

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF ATMOS ENERGY CORPORATION FOR]
THE RECOVERY OF QUALIFIED] KCC DOCKET NO. 22-ATMG-538-TAR
EXTRAORDINARY COSTS AND ISSUANCE]
OF A FINANCING ORDER.]

DIRECT TESTIMONY OF

JOSH FRANTZ

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

AUGUST 26, 2022

1 **I. Statement of Qualifications**

2 **Q. Please state your name and business address.**

3 A. My name is Joshua (Josh) P. Frantz. My business address is 1500 SW Arrowhead Road,
4 Topeka, Kansas 66604.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by the Citizens' Utility Ratepayer Board ("CURB") as a Senior Regulatory
8 Analyst.

9
10 **Q. Please describe your educational background and qualifications.**

11 A. I earned a Bachelor of Business Administration degree from Washburn University in
12 Topeka, Kansas. My undergraduate majors were finance, marketing, and management.
13 Additionally, I earned a Master of Business Administration degree, also from Washburn
14 University.

15
16 **Q. Please describe your professional background and qualifications.**

17 A. From August 2015 through April 2019, I was employed by the Kansas Corporation
18 Commission ("KCC" or "Commission"). I began my employment with the KCC in the
19 Utilities division as a Senior Research Economist and was ultimately promoted to
20 Managing Rate Analyst.

21 I have served in my current position as Senior Regulatory Analyst with CURB since

1 April 2019.

2

3 **Q. Have you previously testified before the Commission?**

4 A. Yes. On behalf of CURB, I testified in Docket Nos. 19-ATMG-525-RTS, 21-WCNE-103-
5 GIE, 21-BHCG-334-GIG, 21-KGSG-332-GIG, 21-ATMG-333-GIG, and 22-NETE-419-
6 COC. During my prior employment as a member of KCC Staff, I offered testimony in
7 seven proceedings before the Commission as well as over thirty Report and
8 Recommendations for the Commission's consideration. A list of those filings can be made
9 available, upon request.

10

11 **II. Summary of Testimony**

12 **Q. What is the purpose of your testimony?**

13 A. My testimony provides my analysis and recommendation to the Commission on behalf of
14 CURB, and the Kansas residential and small commercial ratepayers whom CURB
15 represents, regarding the *Application for Financing Order* ("Application") filed by Atmos
16 Energy Corporation ("Atmos" or "Company") in this docket. Atmos is requesting
17 authorization to: issue Securitized Utility Tariff Bonds ("securitized bonds"); impose,
18 charge, and collect Winter Event Securitization Cost Recovery ("WESCR") charges; and
19 create Securitized Utility Tariff Property related to the recovery of Qualified Extraordinary
20 Costs ("QEC") incurred during Winter Storm Uri in February 2021.

1 **Q. Please summarize your findings.**

2 A. I believe approval of Atmos's request to issue securitized bonds for recovery of QEC
3 incurred due to Winter Storm Uri would likely be beneficial to Kansas residential and small
4 commercial ratepayers. Therefore, I recommend that the Commission approve Atmos's
5 request, subject to the following comments and suggestions:

6 1. Considering the volatility in bond rates, CURB believes that Atmos should use its
7 best judgment, in connection with the sole discretion granted to it under K.S.A. 66-
8 1,241(h)(2), in determining whether to ultimately cause securitized bonds to be
9 issued.

10 2. Given the proposed options of 10-year and 15-year terms for securitization,
11 CURB's preference, in the interest of generational rate equity, would be a 10-year
12 recovery term. However, CURB would be receptive to a provision that allowed
13 Atmos flexibility on the maximum term if ratings agencies require a longer term
14 for a AAA rating on the securitized bonds.

15 3. All other things equal, CURB's preference would be for QEC associated with
16 Winter Storm Uri to be recovered using a volumetric charge instead of a fixed
17 charge. CURB has consistently sought to minimize fixed charge levels in utility
18 rate cases. In CURB's view, a volumetric charge allows ratepayers more control
19 over individual energy bill amounts than a fixed charge. Moreover, volumetric
20 charges can incentivize conservation and weatherization efforts on a personal level.
21 However, if the WESCR charge were to be structured as volumetric, Atmos would

1 be significantly less likely to obtain a favorable bond rating, which would increase
2 interest rates and reduce net benefits to customers. Therefore, CURB recognizes
3 that if the Commission were to adopt a volumetric charge to recover QEC,
4 securitization could become impractical. Thus, CURB does not oppose Atmos's
5 proposal to implement a fixed monthly charge through the WESCR Rider. But if
6 the Commission rejects Atmos's proposal and the Company does not move forward
7 with securitization, CURB is opposed to Atmos's secondary proposal of
8 implementing a fixed charge to recover QEC over a five-year period.

