**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 Adjustment of its Natural Gas Rates in the State of Kansas.	))))	Docket No. 24-KGSG-610-RTS

REBUTTAL TESTIMONY

OF

LORNA M. EATON

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

July 22, 2024

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

Q. Please state your name and business address.

A. My name is Lorna M. Eaton. My business address is 7421 W. 129th, Overland Park, KS 66213.

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

A. I am employed by Kansas Gas Service, a Division of ONE Gas, Inc., ("KGS" or the "Company"), as the Manager in the Rates and Regulatory Department.

Q. Are you the same Lorna Eaton who submitted direct testimony in this docket?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to provide support for the rebuttal position of the Company and to respond to specific adjustments made by both Kansas Corporation Commission ("KCC") Staff ("Staff") and the Citizens' Utility Ratepayers Board ("CURB") to the Company's test year. I will also respond to the comments made by Staff and CURB regarding the proposed tariff changes made by the Company.

Q. How is your rebuttal testimony structured?

First, I present a table identifying the contested revenue requirement adjustments to the pro forma rate base and income statement proposed by Staff and CURB, indicating the entire amount of the adjustment, and the KGS witness providing rebuttal testimony on that issue. Importantly, KGS is contesting the return on equity recommendations of Staff and CURB and the capital structure recommendation of CURB. Since those recommendations are not adjustments to rate base or the income statement, they are not reflected in the table below. KGS witnesses Dr. Bruce Fairchild and Mr. Mark Smith discuss these issues in their testimony. I will then be discussing the comments made by CURB witness Ms. Andrea Crane and Staff witness Mr. Daniel Buller related to the treatment of Fort Riley and adjustments that they recommend. I will follow that up with a discussion of the request made by the Company for the inclusion of financially based incentive compensation. I will then specifically reply to various income statement adjustments proposed by Staff witnesses Mr. Bill Baldry, Ms. Katie Figgs, Ms. Andria Jackson, and Ms. Kristina Luke Fry. I will also address income statement adjustments proposed by CURB witness Ms. Crane. Finally, I will address the tariff change recommendations made by CURB witness Mr. Josh Frantz and Staff witness Mr. Ian Campbell.

I am also formally adopting the direct testimony of Mr. Graham Jaynes that was filed in this docket on March 1, 2024.

Q. Why do you need to adopt Mr. Jaynes' testimony?

A. Mr. Jaynes has ended his employment with the Company. The purpose of Mr. Jaynes' testimony was to support core components of the Commission's Minimum Filing Requirements ("MFR"). He also explained and supported certain pro forma adjustments normalizing income statement activity in the test year as well as adjustments for known and measurable changes. I have reviewed the testimony of Mr. Jaynes and will testify in his place on the items that he testified to and am adopting his testimony as filed.

Q. Does KGS accept certain adjustments proposed by Staff and CURB?

A. Yes. KGS accepts the following Staff adjustments:

- Rate Base
  - RB – 1 EDIT related to Pension/OPEB/NOL
  - RB - 2 Corporate EDIT
  - RB – 3 Update Plant in Service
  - RB – 5 Corporate ADIT
  - RB – 8 KGS Gas Storage
  - RB – 9 Customer Deposits and Advances
  - RB – 10 Accumulated Deferred Inc Tax Liability
- Income Statement
  - IS – 1 Lease Expense
  - IS – 4 Payroll
  - IS – 5 Insurance Expense
  - IS – 6 Workers Compensation
  - IS – 7 Medical Reserve
  - IS – 10 Amortization of Pension/OPEB
  - IS – 12 Interest on Customer Deposits
  - IS – 17 Distrigas

KGS accepts the following CURB adjustments:

- Rate Base
  - None
- Income Statement
  - ACC - 17 Workers Compensation

Q. Please identify the adjustments that the Company is contesting and the sponsoring witnesses.

A. The table below contains contested adjustments, the sponsoring witnesses from KCC Staff or CURB, a description, adjustment amounts, and KGS witnesses.

