BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of American Energies Gas Service, LLC, to Change its Rates for Natural Gas Service and for Approval of its New Agreements with American Energies Pipeline, LLC	))))	Docket No. 15-AEGG-158-RTS

AMERICAN ENERGIES GAS SERVICE, LLC'S RESPONSE TO STAFF'S REPORT AND RECOMMENDATION

Pursuant to the Order Setting Procedural Schedule issued by the Kansas Corporation Commission ("Commission") on December 23, 2014, in the above captioned docket, American Energies Gas Service, LLC ("AEGS") files the following response to the Commission Staff's ("Staff") Report and Recommendation filed on February 6, 2015 ("Staff Report").

I. INTRODUCTION

1. AEGS has no objection to that portion of the Staff Report that recommends that the gas gathering fee in the new Natural Gas Sales Agreement between AEGS and American Energies Pipeline, LLC ("AEPL") be set at $1.45 per Mcf.

2. AEGS has no objection to the changes proposed by Staff to the Operational Services Agreement between AEGS and AEPL.

3. AEGS has no objection to the changes proposed by Staff to the Natural Gas Sales Agreement between AEGS and AEPL.

4. AEGS has no objection to Staff's recommendation that AEGS adopt the FERC Uniform System of Accounts.

5. AEGS agrees with Staff's recommendation that the actual rate case expense incurred by AEGS after December 31, 2014, be updated.

6. With respect to Staff's recommendation regarding AEGS's revenue requirement and

operating expenses, AEGS objects to Staff's adjustment that would reduce the utility's test year administrative and general ("A&G") expenses by $39,424. Staff averaged 2012 A&G expenses taken from AEGS's 2012 annual report with the 2013 test year actual A&G expenses in making its adjustment. AEGS explains the basis for its objection to Staff's adjustment below in more detail. However, for summary purposes, the reason for the objection is that the 2012 A&G expenses taken from AEGS's 2012 annual report by Staff to make its adjustment were incorrect and do not reflect actual costs to operate the utility.

7. AEGS objects to Staff's recommended rate design. If Staff's adjustment to AEGS's A&G expenses is not accepted by the Commission, then acceptance of Staff's other adjustments results in a rate increase very close to the rate increase proposed by AEGS, after taking into account the additional rate case expense. Accordingly, and as discussed below in more detail, AEGS proposes that the rate increase be collected through an increase in the monthly customer charge and that the commodity charge remain unchanged. As set forth in AEGS's amended application, its current monthly customer charge is significantly below the monthly customer charges paid by customers of the other gas utilities in the state.

8. Finally, AEGS objects to Staff's recommendation that AEGS not be allowed to increase some of its service fees and charges to better reflect the actual cost incurred by AEGS to provide those services to its customers. As with its customer charge, AEGS's service fees and charges for such things as connection charges and return check charges, are significantly below what other gas utilities in the state are allowed to charge their customers.

9. AEGS's objection to Staff's adjustment to AEGS's test year A&G expenses, Staff's recommendation regarding rate design and its recommendation on not increasing service fees and charges is set forth in more detail below.

10. To the extent that AEGS's objections can't be resolved with Staff regarding these three contested issues, AEGS would request that the Commission issue an order that approves the Natural Gas Sales Agreement between AEGS and AEPL as modified by the Staff's recommendation and a hearing be held on the scheduled date (May 20, 2015) limited to the three contested issues.

II. A&G EXPENSES

11. A&G Expenses are generally made up of payroll and general costs incurred in the management and operation of the utility business. In this case, it is those expenses incurred by AEPL in managing and operating AEGS's Kansas utility business. The A&G expenses to manage and operate AEGS's Kansas utility business during the test year were $124,390. Instead of using that number in its cost of service, Staff used the sum of the test year (2013) A&G expenses ($124,390) and the A&G expenses reported in AEGS's 2012 annual report filed with the KCC ($45,451) divided by two to adjust the A&G expenses included in the Staff's cost of service to $84,965, or a decrease in A&G expenses of $39,424. This one adjustment turns what was a $22,000 rate increase into the $21,000 rate decrease being proposed by Staff. There are several reasons set forth herein as to why Staff's adjustment should not be accepted by the Commission.

