

In the Matter of the Application)
of Kansas Gas Service, A)
Division of ONE Gas, Inc. for) DOCKET NO. 16-KGSG-____-RTS
Adjustment of its Natural Gas)
Rates in the State of Kansas)

DIRECT TESTIMONY
OF
CARON A. LAWHORN
ON BEHALF OF
KANSAS GAS SERVICE
A DIVISION OF ONE GAS, INC.

DIRECT TESTIMONY

OF

CARON A. LAWHORN

KANSAS GAS SERVICE

DOCKET NO. 16-KGSG-___-RTS

1 **I. POSITION AND QUALIFICATIONS**

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

3 A. My name is Caron A. Lawhorn. My business address is 15 E. 5th Street Tulsa,
4 Oklahoma 74103.

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

6 A. I am Senior Vice President, Commercial, for ONE Gas, Inc. (“ONE Gas” or the
7 “Company.”) In that role, I am part of the ONE Gas executive management
8 team, with responsibility for the commercial activities of our three natural gas
9 distribution utilities – Kansas Gas Service (“Kansas Gas” or “KGS”), Oklahoma
10 Natural Gas, and Texas Gas Service – including business development,
11 customer service, gas supply, and rates and regulatory. Each of our utilities
12 operates as a division of ONE Gas.

13 **Q. PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL EXPERIENCE**
14 **BEFORE ONE GAS.**

15 A. I began my career at the international auditing firm KPMG. I served for a brief
16 time as Chief Financial Officer of the Emergency Medical Services Authority. I
17 joined ONEOK, Inc. (“ONEOK”) in 1998 and served in a variety of roles, including
18 Senior Vice President of Financial Services and Treasurer and Senior Vice
19 President and Chief Accounting Officer. In 2009, I was named Senior Vice

1 President, Corporate Planning and Development. In that role, I was responsible
2 for business development, strategic and long-range planning and capital
3 investment. In 2011, I became President of ONEOK's natural gas distribution
4 utilities. I assumed my current role in 2013.

5 **Q. IS THERE ANYTHING ABOUT YOUR EDUCATIONAL BACKGROUND OR**
6 **EXPERIENCE THAT HAS ALLOWED INSIGHT INTO THE ISSUES RAISED**
7 **BY THE CURRENT RATE FILING?**

8 A. From an educational perspective, I graduated from the University of Tulsa with a
9 Bachelor of Science in Business Administration degree. I practiced as a certified
10 public accountant for many years (although I am now inactive due to my current
11 role). In addition, I participated in the Harvard Business School's Advanced
12 Management Program in 2010. From an industry perspective, partly in
13 connection with my service as a member of the Board of Directors of the
14 Southern Gas Association, where I currently serve as Secretary/Treasurer, I
15 have attended numerous industry conferences that are relevant to the natural
16 gas distribution business. I believe I am well qualified to provide testimony in this
17 case.

18 **Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR**
19 **DIRECTION?**

20 A. Yes, it was.

1 **II. EXECUTIVE SUMMARY**

2 KGS and its predecessors have proudly provided natural gas service to Kansas
3 customers since the early 1920's. While much has changed since the inception of
4 the company, our goal is essentially the same – to provide our customers with safe
5 and reliable natural gas service and in doing so, earn a fair and reasonable rate of
6 return for our shareholders. Ensuring through the rate-making process that
7 Kansas Gas has an opportunity to earn a reasonable rate of return is essential to
8 its ability to attract capital from investors. In this filing, KGS demonstrates that it is
9 currently earning well below its allowed rate of return. Accordingly, KGS seeks an
10 increase in its rates in this filing. For residential customers, the proposed increase
11 is \$4.34 per customer per month.

12 Additionally, KGS proposes to implement an annual cost of service adjustment
13 mechanism to streamline the regulatory process, bring increased transparency to
14 KGS's cost structure and reduce (but not eliminate) the regulatory lag that, in the
15 current model which relies on large periodic rate cases, and prevents KGS the
16 opportunity to earn its allowed rate of return.