9 4. Considering the bill impacts caused by the extreme volatility of natural gas prices
10 on top of the impending bill impact of recovery of QEC from Winter Storm Uri, it
11 is imperative that Atmos continue to work with CURB to determine whether low-
12 income rate relief is feasible and ways in which the same could be structured.

13 5. If the Application is approved, Atmos should collaborate with stakeholders to
14 develop its strategy to inform and educate customers ahead of the WESCR charge.
15 CURB believes it is crucial that customers are forewarned of new charges to enable
16 them to budget accordingly. This is especially true given that more than two years
17 will have passed between Winter Storm Uri in February 2021 and the anticipated
18 bond issuance in March 2023.

1 **II. Background**

2 **Q. Please provide a brief background of this proceeding.**

3 A. This docket stems from Commission Orders in Docket Nos. 21-GIMX-303-GIV (“Docket
4 21-303”) and 21-ATMG-333-GIG (“Docket 21-333”). Accordingly, this docket addresses
5 cost recovery via securitization relating to Atmos’s efforts to ensure natural gas utility
6 services continued to be provided to its customers in Kansas during Winter Storm Uri in
7 February 2021.

8 Winter Storm Uri imposed extreme and unprecedented freezing weather conditions
9 across the United States, resulting in record demand for natural gas and electricity. During
10 Winter Storm Uri, many parts of Kansas suffered thirteen continuous days of freezing
11 temperatures in the single digits or below zero. Natural gas prices in the Central United
12 States reached all-time highs.

13 During Winter Storm Uri, the Commission issued an Emergency Order in Docket
14 21-303. In the Emergency Order, the Commission ordered all jurisdictional natural gas and
15 electric utilities to do all things possible and necessary to ensure natural gas and electricity
16 utility services continued to be provided to their customers in the State.¹ The Commission
17 also directed each jurisdictional utility to file a compliance report detailing costs incurred
18 and to present a plan to minimize the financial impacts of this event on ratepayers over a
19 reasonable time frame.²

¹ Emergency Order, p. 3, Docket No. 21-GIMX-303-MIS, Feb. 15, 2021.

² Emergency Order, ¶5, Docket No. 21-GIMX-303-MIS, Feb. 15, 2021.

1 On March 9, 2021, the Commission opened Docket 21-333 to investigate the effects
2 of Winter Storm Uri on Atmos and its customers.

3 On September 14, 2021, in Docket 21-333, Atmos filed its *Plan to Minimize the*
4 *Financial Effects of the 2021 Winter Weather Event* (“Financial Plan”). Atmos notified the
5 Commission that, upon approval of its Financial Plan, it would seek authorization to issue
6 securitized bonds to finance its extraordinary costs. After considerable discovery and
7 settlement conferences, the parties (Atmos, KCC Staff, and CURB) were able to agree to
8 a unanimous Settlement Agreement (“Agreement”), which was filed on February 9, 2022,
9 and approved by the Commission on March 24, 2022.

10 The Agreement required Atmos to apply for a Financing Order seeking
11 authorization to issue Securitized Utility Tariff Bonds to finance Atmos’s prudently
12 incurred extraordinary costs related to the continuity of utility services during Winter
13 Storm Uri. Likewise, the Agreement includes several elements which Atmos must
14 incorporate into its securitization Application. At the time of the Agreement, the signatories
15 agreed that \$102,517,847 in QEC was prudently incurred by Atmos and is recoverable,³
16 and that Atmos Energy should be permitted to recover carrying charges on the QEC.
17 Instead of incorporating a carrying cost based on Atmos Energy’s weighted average cost
18 of capital (“WACC”) of 8.396%, Atmos agreed to lower the carrying charge rate to 2.0%
19 on the QEC until Atmos implements a Securitized Utility Tariff Charge.⁴

³ Settlement Agreement, ¶8, Docket No. 21-ATMG-333-GIG, Feb. 9, 2022.