12. First, the A&G expenses of $45,451 contained in AEGS's 2012 annual report filed with the KCC are incorrect and not reflective of the actual annual A&G expenses incurred to operate the utility. The controller and accountants could not locate the source documents used to create the 2012 annual report and the persons that prepared it no longer work for AEGS. Therefore, AEGS stated that it appeared that the amount ($45,451) included in the 2012 annual report only reflected the A&G costs for the five-month period in which the utility was operated by the current owner. Therefore, AEGS has filed a corrected 2012 annual report to clarify that the operating expense information contained in the report only reflects the five months in which it operated the utility. AEGS has also recently

filed a supplemental or corrected 2013 annual report. The A&G expense reflected in that report was $121,060. AEGS has also recently determined its A&G expenses for 2014. They are also in line with the 2013 test year expenses, demonstrating that the test year A&G expenses accurately reflect the actual A&G expenses incurred to manage and operate the utility. For Staff to utilize the 2012 annual report A&G expense, which is inaccurate and appeared to reflect a five-month instead of a 12-month period, thus significantly reducing the test year A&G expense is not appropriate and will not allow the utility the ability to recover its fair cost to operate and manage the utility.

13. In addition, in the Staff Report, Staff makes the statement that AEGS did not provide work papers with sufficient detail to support the test year A&G expenses. *Staff Report, page 7*. However, Staff does not provide any basis or support for that conclusion and AEGS disagrees with Staff's statement. AEGS provided Staff with a detailed general ledger that contained every expense incurred in connection with the operation of the utility in 2013 in response to Staff Information Request No. 1.[1] It also provided Staff with audited financial information. Like other gas and electric utilities regulated by the Commission, in order to allocate time and payroll of a manager or employee, who performs tasks for the utility and for the other divisions of the company or for operations located in other states, it is necessary for AEGS and ultimately the Staff to use a reasonable allocation factor to assign that portion of the manager's or employee's total salary and payroll to account for the work performed for the Kansas utility and the work performed that should not be assigned to the Kansas utility because that work was done for either another division or for operations located in other states. Most of the payroll assigned to AEGS was based upon the employee directly assigning his or her time spent on utility business to the utility. In a few situations, AEGS used a reasonable allocation factor

[1] A detailed trail balance and a detailed test year activity as recorded in the General Ledger for both AEGS and AEPL was provided. The detailed activity of AEGS provided complete details of all of its 2013 expenses, including its A&G expenses.

in assigning management and employees' payroll expenses to the Kansas utility so that only that portion of the payroll expenses for work performed for the Kansas utility were assigned to Kansas and/or assigned to the Kansas utility as opposed to work performed for an entity that was not the Kansas utility. Staff has the right to question whether the allocation factors used by AEGS in its filing were unreasonable for a particular reason, something that they have not done in the Staff Report. However, to suggest that AEGS did not provide sufficient detail to support the test year A&G expenses is untenable and should be rejected by the Commission. If Staff's issue is that AEGS could not provide sufficient details for the period in which the current owner did not operate the utility, then that is not a fair complaint to make against the current owner for the reasons set forth below.

14. Staff provides a history of the utility now known as AEGS in the background section of the Staff Report. This background information alludes to the difficulty Staff had in developing a cost of service to establish a basis for setting rates in a previous docket (Docket No. 07-AEGG-465-RTS). Specifically the background information states that Staff could not establish a basis of allocating assets between Mac County Gas (the current AEGS) and Gas Products and Supply (the current AEPL or gathering system). Staff then began discussions with the then applicants to transfer the assets between the two entities to form what is AEGS - a retail supplier of natural gas to approximately 216 residential and General Service customers and provide transportation service to two municipalities and one commercial customer. Additionally Staff relied upon a calculation from the former owners of a fee to operate the regulated natural gas utility which would be paid to the gathering company. That fee was set at $10,650 per month.