17 My testimony provides the KCC with background information about ONE Gas,
18 KGS and the separation of ONE Gas from ONEOK. I provide my perspective on
19 certain key aspects of this case. Finally, I provide an introduction of the Company
20 witnesses who have filed Direct Testimony in this case.

21 **III. BACKGROUND**

22 **Q. COULD YOU PLEASE PROVIDE THE COMMISSION WITH SOME**
23 **BACKGROUND ABOUT ONE GAS AND KGS?**

24 A. ONE Gas is in its third year as a stand-alone, fully regulated natural gas utility
25 trading on the New York Stock Exchange under the symbol "OGS." ONE Gas

1 was spun out of ONEOK in January 2014, and now operates as an independent
2 natural gas distribution company focusing on delivering natural gas safely and
3 reliably to customers in three states – Kansas, Oklahoma, and Texas.
4 Headquartered in Tulsa, ONE Gas is the third largest publicly traded natural gas
5 distribution utility in the United States.

6 Although ONE Gas is relatively new, KGS and its predecessors have been
7 serving customers in Kansas since the mid-1920s. KGS provides vital energy
8 services to over 340 communities and 635,000 customers in Kansas. ONE Gas
9 has 3,300 employees, 1,000 of which are located in Kansas, and operates
10 11,394 miles of mains and over 629 thousand services in Kansas. The
11 management team and employees responsible for providing natural gas services
12 to KGS customers are substantially unchanged as a result of the separation from
13 ONEOK. KGS employees have a proven track record and pride themselves on
14 the quality, safety, and reliability of the service provided to our customers and
15 KGS looks forward to continuing that tradition.

16 **Q. WHAT IS THE ONE GAS VISION?**

17 A. Our vision is to be a premier natural gas distribution company, creating
18 exceptional value for our stakeholders – customers, employees, the communities
19 we serve and investors.

20 **Q. WHAT DOES THAT MEAN FOR YOUR CUSTOMERS?**

21 A. Achieving this vision requires that we create value by balancing the needs of our
22 customers, employees, and investors and by attracting, selecting, developing
23 and retaining a diverse group of high-performing employees.

24 **Q. WHAT IS THE ONE GAS MISSION?**

25 A. We deliver natural gas for a better tomorrow.

1 **Q. WHY THE FOCUS ON TOMORROW?**

2 A. The ongoing evolution of our industry creates greater competition and, at the
3 same time, greater customer choice. These changes will yield exciting new
4 opportunities to serve customers who have trusted us as their reliable source of
5 natural gas. We must prepare for that future by leveraging technology to
6 enhance our field and customer service capabilities and to allow us to make
7 continuous improvements in our pursuit of excellence.

8 **Q. HAS THE COMPANY DEVELOPED A FRAMEWORK TO ACCOMPLISH THIS**
9 **MISSION?**

10 A. Yes, we have. Our strategy of “Becoming ONE: One in Responsibility – safety,
11 reliability and compliance; ONE in Value – employees, investors, customers, and
12 communities; and ONE in Industry – recognized leader, processes and
13 productivity” provides a framework to accomplish our mission.

14 **Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THE COMPANY IS EXECUTING**
15 **ITS STRATEGY OF BECOMING ONE AND HOW THAT BENEFITS YOUR**
16 **CUSTOMERS?**

17 A. One example is our commitment to being an industry leader in safety. One of
18 our goals is to be in the first quartile of our industry peers with respect to three
19 important safety metrics – preventable vehicle incident rate, total recordable
20 injury rate and days away, restricted and transferred. One of our mantras is
21 “Zero is Possible,” meaning we seek to prevent all injuries and vehicle incidents.
22 Our performance with respect to these metrics has steadily improved over the
23 last several years. We have a number of initiatives underway to improve safety,
24 including training our employees in Smith Safe Driving techniques, installation of
25 cameras in vehicles to capture incidents and near misses for purposes of