⁴ Settlement Agreement, ¶10, Docket No. 21-ATMG-333-GIG, Feb. 9, 2022.

1 **Q. Please describe the key aspects of Atmos's proposal.**

2 A. The most recently revised estimate of Atmos's QEC is \$120,346,745 as shown with a
3 detailed cost category breakdown in Table KRO-1 from Atmos Witness Kathleen Ocanas'
4 revised Testimony.⁵

5 Atmos requests the Commission grant flexibility and authorize the Company to
6 implement either a ten-year or fifteen-year scheduled recovery period, depending on which
7 period best serves sales customers. At this time, Atmos's stated preference is to utilize a
8 ten-year scheduled recovery period.⁶ The expected bill impact to residential customers
9 from 10-year term securitization is a fixed monthly fee of \$5.87.⁷

10 The proposed Financing Order consists of the following framework:⁸

- 11 a) The amount of QEC will be updated, trued-up, verified, and allocated among Atmos
12 Energy's sales customers;
- 13 b) Atmos will form a wholly owned subsidiary, Delaware Special Purpose Entity LLC
14 ("SPE"), referred to in the Act as an Assignee;
- 15 c) The SPE will be designed to be a bankruptcy-remote limited purpose entity;
- 16 d) The Financing Order will establish the mechanism for the creation of Securitized
17 Utility Tariff Property;
- 18 e) Atmos will transfer, via a true sale, its rights in Securitized Utility Tariff Property
19 to the SPE, rendering the Financing Order irrevocable;

⁵ Revised Direct Testimony of Kathleen R. Ocanas, p. 4 Table KRO-1, July 22, 2022.

⁶ Application for Financing Order, ¶34, May, 25, 2022.

⁷ Revised Direct Testimony of Kathleen R. Ocanas, p.6 Table KRO-2, July 22, 2022.

⁸ Application for Financing Order, ¶14, May, 25, 2022.

- 1 f) The SPE will issue Securitized Utility Tariff Bonds to investors;
- 2 g) The proceeds from the Securitized Utility Tariff Bonds will be used, directly or
- 3 indirectly to recover, finance or refinance Atmos's QEC and Financing Costs;
- 4 h) The Securitized Utility Tariff Bonds and Financing Costs will be secured by or
- 5 payable from the Securitized Utility Tariff Property transferred to the SPE;
- 6 i) Atmos Energy will act as a collection agent or servicer for the SPE and the SPE's
- 7 right to collect and receive Securitized Utility Tariff Charges;
- 8 j) Atmos Energy will, on a semi-annual basis, unless greater frequency becomes
- 9 necessary, apply an Adjustment Mechanism to the Securitized Utility Tariff
- 10 Charges to ensure the timely and complete payment of the Securitized Utility Tariff
- 11 Bonds and all other Financing Costs.
- 12

13 **Q. Is Atmos the first Kansas natural gas utility to have proposed securitization of**

14 **extraordinary costs stemming from Winter Storm Uri?**

15 A. No, Atmos is not the first Kansas natural gas utility to have proposed securitization of

16 extraordinary costs stemming from Winter Storm Uri. On March 31, 2022, in Docket No.

17 22-KGSG-466-TAR ("Docket 22-466"), Kansas Gas Service ("KGS") requested

18 authorization to issue Securitized Utility Tariff Bonds; to impose, charge, and collect

19 Securitized Utility Tariff Charges; and create Securitized Utility Tariff Property related to

20 the recovery of QEC incurred because of Winter Storm Uri.⁹ In many ways KGS's

⁹ Application for Financing Order, p. 1, Docket No. 22-KGSG-466-TAR, Mar. 31, 2022.

1 Application in Docket 22-466 served as a blueprint for Atmos's Application in this docket.

2
3 **Q. Has the Commission issued an Order regarding KGS's request in Docket 22-466?**

4 A. Yes. On August 18, 2022, the Commission issued an Order in Docket 22-466 approving a
5 Unanimous Settlement Agreement between KGS, Staff and CURB, and the associated
6 Financing Order ("22-466 Agreement"). Ultimately, the Commission found that the 22-
7 466 Agreement was supported by substantial competent evidence in the record as a whole,
8 would result in just and reasonable rates, and was in the public interest.¹⁰

