test year revenues are less than the cost of service items specified in (b) and  
14 (c).  
15

16 2) KGS agrees that other KGS customers should not experience a detriment resulting  
17 from the Contract in rate cases or tariff rate changes filed prior to 2030(after which this  
18 provision will be revisited). Here, detriment is defined as "a rate increase that would not  
19 have occurred but for the Contract."  
20

21 3) KGS will attest to the fact that either KGS customers are benefiting from the Contract  
22 or that the Company has made the appropriate adjustment in the rate case or tariff  
23 proceeding (as may be filed prior to 2030) to eliminate any detriment resulting from the  
24 Contract.  
25

26 4) The Parties recognize and agree that by 2030, KGS will have gained enough knowledge  
27 about and experience with the Fort Riley system, and would have also shared a significant  
28 amount of data with Staff sufficient to warrant revisiting the requirements and conditions  
29 in numbers 1, 2, and 3 above. If no detriment has been identified in this time-period, it  
30 may be reasonable to discontinue the administrative obligations contained within numbers  
31 1, 2, and 3. Therefore, the parties agree that KGS may initiate a formal Commission review  
32 and reevaluation of this provision prior to the conclusion of 2029. This review may be  
33 initiated by KGS either within an application of a formal rate case or other proceeding.  
34 To be clear, in the absence of a Commission Order approving the discontinuation of the  
35 conditions contained within numbers 1, 2, and 3, those conditions shall remain in full force  
36 and effect until otherwise ordered by the Commission.  
37

38 5) KGS will file, annually, the CRC and all documentation, work papers, and other

1 documentation necessary to support the CRC, in a compliance docket established by the  
2 Commission. This compliance docket will serve as the permanent repository for the CRC  
3 reporting and supporting data so that this information is available in the event that a  
4 dispute arises between KGS and the government or between KGS and any party to a future  
5 KGS rate case who is affected by the Contract.  
6

7 6) Prior to the transfer of the ownership of the Fort Riley distribution system, KGS shall:

- 8 a. Perform a complete leak survey of the distribution system during the  
9 formal transition period as provided in the Contract;
- 10 b. Work with Fort Riley personnel during the repair process of all Grade 1  
11 leaks to perform and record such repairs in a manner consistent with  
12 KGS practices;
- 13 c. Conduct a pot-hole survey of the system to aid in determining the type,  
14 location and condition of materials used throughout the distribution  
15 system;
- 16 d. Conduct a review of all available records and identify any portion of  
17 piping where MAOP verifications is not available;
- 18 e. Establish a minimum requirement of a bi-annual leak survey schedule  
19 for all portions of the distribution system where records of MAOP  
20 verification are not available. KGS will continue this minimum survey  
21 frequency for a period of 5 years from the date of ownership or until  
22 such time as adequate system repairs and upgrades have been made  
23 and a reduction of surveying has been agreed to by Staff; and,
- 24 f. Establish a minimum requirement of at least a bi-annual leak survey  
25 schedule for all portions of the distribution system where the Company  
26 has determined that pressure testing is unreasonable under the  
27 circumstances.

28 7) Within 24 months of assuming ownership of the system, KGS will complete the  
29 Geographic Information System ("GIS") mapping of the Fort Riley distribution system and  
30 enter relevant data into the Company's Asset Investment Planning and Management  
31 system designed by Copperleaf Technologies and commonly referred to by KGS as "C-55".  
32 C-55 enables the Company to track, monitor, risk assess and plan for replacement of the  
33 pipeline system in a systematic, effective and efficient manner.  
34

35 8) KGS will operate untested piping at the lowest pressure necessary to provide safe,  
36 reliable service, but in no case will the maximum allowable operating pressure of untested  
37 piping exceed its current operating pressure.  
38

1        9) KGS will file a request with the Commission (to be forwarded to PHMSA upon approval  
2 of the Commission) seeking a waiver of 49 C.F.R. 192.619, as adopted by K.A.R. 82-11-4.  
3 A copy of the waiver is provided as Attachment 1 to the Agreement. Based upon the  
4 conditions set forth in numbers 6-8 above, the Parties recommend that the Commission  
5 approve the waiver.