1 coaching employees on safe driving, Behavior-Based Safety programs, which
2 encourage employees to look out for one another, and others. With respect to
3 system safety, we also strive to be an industry leader. Our mantra in this respect
4 is “zero harm” to employees, customers and communities. We continually seek
5 to improve our processes for risk assessment and risk mitigation as part of our
6 integrity management programs, as well as our procedures for ensuring full
7 compliance with all laws and regulations. We have partnered with the
8 Commission on various pipeline replacement programs, including programs to
9 replace bare steel service lines and cast iron pipe.

10 **Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO ADD ABOUT THE**
11 **SEPARATION OF ONE GAS FROM ONEOK?**

12 A. Yes there is. The Commission approved the separation of ONE Gas from
13 ONEOK in Docket No. 14-KGSG-100-MIS (“100 Docket”). Customers of Kansas
14 Gas have already seen tangible benefits as a result of the Unanimous Settlement
15 Agreement approved in that docket, including:

- 16 • A rate moratorium resulting in no increase in rates to Kansas Gas
17 customers, except for increases in connection with the GSRS, for a four-
18 year period ending on January 1, 2017;
- 19 • The elimination of a regulatory asset in the amount of \$10.2 million;
- 20 • A rebate in the form of a fixed bill credit in the amount of \$3,423,000 in
21 April 2014, 2015 and 2016;
- 22 • A limit on equity portion of the capital structure in this proceeding of 55%,
23 which, based on ONE Gas’ actual equity in its capital structure, results in
24 a revenue requirement that is \$6.3 million lower than if our request were
25 based upon our actual capital structure;

1 Further, I would like to note that all transaction costs were paid by ONEOK.
2 These costs included legal expenses, consulting costs, brokerage expenses,
3 debt breakage, accounting expenses, and auditing fees.

4 **Q. ARE THERE OTHER ASPECTS OF THE SEPARATION DOCKET YOU WISH**
5 **TO DISCUSS?**

6 A. Yes. In the Unanimous Settlement Agreement, certain performance metrics
7 were introduced. KGS is required to report on these metrics on an annual basis.

8 **Q. IN THE TWO YEARS SINCE THE METRICS HAVE BEEN IN EFFECT, HAS**
9 **KGS MET THE PERFORMANCE STANDARDS ESTABLISHED IN THE**
10 **AGREEMENT?**

11 A. Yes. KGS has met each standard established in the Separation Docket. Those
12 related to Customer Service are identified on Table CAL-1 below. The standards
13 related to operations are described in Mr. Okenfuss' testimony and contained in
14 Table DJO-1. The results demonstrate another measure of the quality of service
15 KGS is providing its customers.

Table CAL-1

Kansas Gas Service
Performance under Metrics established in Docket No. 14-KGSG-100-MIS

Metric	Years	Standard Metric	Apr 14 - Mar 15	Apr 15 - Mar 16
Total Answered Call Rate	All	94.50%	95.31%	98.08%
Est. Bills per 1000 Customers	All	224 Annual Bills or Less	120	117
KCC Contacts Response within 24hr	N/A	N/A	95.5%	98.80%

16
17

18 **IV. KEY ASPECTS OF THIS CASE**

19 **Q. WHAT ARE THE KEY ASPECTS OF THIS CASE?**

20 A. I view the following as the key aspects of this case:

- 1 • As shown in Schedule 3 of the minimum filing requirements as identified
- 2 in Mr. Dittmore's testimony, KGS is currently earning below an
- 3 appropriate rate of return;
- 4 • As discussed in the testimony of KGS witness Dr. Bruce Fairchild, KGS's
- 5 rates should be adjusted to produce a rate of return of 7.2798%;
- 6 • Capital investments made since KGS's last rate case, including
- 7 investments in information technology, are prudent;
- 8 • The pro-forma level of operating and maintenance expenses, including
- 9 incentive compensation, are necessary, reasonable and prudent;
- 10 • To reduce the frequency of large, periodic rate cases and the associated
- 11 rate case expenses, KGS proposes to implement an annual cost of
- 12 service adjustment.