9 Under the 22-466 Agreement, KGS is authorized to issue securitized bonds with a
10 scheduled final maturity of between seven to ten years¹¹ to recover an estimated
11 \$328,043,946 in extraordinary costs¹² through the issuance of securitized customer backed
12 bonds. The bonds are expected to be issued in March 2023. With recognition of interest
13 rate volatility, as of July 2022, the KGS estimated the residential bill impact to be a fixed
14 charge of either \$4.87 (10-year term) or \$6.42 (7-year term).¹³ It is estimated that
15 securitization will result in net quantifiable benefits to KGS customers in the range of \$35
16 to \$46 million as compared to recovery through traditional ratemaking mechanisms.¹⁴

¹⁰ Order Approving Unanimous Settlement Agreement, ¶22, Docket No. 22-KGSG-466-TAR, Aug. 18, 2022.

¹¹ Settlement Agreement, ¶14, Docket No. 22-KGSG-466-TAR, Jul. 14, 2022.

¹² Financing Order, p. 1, Docket No. 22-KGSG-466-TAR, Jul. 14, 2022.

¹³ Rebuttal and Responsive Testimony of Janet Buchanan, p. 11 Rebuttal Table 4, Docket No. 22-KGSG-466-TAR, Jul. 1, 2022.

¹⁴ Settlement Agreement, ¶12, Docket No. 22-KGSG-466-TAR, Jul. 14, 2022.

1 **III. Evaluation**

2 **Q. Please describe the analysis that CURB conducted with respect to the application.**

3 A. CURB analyzed the impact that securitization of Atmos's QEC would have on residential
4 ratepayers, especially low-income residential ratepayers. CURB compared that impact to
5 the impact upon residential ratepayers if costs were recovered through traditional
6 ratemaking mechanisms.

7 CURB also reviewed the application and associated proposed Financing Order,
8 including the testimony filed by Atmos witnesses, to verify that the Commission's orders
9 in Docket No. 21-ATMG-333-GIG and the requirements of Utility Financing and
10 Securitization Act ("Act"), found at K.S.A. 66-1,240, *et seq.*, were properly reflected. In
11 these regards, CURB hopes to add value to this proceeding by providing the residential
12 ratepayer's view concerning whether the application meets the requirements of the
13 Commission's pertinent orders and the Act.

14
15 **Q. Did CURB retain the services of a bond consultant for analysis of Atmos's Application**
16 **and associated proposed Financing Order?**

17 A. No. Budget limitations made CURB's retention of a bond consultant cost-prohibitive.
18 Further, KCC Staff has retained bond consultants and CURB has engaged in several
19 workshops with these authorities. In view of that, the insight that another bond authority
20 retained by CURB would add to this docket would be substantially outweighed by the cost
21 thereof, which would be paid by ratepayers.

1 **Q. Based upon your analysis, do you believe that the Application properly reflects the**
2 **recovery of QEC from Atmos ratepayers, as contemplated in the Commission orders**
3 **in Docket No. 21-ATMG-333-GIG and the Act?**

4 A. Yes, I believe the Application meets the requirements of the Commission's orders and the
5 Act. I would like to highlight a few statutory requirements that are key to CURB.

6 K.S.A. 66-1,241(c)(1)(B) requires that the application contain a description of the
7 QEC that the utility proposes to recover and how customary rate-making treatment of such
8 costs would result in extreme customer impacts. The revised testimony of Ms. Ocanas
9 contains a description of the QEC that Atmos proposes to recover through securitized
10 bonds.¹⁵ Her revised testimony estimates the monthly fixed charge for a 10-year securitized
11 recovery would result in a \$5.87 residential bill impact.¹⁶ In contrast, she estimated a
12 monthly bill impact of \$47.70 for an average residential customers if the QEC had been
13 recovered, as authorized, through the Purchase Gas Recovery mechanism over one year.¹⁷
14 A bill impact of \$47.70 for an average residential customer represents an 85% increase
15 over the average residential bill, which undoubtedly would be an extreme customer
16 impact.¹⁸

17 K.S.A. 66-1,241(c)(2) requires that the application contain a description of the
18 securitized utility tariff costs proposed to be recovered with the proceeds of the securitized
19 utility tariff bonds. Table KRO-1 in Ms. Ocanas's revised Direct Testimony details the

¹⁵ Revised Direct Testimony of Kathleen R. Ocanas, p. 4 Table KRO-1, July 22, 2022.

¹⁶ Revised Direct Testimony of Kathleen R. Ocanas, p.6 Table KRO-2, July 22, 2022.