6 **Q. DOES THE AGREEMENT PROVIDE FOR A REASONABLE RESOLUTION TO ISSUES IN THIS**  
7 **PROCEEDING?**

8 A. Yes. The Parties had differing opinions about certain issues raised in this case, and yet,  
9 were able to negotiate a compromise that satisfied each Party.

10 **IV. COMMISSION STANDARDS FOR REVIEW OF AGREEMENT**

11 **Q. ARE YOU FAMILIAR WITH THE FACTORS THE COMMISSION CONSIDERS WHEN**  
12 **REVIEWING A PROPOSED SETTLEMENT AGREEMENT?**

13 A. Yes, I am. I understand there are five factors the Commission considers when reviewing  
14 a proposed settlement agreement, and I have reviewed several of the Commission's orders  
15 since the Commission adopted its five-factor test in 2008.

16 **Q. CAN YOU IDENTIFY THOSE FIVE FACTORS?**

17 A. The five factors the Commission considers when reviewing proposed settlement  
18 agreements are as follows:

- 19 (1) Whether there was an opportunity for the opposing party to be heard on their  
20 reasons for opposition to the Agreement;
- 21 (2) Whether the Agreement is supported by substantial competent evidence;
- 22 (3) Whether the Agreement conforms with applicable law;
- 23 (4) Whether the Agreement results in just and reasonable rates; and
- 24 (5) Whether the results of the Agreement are in the public interest.

1    **Q.    WHO ARE THE PARTIES TO THIS DOCKET?**

2    A.    As stated above, the parties to this proceeding include Staff and CURB.

3    **Q.    ARE THERE ANY ISSUES NOT ADDRESSED IN THE AGREEMENT THAT ANY OF THE PARTIES**  
4    **WISH TO LITIGATE?**

5    A.    No, the Agreement resolves all issues in this docket.

6    **Q.    WHO PARTICIPATED IN THE SETTLEMENT NEGOTIATIONS IN THIS DOCKET?**

7    A.    Representatives from KGS, Staff, and CURB participated in the settlement negotiations.  
8    Beginning April 22, 2019, and extending through April 24, 2019, Parties exchanged  
9    documents setting out terms of a possible settlement of the issues in this docket. A  
10   settlement of all issues was reached by KGS and the Parties. The Agreement was filed  
11   with the Commission on April 29, 2019.

12   **Q.    DID ALL PARTIES WHO WILL BE IMPACTED BY THE AGREEMENT HAVE AN OPPORTUNITY**  
13   **TO BE HEARD WITH RESPECT TO THE TERMS OF THE AGREEMENT?**

14   A.    Yes. All parties impacted by the terms contained in the Agreement participated in the  
15   settlement discussions.

16   **Q.    IS THE SETTLEMENT AGREEMENT AMONG THE PARTIES IN CONFORMITY WITH THE**  
17   **FACTORS THE COMMISSION USES TO REVIEW SETTLEMENTS?**

18   A.    Yes. Although the factors established by the Commission have a legal application, it is my  
19   understanding all the parties agree that the established standards have been met. A legal  
20   analysis in the Joint Motion addresses these points.

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

22   A.    Yes, it does.

**VERIFICATION OF JANET L. BUCHANAN**

STATE OF KANSAS, COUNTY OF JOHNSON, ss:

I, Janet L. Buchanan, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing Testimony in Support of the Settlement Agreement; that I have read the testimony and am familiar with its contents; and that the facts set forth therein are true and correct.

  
\_\_\_\_\_  
Janet L. Buchanan

SUBSCRIBED AND SWORN to before me this 3<sup>rd</sup> day of May, 2019.

  
\_\_\_\_\_  
Notary Public

Appointment/Commission Expires: 06/05/22



### CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing Testimony of Janet L. Buchanan in Support of the Settlement Agreement was sent via electronic mail, this 3<sup>rd</sup> day of May, 2019, addressed to:

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