13 **Q. COULD YOU PLEASE PROVIDE SOME ADDITIONAL INFORMATION ABOUT**
14 **ONE GAS' CAPITAL INVESTMENTS IN INFORMATION TECHNOLOGY?**

15 A. ONE Gas is focused on investing in technology to improve efficiency,
16 effectiveness, customer satisfaction, compliance and information security. With
17 respect to asset investment and planning, we have implemented new technology
18 to enhance our planning process and expand our planning horizon. These
19 investments increase the safety and reliability of our system and ensure that
20 capital investments are made in a cost-effective and efficient manner. ONE Gas
21 recently launched a new work management system to increase operational
22 capabilities and efficiencies. This new system provides enhanced dispatching of
23 operations, enhanced data capture through integrated record-keeping, the
24 elimination of paper, and improved mapping. Crews now have information and
25 records about our facilities available on their mobile devices and they are

1 capturing their work electronically in the field. We have also implemented
2 enhanced customer service technologies focused on making it easier for our
3 customers to do business with us by allowing customers more options for self-
4 service through our website, interactive voice response system and a new mobile
5 application. We have made technology investments to replace obsolete
6 technology and provide system upgrades which: 1) enhanced system flexibility;
7 2) improved the Company's ability to recover data in the event of a disaster; 3)
8 enhanced the Company's storage systems; 4) improved server networking and
9 backup capabilities; 5) improved the security over the Company's information
10 systems.

11 **Q. PLEASE PROVIDE YOUR PERSPECTIVE ON WHY SHOULD KGS BE**
12 **ALLOWED TO RECOVER ITS EXPENSES ASSOCIATED WITH INCENTIVE**
13 **COMPENSATION PROGRAMS FOR ITS EMPLOYEES.**

14 A. We work very hard to attract, select, develop and retain a diverse group of
15 talented employees so that we can provide our customers with safe, reliable and
16 responsive service. Providing a competitive compensation package to our
17 employees is essential to our efforts to attract and retain a high-performing
18 workforce. ONE Gas designs its total compensation package for non-bargaining
19 unit employees to target the middle of the local job markets (for both utility and
20 non-utility businesses) in which ONE Gas and its divisions compete for talent.
21 Another objective of our compensation philosophy is to reward employees based
22 on their performance. Our compensation plan includes base pay, short-term
23 incentive compensation and, for certain employees, long-term incentive
24 compensation. Incentive pay is earned through a combination of the
25 corporation's safety and financial performance and individual performance. By

1 incenting our employees in this manner through variable pay that is at-risk,
2 employees are motivated to be safe and to operate efficiently and effectively,
3 which benefits both customers and shareholders.

4 **Q. WHY IS INCENTIVE COMPENSATION RECOVERY AN ISSUE OF**
5 **PARTICULAR IMPORTANCE TO THE COMPANY IN THIS CASE?**

6 A. As further discussed in the Direct Testimony of Anna Kern, ONE Gas is not
7 unique in including incentive at-risk compensation as part of its overall
8 compensation package for non-bargaining unit employees. And, the metrics
9 used by ONE Gas to determine incentive compensation are consistent with those
10 used by other companies, both regulated utilities and non-regulated companies,
11 as part of their incentive compensation programs. Moreover, the incentive
12 compensation costs that make up the Company's overall compensation package
13 are reasonable and are an essential component of the total compensation that is
14 paid to employees performing the work required to ensure the safe and reliable
15 provision of utility service. As such, these costs are necessary and prudent and
16 should be recovered in rates. If any these expenses are disallowed, Kansas Gas
17 will be prohibited from having a reasonable opportunity to earn its authorized rate
18 of return.