15. Examining the components of the fee it should have been clear that the fee was not sufficient given the criticism of the companies accounting controls. The components of the fee consisted of one clerical employee, a 50% allocation of one field service employee, related benefits

to the employees, a share of expenses for the pickup used by the field employee, One Call expenses, insurance, $275 of office supplies and expenses and $1,775 Administrative supervisory expenses.[2]

16. In 2012, Trek Resources acquired AEPL, the former Gas Products & Supply, Inc. and AEGS, the former Mac County Gas. Following the acquisition Trek Resources implemented accounting controls of these companies to better control and manage the financial aspects and operations of the entities. This included reflecting on the books and records of AEPL[3] and AEGS the actually incurred expenses of each entity or operating area. Employees are shared between AEPL and AEGS. In the test year 2013, there were seven employees that allocated a portion of their time to AEGS. The allocations varied between 8% to 40%, plus one employee that charged time directly as incurred. Additionally it is noted that Trek Resources has an external accounting firm that audits the books of AEGS and AEPL and Trek Resources employees devote time to matters of AEGS or AEPL and charge time based on an hourly billing rate to these companies.

17. A comparison of the hand written document forming the basis of the old Operating Fee of $10,650 and the current expenses provide evidence that Trek Resources did in fact institute accounting and management controls on these companies to address the deficiency noted by Staff in its Report and Recommendation in the 07-465 Docket.

18. Staff's reliance on the Kansas Supplemental Reports from 2009 through 2012 is egregious. Staff acknowledged that during the 2007 rate filing of Mac County Gas it could not establish a cost of service to set rates for the utility. Staff specifically noted the difficulty determining a rate base. Moreover, Staff relied on the company to establish an Operating Fee. There was also

[2]The document provided creating the operational fee of $10,650 was provided by Staff and is attached hereto.

[3]AEPL has several gathering systems. Each gathering systems is charged actual operating and maintenance expenses. General and Administrative expenses are accumulated at the pipeline level. The development of the proposed gathering rate for AEPL consisted of allocating the General and Administrative expenses on the ration of gas gathered on the Canton System - that provides gas to AEGS - a percentage of the total gas gathered on all gathering systems on AEPL.

evidence that it could not rely on the income statement. Nevertheless, Staff then uses the information from the period prior to Trek Resources' ownership and establishment of accounting controls - August 2012 - to form the basis of reducing the A&G expenses of AEGS.

19. Even though Trek Resources acquired the companies in 2012 the Kansas Supplemental Report did not reflect accurate information. Trek Resources has amended the 2012 Kansas Supplemental Report with accurate information for the period it owned the property - August 2012 through December 2012.

III. RATE DESIGN

20. If Staff's adjustment to the test year A&G expenses is not accepted for the reasons set forth herein, then adopting all of Staff's other adjustments and updating actual rate case expense will result in an increase and not a decrease as proposed by Staff. In the event of an increase, AEGS would propose that all of the increase be recovered by increasing AEGS's monthly customer charges and no increase in the commodity charge. AEGS's current residential monthly customer charge is $6.00 and its current commercial and irrigation monthly customer charge is $10.00. These customer charges are significantly below the customer charges approved for the other natural gas utilities operating in Kansas. For example, Atmos Energy's current residential monthly customer charge is $18.19 and its current commercial monthly customer charge is $40.88 per month. Black Hills Energy's current residential monthly customer charge is $17.25 per month and its current commercial monthly customer charge is $26.45 per month. AEGS would therefore request that the rate increase approved by the Commission be recovered by increasing AEGS's monthly customer charges.

IV. SERVICE FEES AND CHARGES

21. AEGS requested that it service fees and charges be increased to reflect the actual cost incurred by AEGS in performing those services for its customers. The following is a chart showing

the items that AEGS charges a service fee or charge to the customer, the current fee, and the proposed fee:

TYPE AND AMOUNT

1.	Connection Charge	$~~5.00~~**25.00**
2.	Temporary Service Minimum Fee	30.00
3.	Meter Reading Fee	10.00
4.	Returned Check Charge	~~30.00~~**35.00**
5.	Collection Charge	~~12.00~~**20.00**
6.	Disconnection Charge	~~12.00~~**15.00**
7.	Reconnection Charge	~~20.00~~**25.00**
8.	Meter Test Fee	~~20.00~~**25.00**