¹⁷ Direct Testimony of Kathleen R. Ocanas, p. 7 Table 4, Docket No. 21-ATMG-333-GIG, Sep. 14, 2021.

¹⁸ Direct Testimony of Kathleen R. Ocanas, p. 7 Table 4, Docket No. 21-ATMG-333-GIG, Sep. 14, 2021.

1 total extraordinary costs of \$120,346,745 by breaking them down into gas costs, operation
2 and maintenance costs, financing fees and other various costs.¹⁹

3 K.S.A. 66-1,241(c)(6) requires that the application contain the proposed method for
4 allocating the revenue requirement for the securitized utility tariff charge among customer
5 classes. Atmos's proposed methodology allocates revenue requirement among customer
6 classes based on each customer class's percentage of the total estimated February 2021 gas
7 sales volumes.²⁰

8 K.S.A. 66-1,241(c)(7) requires that the application describe the nonbypassable
9 securitized utility tariff charge required to be paid by all customers within the public
10 utility's service area for recovery of securitized utility tariff costs and a proposed
11 adjustment mechanism reflecting the allocation methodology referred to in K.S.A. 66-
12 1,241(c)(6). The WESCR Rider is the proposed tariff necessary to recover Securitized
13 Utility Tariff Costs from customers. The WESCR Rider tariff is presented in Exhibit KRO-
14 1 of Ms. Ocanas's Direct Testimony. The initial billing of the WESCR charge would begin
15 with the first billing cycle following bond issuance.²¹ The WESCR charge will remain on
16 gas sales customers' bills until all Securitized Utility Tariff Bonds, financing costs and
17 servicing fees, administrative fees etc. related to the bonds are paid in full.²² To obtain the
18 highest bond rating possible, the WESCR Rider tariff indicates the WESCR charge will be
19 given priority of payment. This ensures payments received by the Company's sales

¹⁹ Revised Direct Testimony of Kathleen R. Ocanas, p. 4 Table KRO-1, July 22, 2022.

²⁰ See Direct Testimony of Kathleen R. Ocanas, p.18-19, May 25, 2022.

²¹ Direct Testimony of Kathleen R. Ocanas, p.28, May 25, 2022.

²² Direct Testimony of Kathleen R. Ocanas, p.28, May 25, 2022.

1 customers will first be applied to the WESCR portion of their bill, and then to the remaining
2 charges.²³

3 Atmos proposes to implement the Act's adjustment mechanism on a mandatory,
4 semi-annual basis to determine any over- or under-collection and ensure the timely and
5 complete payment of the Securitized Utility Tariff Bonds.²⁴ Semi-annual filings will help
6 minimize variations in the WESCR charges for customers. Atmos also reserves the right
7 to make more frequent optional adjustments at any time in the event under-collection is
8 projected.²⁵

9 The Act contemplates that not all costs or offsets to the costs to be securitized will
10 be known at the time a utility requests a Financing Order or even at the time the bonds are
11 issued. To account for this, the Atmos proposes that the reconciliation process utilize the
12 existing PGA/ACA mechanism to address additional costs, penalty collections, etc. that
13 are not included in the Securitized Utility Tariff Bonds.²⁶

14 I believe that the Application and associated supporting testimony addresses all that
15 the Act requires of Atmos with respect to its proposal to use WESCR charges to recover
16 its QEC. Therefore, I believe that Application should be granted by the Commission.

17
18 **Q. What was CURB's primary focus in evaluating the Application?**

19 **A.** CURB's primary focus was the rate impact on residential ratepayers, especially low-

²³ Direct Testimony of Kathleen R. Ocanas, p.35, May 25, 2022.

²⁴ Direct Testimony of Kathleen R. Ocanas, p.33, May 25, 2022.

²⁵ Direct Testimony of Kathleen R. Ocanas, p.33, May 25, 2022.

²⁶ Direct Testimony of Kathleen R. Ocanas, p.37, May 25, 2022.

1 income ratepayers, of the charges related to the recovery of QEC. Part of this focus was a
2 determination whether securitization of the QEC would provide a more manageable bill
3 impact for residential ratepayers than would traditional regulatory mechanisms.