19 **Q. WHY DOESN'T ONE GAS SIMPLY CONVERT INCENTIVE COMPENSATION**
20 **INTO BASE PAY?**

21 A. The concept of compensating employees based solely on base pay is an
22 outdated practice and one that would place the Company at a competitive
23 disadvantage. The Company's ability to attract and retain highly skilled
24 employees has a very real and direct effect on the quality of the service we
25 deliver to our customers. Not only are we competing with other utilities for

1 talented employees, but we also compete with non-regulated local firms and
2 businesses who offer incentive compensation. Providing employees the
3 opportunity to earn compensation in addition to their base pay is an integral
4 component of our ability to attract and retain talented employees.

5 **Q. PLEASE EXPLAIN WHY YOU BELIEVE A COST OF SERVICE ADJUSTMENT**
6 **("COSA") TARIFF IS APPROPRIATE FOR KGS?**

7 A. Currently, there are two primary ways for natural gas utilities in the state of
8 Kansas to seek adjustments to their rates: the Gas System Reliability Surcharge
9 ("GSRS") and periodic rate cases. The GSRS is beneficial in reducing, but
10 certainly not eliminating, regulatory lag on KGS's investments in safety-related
11 capital projects and government relocations. Since the last rate case, KGS has
12 invested \$230 million in capital expenditures, of which only \$72 million has been
13 included for GSRS recovery. The only opportunity to reflect these investments in
14 KGS's revenue requirement, given the current regulatory model, is through a full
15 rate case. A mechanism, such as a COSA, that allows for a review of KGS's
16 earnings, revenue requirement, all capital investments and expenses on an
17 annual basis would provide the opportunity for adjustments to KGS's rates
18 between rate cases. This approach reduces regulatory lag and would provide
19 KGS with a greater opportunity to earn its allowed rate of return without the time
20 and expense associated with a full rate case. Additional benefits of an annual
21 mechanism include increased transparency and efficiency that benefits the
22 Commission, customers and the Company. Detailed information on the proposed
23 mechanism is provided in the testimony of Company witness David Dittmore.

24 **Q. PLEASE ELABORATE ON YOUR STATEMENT THAT KGS IS NOT**
25 **AFFORDED THE OPPORTUNITY TO EARN ITS ALLOWED RATE OF**

1 **RETURN GIVEN THE CURRENT REGULATORY FRAMEWORK THAT**
2 **RELIES HEAVILY ON PERIODIC RATE CASES.**

3 A. A number of factors contribute to a utility's ability to earn its rate of return and to
4 continue doing so for extended periods between rate cases. These factors
5 include, but are not limited to:

- 6 • The outcome of the most recent rate case;
- 7 • Growth in overall rate base, from that authorized in the last base
8 proceeding plus GSRS approved investments;
- 9 • The existence of riders that address fluctuating expenses (such as KGS's
10 ad valorem tax rider);
- 11 • An environment where operating expenses can be maintained at levels
12 built into the most recent rate case, which is particularly challenging in the
13 face of upward pressure on a utility's costs from new pipeline safety rules
14 and regulations, labor cost increases, the increasing cost of keeping
15 information systems safe from cyber threats, and so on;
- 16 • The extent to which the utility generates incremental net margin from
17 customer growth;
- 18 • The extent to which the utility is exposed to declining volumes from
19 energy efficiency.

20 For KGS, the combination of these factors prevents it from having an opportunity
21 to earn its allowed rate of return between rate cases.

22 **Q. DO YOU HAVE EXPERIENCE WITH ANNUAL MECHANISMS IN OTHER**
23 **JURISDICTIONS IN WHICH ONE GAS OPERATES?**

24 A. Yes I do. In Oklahoma, where we have state-wide rates, Oklahoma Natural Gas
25 has operated under an annual performance-based rate mechanism since 2009.