22. Staff recommends that AEGS not be allowed to increase any of its service fees. The basis for Staff's recommendation is that "AEGS's expense to rate base ratio is much higher compared to other Kansas utilities." *Staff Report, page 12*. AEGS's expense to rate base ratio, especially given the fact that the utility has virtually no rate base, is not a fair measure as to what it actually cost AEGS to send a service person to do a connection or disconnection, or do a special meter read, or test a meter, or have to deal with a returned check or initiate a collection of an unpaid bill. Other natural gas utilities are allowed to charge customers their actual cost to perform these services under the premise that the other customers who pay on time or who pay with a good check should not have to pay for those services. AEGS should also be allowed to charge customers for their actual costs in performing these services for their customers. For example, Atmos Energy and Black Hills Energy are allowed to charge a customer $20.00 to $25.00 connection or re-connection fee under their approved tariffs. This covers the cost of the utility to send a service person out to do the connection or re-connection. AEGS is currently allowed to only charge $5.00 for a connection fee, which obviously does not cover the utility's cost to send an employee out to do the work. AEGS proposed to increase the $5.00 charge to $25.00, which is clearly in line with what customers served by the other natural gas utilities are charging for such services. AEGS requests that it be allowed to increase

its service fees and charges.

V. CONCLUSION

23. In conclusion, AEGS intends to meet with Staff in an attempt to resolve the three contested issues outlined herein. To the extent that AEGS's objections can't be resolved with Staff regarding these three contested issues, AEGS would request that the Commission issue an order that approves the Natural Gas Sales Agreement between AEGS and AEPL as modified by the Staff's recommendation effective March 1, 2015, and sets a hearing to be held on the already scheduled hearing date (May 20, 2015) that would be limited to the three contested issues.

James G. Flaherty, #11177
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Attorneys for American Energies Gas Service, LLC

VERIFICATION

STATE OF KANSAS, COUNTY OF FRANKLIN, ss:

James G. Flaherty, of lawful age, being duly sworn upon oath, deposes and says that he is attorney for American Energies Gas Service, LLC, that he has read the above and foregoing Response to Staff's Report and Recommendation, knows the contents thereof; and the statements contained therein are true.

James G. Flaherty

SUBSCRIBED AND SWORN to before me this 13th day of February, 2015.

NOTARY PUBLIC - State of Kansas
RONDA ROSSMAN
My Appt. Exp. 5/25/2018

Notary Public

Appointment/Commission Expires:

CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was served by electronic mail this 13th day of February, 2015, addressed to:

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James G. Flaherty

American Energies Gas Service
Operational Services Agreement
Operations Fee
October 27, 2009

Proposed			Monthly	
1 field employee 50%			1,500.00	
Burden	Ins/401k match (34.68%)		520.20	
	FICA	7.63%	114.38	
	WC	3.32%	49.80	
Clerical	1 employee		2,341.67	
	Ins/401k match (34.68%)		812.09	
	FICA	7.63%	178.55	
	WC	0.25%	5.85	
			5,522.54	
	1 PU dedicated 50%		989.67	
PU = Pick up				
	On Call		224.00	10% x $35/hrX 64 hrs/ mo
	Office Supplies		100.00	
	Postage		105.60	220 x .48 customers, checks, notices
	Other Office exp		75.00	Office rent, equip, utilities
	Insurance		1,857.42	10% annual premium
			8,874.22	
	Supervisory, Admin		~~1,774.84~~	
			10,649.07	

266.67	Monthly dep	32K price?
433	Fuel	2000 miles @ 2.60/gal 12 MPG
40	tires	60K tires @ $1200
250	Maint	1/24 * 6000
989.67		

$10,650.00

Utilities Division
1500 SW Arrowhead Road
Topeka, KS 66604-4027

Kansas
Corporation Commission

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Dick Rohlfs

January 5, 2015

4330 SW Cambridge Ave.

Topeka, Kansas 66610

Re: American Energies Gas Service Operational Services Agreement

Dear Dick:

In 2009, Alan De Good, manager of American Energies, prepared an estimate of what he thought it would cost American Energies Gas Service to operate and maintain the American Energies Gas Service system. I finally found some time and was able to go through my 2007 American Energies rate case work papers and found Alan's estimate. The monthly estimate calculated on the enclosed work sheet was used as the monthly amount in Operational Services Agreement between American Energies Gas Service and American Energies Pipeline.

Enclosed are two copies of Alan's estimate, one copy for you and a copy for Trek Resources.

Sincerely,

Bill Baldry

Bill Baldry

Kansas Corporation Commission