Adj No.	KCC Witness	Description	Staff Proposed Adj Amount	KGS Witness
RB - 4	Buller	Update KGS ADA	(33,653,099)	Simpson/Sanford
RB - 6	Campbell	KGS materials and Supplies	1,537,594	Simpson
RB - 7	Campbell	KGS and ONE Gas Prepayments	435,785	Simpson/Sanford
RB - 11	Buller	Fort Riley - remove from WC	(8,275,102)	Eaton
IS - 2	Buller	Depreciation and amortization	11,845,934	Simpson/White
IS - 3	Buller	Update Fort Riley Revenue and O&M Expense	549,327	Eaton
IS - 8	Figgs	Adjustment to incentive compensation	1,673,613	Downum/Eaton
IS - 9	Figgs	Adjustment to corporate benefits	36,846	Downum
IS - 11	Figgs	Adjustment to Tracker 1	1,521,778	Eaton
IS - 13	Figgs	Relocation charges	149,496	Downum
IS - 14	Figgs	Severance Charges	90,867	Downum
IS - 15	Figgs	Rate Case Expense	168,357	Eaton
IS - 16	Campbell	Miscellaneous Expenses	339,304	Eaton
IS - 18	Jackson	Cyber Security Tracker	157,389	Eaton
IS - 19	Glass	Normalize Weather	904,186	Raab
IS - 20	Glass	Normalize customers	68,103	Raab
IS - 21	Figgs	Adjust Misc Corporate Charges	170,956	Downum
IS - 22	Luke Fry	Bad Debt	1,794,758	Eaton
IS - 23	Luke Fry	Income Taxes	(4,383,431)	Eaton

Adj No.	CURB Witness	Description	CURB Proposed Adj Amount	KGS Witness
ACC – 4	Crane	CWIP - KGS	(8,271,676)	Simpson
ACC – 5	Crane	CWIP - Corporate	(495,269)	Sanford
ACC – 8	Crane	Gas Storage Inventory	(24,512,145)	Simpson
ACC – 10	Crane	Pro Forma Revenue - Customer Annualization	1,132,703	Raab
ACC – 11	Crane	Pro Forma Revenue - Disconnect and Reconnect	(427,054)	Eaton
ACC – 12	Crane	Bad Debt Expense	767,414	Eaton
ACC – 13	Crane	KGE Direct Payroll - Bargaining Expense	1,011,516	Eaton

ACC – 14	Crane	Short-Term Incentive Compensation Expense	3,354,748	Eaton/Downum
ACC – 15	Crane	Long-Term Incentive Compensation Expense	1,658,877	Eaton/Downum
ACC – 16	Crane	Pension/OPEB - Amortization Expense	1,202,205	Eaton
ACC – 18	Crane	Rate Case Expense	157,235	Eaton
ACC – 19	Crane	Fort Riley Revenue Adjustment	275,942	Eaton
ACC – 20	Crane	Meals and Entertainment Expense	131,463	Eaton
ACC – 21	Crane	Membership Dues Expense	82,519	Eaton
ACC – 22	Crane	Depreciation Expense - Depreciation Rates	11,541,654	Simpson/White
ACC – 23	Crane	Depreciation Expense - KGS Plant	173,117	Simpson/White
ACC – 24	Crane	Depreciation Expense - Corporate Plant	30,088	Sanford
ACC – 25	Crane	Interest Synchronization	772,635	Eaton

II. <u>Fort Riley</u>

Q. Can you discuss the requirements of the order in Docket No. 19-KGSG-194-CON ("Docket 19-194") as it relates to the Company's arrangement with Fort Riley and the setting of new base rates?

A. As described in my direct testimony, KGS is required to separately track and account for the direct, incremental capital investment, expenses, and revenue associated with providing service to Fort Riley. In addition to tracking that information separately, KGS is required to show that other KGS customers are not subsidizing service to Fort Riley. In my direct testimony I provided a table that showed that the adjusted revenues received from Fort Riley were greater than the adjusted revenue requirement associated with serving Fort Riley.

Q. Were there any corrections to the numbers that were originally provided in your testimony?

A. Yes. During the discovery process, in preparing the response to data request 24-610 CURB-051, KGS discovered that the Company should have made an additional adjustment to the pro-forma revenue to be received from Fort Riley to account for the additional plant that is attributable to Fort Riley and would be reflected in the next Contract Rate Charge ("CRC"). That resulted in additional revenue attributable to Fort

Riley of $133,616, which increased the amount of revenue from Fort Riley. There was no change in the revenue requirement of Fort Riley. Therefore, the Company continues to demonstrate that the revenue received from Fort Riley is higher than the revenue requirement and that other KGS customers are not providing a subsidy to Fort Riley.

Q. CURB witness Ms. Crane states that the revised Fort Riley revenue of $1,545,528 does not recover the Company's revenue requirement associated with Fort Riley. Is this a correct statement?

A. No. CURB's adjustment ACC-19 inadvertently double counts financing costs, making it appear as though the revenues received from Fort Riley do not cover its revenue requirement.