4 In these regards, it is important to note that when the Financial Plan was filed with
5 the Commission in the 21-333 Docket, there was a general perception that the securitized
6 bond rate be very low (potentially below 2%). However, since that time, the U.S. economy
7 has experienced a higher rate of inflation. The annual inflation rate in the U.S. unexpectedly
8 accelerated to as high as 9.1% in June 2022.²⁷ Rising inflation has caused the federal
9 government to raise interest rates, which, in turn, could lead to higher interest rates for
10 newly issued bonds. Consequently, the effective rate at which securitization may occur in
11 this docket is now anticipated to be over 4.0%. Higher bond rates could add a sizable
12 amount of interest to the principal being carried through the securitized bonds, raising the
13 amount to be recovered from ratepayers through a securitized bond tariff.

14 CURB still believes that, presently, financing the QEC through securitized bonds
15 rather than through traditional ratemaking methods would yield substantial savings for
16 consumers. However, CURB cautions that existing bond rates should be analyzed relative
17 to Atmos's WACC (currently 8.396%) close to the time when the bonds would be issued
18 in order to determine actual rate savings.

19 In that respect, CURB understands that Atmos has absolute discretion under the
20 Act regarding the final decision to cause securitized tariff bonds (assuming the Financing

²⁷ <https://www.usinflationcalculator.com/inflation/current-inflation-rates/>

1 Order is approved by the Commission) to be issued.²⁸ While it appears that securitization
2 will result in quantifiable rate benefits to consumers versus traditional rate recovery at
3 present bond rates, this is clearly subject to change. Therefore, we request that Atmos use
4 its best judgment (once the Financing Order is approved by the Commission) to determine
5 whether to cause securitized tariff bonds to be issued under bond pricing in existence at the
6 pertinent time.

7 Moreover, because bond rates are currently higher than anticipated when the
8 Financial Plan was filed with the Commission, the question arises as to how to minimize
9 rate impact on ratepayers, but not stretch out the recovery period so long that an
10 unnecessary amount of interest accumulates or so long that there is a significant risk that
11 another unforeseen event causes additional extraordinary fuel costs to be incurred by
12 Atmos, leading to the pancaking of recovery charges on consumers.

13 The current high cost of natural gas and trend towards even higher natural gas prices
14 is yet another complicating factor. At the present time, natural gas prices are nearly three
15 times historical natural gas prices. The energy burden associated with such rising costs is
16 likely to grow and impact a wider base of ratepayers.

17
18 **Q. Do you have an opinion regarding the duration of the period over which QEC should**
19 **be recovered through securitization?**

²⁸ K.S.A. 66-1,241(h)(2).

1 A. Yes. One of the many issues to be balanced in evaluating Atmos's proposal is the potential
2 for intergenerational inequity that could be brought about by a prolonged period of
3 recovery from ratepayers. The longer the recovery period, the more likely that new
4 customers will come onto Atmos's system who did not cause the QEC to be incurred, but
5 would still be required to pay those costs originating from 2021.

6 Atmos has requested flexibility to select either a 10-year or 15-year recovery term.
7 CURB's preference, in the interest of generational rate equity, would be a 10-year recovery
8 term. However, CURB would be receptive to a provision that allowed Atmos flexibility on
9 the maximum term if ratings agencies require a longer term for a AAA rating on the
10 securitized bonds, similar to what was granted to KGS in Docket 22-466. Under the
11 approved 22-466 Agreement, KGS may issue securitized bonds with a scheduled final
12 maturity of between seven to ten years, with "some flexibility on the maximum ten-year
13 bond term... in the event that the ratings agencies require a change in order to rate the
14 securitized bonds as AAA."²⁹

15
16 **Q. Does an extended period for payment eliminate the issue of impact upon low-income**
17 **ratepayers?**

18 A. Not entirely. When a WESCR charge of around \$5 per month is added to rising natural gas
19 costs, which have exceeded \$9 per MMBTU, the overall burden of energy costs on low-
20 income consumers may become very significant. Therefore, CURB believes that relief for

²⁹ Settlement Agreement, ¶14, Docket No. 22-KGSG-466-TAR, Jul. 14, 2022.

1 low-income consumers has become a critical issue. CURB has been working with several
2 utilities on this issue and is hopeful that legislation can be proposed during the next
3 legislative session. CURB desires to continue to work with Atmos and other utilities to
4 develop a low-income tariff. Although this will not help reduce a low-income customer's
5 WESCR charge, it will provide relief to these customers who cannot afford their overall
6 energy burden. CURB will continue to work with both electric and gas utilities to
7 implement a low-income tariff. It is imperative that this work be intensified over the next
8 few months.