1 In Texas, where we have jurisdictional rates, several of Texas Gas Service's
2 jurisdictions operate under an annual cost-of service adjustment, some for many
3 years. We believe these annual mechanisms are beneficial to all stakeholders.
4 Regulators benefit from increased transparency because the utility's rates are
5 reviewed annually; customers and shareholders benefit from lower rate case
6 expenses and the absence of "rate shock," which can be the result of a large,
7 periodic rate cases.

8 In my opinion, the COSA tariff will better recognize the costs of providing service
9 in a manner which balances the risk/reward dynamic between customers and
10 shareholders. Further, there are customer protections built into the mechanism
11 which ensures that KGS continues to maintain its incentive to control costs.
12 Thus, the COSA tariff will permit KGS a better opportunity to earn its authorized
13 rate of return than the current regulatory model in Kansas, but it does not
14 guarantee that KGS will earn its authorized return. Please see the testimony of
15 Mr. Dittmore for additional details.

16 **V. INTRODUCTION OF COMPANY WITNESSES**

17 **Q. WHO ARE THE WITNESSES SUBMITTING DIRECT TESTIMONY ON THE**
18 **COMPANY'S BEHALF?**

19 A. In addition to my testimony, the Company's witnesses and the subjects
20 addressed in the testimony of each are identified below:

21 David Dittmore, Director of Regulatory Affairs for KGS, sponsors the
22 Company's the Minimum Filing Requirements, ("MFR"), the Company's proposal
23 for a Cost of Service Adjustment ("COSA") mechanism and certain other
24 adjustments;

1 Rick Grundman, Vice President of Rates and Regulatory Affairs for ONE
2 Gas, sponsors supportive testimony for the COSA mechanism;

3 Dennis Okenfuss, Vice President of Operations for KGS, provides an
4 overview of KGS operations and discusses the Company's compliance and
5 regulatory programs;

6 Lorna Eaton, Manager, Rates/Regulatory Analysis and Compliance for
7 KGS, sponsors certain adjustments;

8 Crystal Turner, Rates Analysts I for ONE Gas, sponsors certain
9 schedules and corporate adjustments related to corporate allocated (also known
10 as Dstrigas) costs;

11 Justin Clements, Rates Analysts II in KGS Regulatory Affairs, provides
12 testimony on the Company's proposed Tariff modifications and updates required
13 to implement the rates proposed in this filing;

14 Mark Smith, Vice President of Treasury for ONE Gas, sponsors the
15 Company's proposed treatment of the Pension Trackers and an adjustment
16 related to pension savings generated by ONE Gas;

17 Anna Kern, Manager of Human Resources for ONE Gas, provides
18 testimony on the Company's compensation plan;

19 Robert Mustich, Managing Director with Willis Towers Watson, testifies
20 with respect to how the Company's compensation plan compares to other
21 companies' compensation plans..

22 Paul Raab, independent economic consultant, sponsors the Company's
23 Weather Normalization and Customer Annualization adjustments, the Class Cost
24 of Service study and the Company's proposed Rate Design;

1 Ron Edelstein, Director of Regulatory and Government Relations for the
2 Gas Technology Institute, provides testimony as to the reasonableness of the
3 Company's request for a mechanism to recover test year Gas Consumer
4 Research and Development expenses;

5 Bruce H. Fairchild, principal in Financial Concepts and Applications, Inc.,
6 provides testimony regarding KGS's capital structure, a reasonable cost of
7 equity, and the overall cost of capital that should be used to set KGS's rates; and

8 Dr. Ronald E. White, Chairman and Senior Consultant of Foster
9 Associates, Inc., presents the findings of a depreciation study conducted at our
10 request.

11 **VI. CONCLUSION**

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 A. Yes.

VERIFICATION

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

Caron A. Lawhorn, being duly sworn upon her oath, deposes and states that she is Senior Vice President, Commercial for ONE Gas, Inc.; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.



NAME

Subscribed and sworn to before me this 27th day of April 2016.



NOTARY PUBLIC

My appointment Expires:

1-15-2018