Q. How so?

A. CURB characterizes the $1,545,528 as the revenue that the Company can attribute to Fort Riley and then compares it to a revenue requirement of $1,765,556. The revenue amount that CURB uses already includes a reduction of revenue related to the financing costs of Fort Riley. As shown in my direct testimony, KGS included the financing costs as an incremental expense in the overall Fort Riley revenue requirement of $1,765,556. KGS's response to 24-610 CURB 51 does not list financing costs as an incremental expense in Fort Riley's revenue requirement. Instead, KGS's calculation in 24-610 CURB 51 removed financing costs from the revenues received. By benchmarking revenues (which have already been reduced to reflect financing costs) against a revenue requirement (that includes financing costs), CURB double counts the financing costs associated with KGS's operations at Fort Riley. instead of showing it as a reduction to revenue received. Therefore, the financing costs either needs to be eliminated from the revenue requirement of $1,765,556 or added back in to the revenue of $1,545,528.

Q. Is the revenue adjustment ACC-19 appropriate?

A. No. This revenue adjustment was made under the premise that KGS was not recovering the revenue requirement from Fort Riley. As explained above, CURB inadvertently double counted the financing costs within their analysis. Once the double counting is removed, KGS is recovering the revenue requirement attributed to Fort Riley and CURB's proposed revenue adjustment is no longer necessary. With the update in response to data request 24-610 CURB-051, it is appropriate to adjust the Fort Riley revenue within the base rate calculation, but not to the extent proposed by CURB. I will discuss that adjustment later when I review the adjustments proposed by Staff witness Mr. Buller.

Q. Please continue with a discussion of Staff's adjustments related to Fort Riley?

A. Staff witness Mr. Buller addresses multiple aspects of the Fort Riley adjustments within the revenue requirement model. I will first discuss the plant in service adjustment that Mr. Buller makes and then address the resulting depreciation and revenue adjustments.

Q. Can you continue with an overall review of Mr. Buller's comments related to Fort Riley?

A. Yes. Staff discusses the requirements KGS agreed to within Docket 19-194. Exhibit DB-5, contained within his testimony, shows that KGS has recovered revenue in excess of the Fort Riley revenue requirement for the past three (3) years, including the 12-month ending period of April 2024, thus demonstrating that other KGS customers are not harmed by KGS serving Fort Riley.

Q. Can you continue with a discussion of Staff's adjustments to the Fort Riley plant, revenues and expenses?

A. Yes. Staff made several adjustments to KGS's proposal:

- Updated the plant balances associated with Fort Riley to April 2024 ending balances;
- Moved the plant balances from working capital to plant in service/accumulated depreciation;
- Updated Fort Riley revenues; and
- Moved the depreciation expense contained in KGS's IS 11 to the depreciation adjustments.

I will address each of these items below.

Q. Can you start with a discussion of the adjustments to rate base attributable to Fort Riley?

A. Yes. Staff made three adjustments related to Fort Riley. First, in Staff's adjustment RB-11, they removed the Fort Riley plant from working capital. With Staff adjustments RB-3 and RB-4, the Fort Riley updated plant values were added to plant in service and accumulated reserve, respectively.

Q. Do you agree with these adjustments?

A. For regulatory purposes, KGS agrees that the Fort Riley plant can be included in plant in service and accumulated reserve instead of keeping it as a separate rate base adjustment within working capital. KGS also agrees that the Fort Riley plant should be updated to the April 2024 ending in-service amount with the corresponding update to accumulated reserve, including CWIP that will be in service by the end of September 2024. When reviewing the numbers used in Staff's adjustments RB-3 and RB-4, KGS determined there were two unintentional errors. First, the CWIP amount KGS provided in response to data request 24-610 KCC-172 was included. This amount should not be included as it represents projects that were initiated subsequent to the test year. Four projects were included as CWIP for Fort Riley in the initial filing. Those four projects have either been placed in service or it has been determined that they will not be completed by September 30, 2024. As such, the amount of CWIP that should be included for Fort Riley is $0. Second, the *net* amount of plant in service was inadvertently used for the plant in service value. The correct value for accumulated reserve was used. The total net plant included in the revenue requirement attributable to Fort Riley should be $8,737,522. Because an incorrect amount of plant in service was used in Staff's schedule, the resulting depreciation expense included within the revenue requirement also needs to be updated, which I discuss in more detail below.