9 Another concern that CURB has with respect to low-income customers is the lack
10 of information that Atmos has on customer usage patterns. CURB believes that data
11 concerning low-income energy use and billing, and drivers for higher usage, should be
12 collected. That information will allow Atmos to frame aid for low-income ratepayers in an
13 effective manner and provide insight into the change in bill impacts and possible areas of
14 assistance.

15
16 **Q. Would CURB prefer a volumetric charge over a fixed charge for the WESCR charge?**

17 **A.** Generally, yes. All other things equal, CURB's preference would be for costs associated
18 with Winter Storm Uri to be recovered using a volumetric charge instead of a fixed charge.
19 CURB has consistently sought to minimize fixed charge levels in utility rate cases. In
20 CURB's view, volumetric charges allow ratepayers more control over individual energy
21 bill amounts than a fixed charge. Moreover, volumetric charges can incentivize

1 conservation and weatherization efforts on a personal level.

2 In Docket 22-466, CURB initially advocated for KGS to consider implementing a
3 volumetric WESCR charge rather than fixed.³⁰ However, during the settlement discussions
4 in Docket 22-466, CURB acknowledged that if the charge was structured as volumetric,
5 KGS would be significantly less likely to obtain a favorable rating on securitized bonds,
6 which could add considerable interest amounts and substantially reduce net benefits to
7 ratepayers. Therefore, CURB now recognizes a dichotomy is present: If the Commission
8 were to order a utility to implement a volumetric charge to recover QEC, then securitization
9 may become impractical and ratepayers could ultimately lose the benefits posed by
10 securitization, whereas, if the Commission approves a fixed charge methodology, then
11 securitization will likely yield ratepayer benefits, generally, albeit customers would lose
12 some ability to control their own expenses. Furthermore, the Commission approved the
13 fixed charge methodology for KGS in Docket 22-466, so it seems logical, for the sake of
14 cohesion, to implement the same methodology for Atmos.

15 For those reasons, CURB does not oppose Atmos's proposal to implement the
16 WESCR charge as a fixed value rather than volumetric.

17 However, for the reasons CURB supports volumetric charges generally, if the
18 Commission rejects Atmos's proposal and the Company does not move forward with
19 securitization, CURB is opposed to the implementation of a fixed charge to recover the
20 QEC under the alternative proposal using customary rate-making treatment.

³⁰ Testimony of Patrick Orr, p. 23, Docket No. 22-KGSG-466-TAR, Jun. 17, 2022.

1 **Q. If the application is granted, will the securitization contemplated therein result in net**
2 **quantifiable rate benefits to consumers?**

3 A. Yes. The Net Present Value (“NPV”) Benefits calculation of Atmos witness Jason
4 Schneider estimates an NPV benefit of between \$1.3 million – \$17.3 million on a ten-year
5 bond compared to 5-year amortization at WACC.³¹ Furthermore, securitized bonds provide
6 rate certainty. Once the securitized bonds are issued, the interest rate is “locked-in” for the
7 term of those bonds. If the QEC were recovered through traditional cost recovery, the
8 Company’s WACC would likely change throughout the recovery period in response to
9 normal ratemaking activity.³²

10 Generally, given the nonbypassable nature of the charge and priority of payment
11 from customer revenue, the cost of securitization should be less than a utility’s WACC. In
12 this case, if Atmos is able to obtain a favorable rating on the securitized bonds, CURB
13 believes that approval of Atmos’s Application will result in a reasonable way to minimize
14 the recovery of prudently-incurred costs of Winter Storm Uri by ratepayers.

15
16 **Q. Is granting the application in the public interest?**

17 A. Yes. The Application meets the requirements of the Act. Further, the use of securitized
18 utility tariff charges was contemplated by the Commission in its Orders in Docket 21-333.
19 Importantly, the use of securitized utility tariff charges is projected to provide a net
20 quantifiable benefit for consumers. The public interest is therefore met by the Application

³¹ NPV range based upon potential customer opportunity costs between 5%–20%. *See* Exhibit JLS-3.

³² Revised Direct Testimony of Jason L. Schneider, p. 6, July 22, 2022.

1 inasmuch as it allows Atmos to recover the costs it incurred to maintain gas utility service
2 to Kansas consumers during Winter Storm Uri without imposing an unreasonable or undue
3 burden on Kansans. That, along with the continued commitment of Atmos to work toward
4 a low-income rate relief tariff, will help those Kansans who are most deeply affected by
5 payment of the QEC.

6
7 **Q. If the WESCR charge is approved, should CURB and other stakeholders have a role**
8 **in developing the strategy to educate customers?**

9 A. Yes. Atmos should collaborate with stakeholders to develop its strategy to inform and
10 educate customers about the WESCR Charge that would appear on bills. CURB believes
11 it is crucial that customers are forewarned of new charges to enable them to budget
12 accordingly. This is especially true given that more than two years will have passed
13 between Winter Storm Uri in February 2021 and the anticipated bond issuance in March
14 2023.

15
16 **Q. What is your final recommendation?**

17 A. I support Atmos's Application for Financing Order, subject to the concerns I have
18 discussed in my testimony. I believe the Application properly reflects the Commission's
19 pertinent orders and the Act. Moreover, recovery of the QEC through the WESCR charge
20 is expected to result in net benefits to ratepayers when compared to recovery through
21 traditional ratemaking mechanisms.

1 Therefore, CURB recommends that the Commission approve the proposed
2 Financing Order subject to the following.

- 3 1. Atmos should use its best judgment, in connection with the sole discretion granted
4 to it under K.S.A. 66-1,241(h)(2), in determining whether to ultimately cause
5 securitized utility tariff bonds to be issued.
- 6 2. Between the options of 10-year and 15-year terms for securitization, CURB's
7 preference, in the interest of generational rate equity, would be a 10-year recovery
8 term. However, CURB would be receptive to a provision that allowed Atmos
9 flexibility on the maximum term if ratings agencies require a longer term for a AAA
10 rating.
- 11 3. All other things equal, CURB's preference would be for costs associated with
12 Winter Storm Uri to be recovered using a volumetric charge instead of a fixed
13 charge. However, CURB recognizes that if the Commission were to adopt a
14 volumetric charge to recover QECs, securitization could become impractical. Thus,
15 CURB does not oppose Atmos's proposal to implement a fixed monthly charge
16 through the WESCR Rider. Alternatively, if the Commission rejects Atmos's
17 proposal and the Company does not move forward with securitization, CURB is
18 opposed to the implementation of a fixed charge to recover the QEC under Atmos's
19 secondary proposal using customary rate-making treatment. Furthermore, CURB is
20 not acquiescing its position with respect to its argument for low fixed charges in all
21 other cases, including future rate cases.

1 4. It is imperative that Atmos continue to its work with CURB to determine whether
2 low-income rate relief is feasible and ways in which the same could be structured.

3 5. Atmos should collaborate with stakeholders to develop its strategy to inform and
4 educate customers on the Securitized Utility Tariff Charge that would appear on
5 bills. CURB believes it is crucial that customers are forewarned of new charges to
6 enable them to budget accordingly.

7

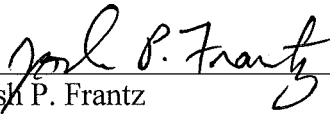
8 **Q. Does this conclude your testimony?**

9 **A. Yes, thank you.**

VERIFICATION

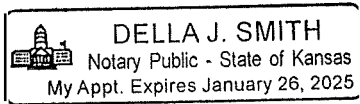
STATE OF KANSAS)
)
COUNTY OF SHAWNEE) ss:

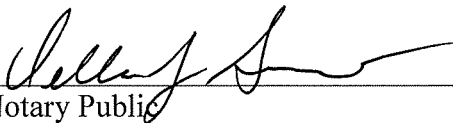
I, Josh P. Frantz, of lawful age and being first duly sworn upon my oath, state that I am a Senior Regulatory Analyst for the Citizens' Utility Ratepayer Board; that I have read and am familiar with the above and foregoing document and attest that the statements therein are true and correct to the best of my knowledge, information, and belief.



Josh P. Frantz

SUBSCRIBED AND SWORN to before me this 26th day of August, 2022.





Notary Public

My Commission expires: 01-26-2025.

CERTIFICATE OF SERVICE

22-ATMG-538-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 26th day of August, 2022, to the following:

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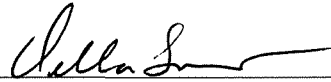
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