Q. Can you continue with a discussion of the income statement adjustments proposed by Staff related to Fort Riley?

A. Yes. Staff made three adjustments related to the income statement. First, Staff updated the pro-forma revenue to include the updated CRC that will be charged to Fort Riley. KGS agrees with that adjustment. Second, Staff adjusted the operations and maintenance ("O&M") expenses attributable to Fort Riley from the 12-month ending September 2023 amount to the 12-month ending April 2024 level. KGS does not agree with the adjustment for two reasons. First, updates to expenses incurred during the test year that are not normalized are typically not performed by Staff during the audit period. Second, the payroll portion of the Fort Riley expenses are already updated as part of the payroll adjustment that is discussed later in my testimony. Updating the expenses in this adjustment could be considered double counting since a portion of the expenses related to payroll is already being annualized in another adjustment. The third adjustment made by Staff was to reverse the Fort Riley depreciation included with the income statement adjustment proposed by KGS in the initial filing. KGS agrees with removing the depreciation expense. Previously, I discussed that Staff proposed to move the Fort Riley plant from the working capital adjustment to plant in service. When this adjustment is made, the Fort Riley plant is incorporated into the overall depreciation adjustment that is supported by KGS witness Mr. Reid Simpson. Therefore, reversing the Fort Riley depreciation adjustment made in the initial filing is necessary so the depreciation for Fort Riley is not double counted. The updated adjustment to include in the revenue requirement to account for the above-described changes is $235,693.

III. <u>Incentive Compensation</u>

Q. Please summarize Staff's position on Incentive Compensation.

A. Staff proposes to eliminate 70 percent of the expense related to officer and executive short-term incentives ("STI"), 50 percent of the long-term incentives for officers and executives ("LTI") related to restricted stock units and 100 percent of the LTI for performance-based awards. These recommendations were made under the framework approved by the Commission in Docket 10-KCPE-415-RTS ("Docket 10-415"). This contrasts with the Company's request for recovery of 50 percent of the officer and executive STI related to financial metrics and 50 percent of the LTI related to financial metrics. The Company requested to include 50 percent of the STI that Staff's adjustment eliminates and 50 percent of the LTI performance-based awards Staff's adjustment eliminates. KGS agrees with the disallowance of 50 percent of the executive and officer LTI related to restricted stock.

Q. What were the main reasons KGS requested to include a portion of the financially based STI and LTI within the revenue requirement?

A. Since the Commission issued its precedential order in Docket 19-ATMG-525-RTS, KGS has weathered two events that demonstrated how the financial metrics used by KGS to determine incentive compensation benefit both shareholders and customers. Those two events were Winter Storm Uri and the COVID 19 pandemic. Those two events were discussed in more detail in my direct testimony.

Q. Did Staff address the performance of the Company during the COVID-19 pandemic.

A. No, Staff did not address the Company's position that its success during the COVID-19 pandemic was a direct result of the strong financial position of the Company.

Q. Did Staff address the performance of the Company during Winter Storm Uri?

A. Yes. Staff commended the Company for the hard work during such a difficult period to provide our customers with safe and reliable gas service. KGS likewise believes Staff and other parties worked tirelessly throughout the storm to protect the life and property of Kansans. In response to KGS's argument that its financial strength helped the Company weather the storm, Staff argued KGS's customers provided significant aid in KGS achieving its EPS targets after Winter Storm Uri because the extraordinary costs associated with the storm were deferred as a regulatory asset rather than an expense[1].

Q. What is KGS's response to Staff's argument?

A. Staff's argument is focused on events after Winter Storm Uri, whereas KGS's argument focuses on the Company's strength before Winter Storm Uri. ONE Gas' financial strength before Winter Storm Uri allowed it to secure additional financing to ensure adequate gas supplies would be available for customers. If the Company had not been financially strong, the Company would not have been able to raise the cash

[1] Direct Testimony of Katie Figgs, Docket 24-KGSG-610-RTS, page 33.

to purchase the natural gas that the customers needed during the extreme cold temperatures that coincided with unprecedented high prices. If KGS had not been able to raise the necessary cash, customers would have been without natural gas and heat during the coldest days during Storm Uri. Customers would have incurred property damage caused by frozen and broken pipes and it is possible that deaths would have occurred as did in other states where utilities did not have the ability to deliver natural gas supplies. It's worth taking a moment to remember ONE Gas had to raise capital *before* the Commission issued its Emergency Order in Docket No. 21-GIMX-303-MIS. Although not the only example, this is the best example that clearly demonstrates how the financial strength of the utility benefits customers, why the Commission should reconsider its prior finding that the financial strength of the utility only benefits shareholders, and why the Commission should conclude that the financial strength of the utility can be included as a metric used in considering officer and executive incentive compensation.

IV. Income Statement Adjustments

Q. Can you begin your discussion with CURB adjustment ACC-6?

A. Yes. CURB adjustment ACC-6 is related to the adjustment made by the Company to account for the re-establishment of disconnection and reconnection fees. CURB made an adjustment to the revenue requirement of $540,575 that KGS does not agree is appropriate. If the Commission agrees with KGS and Staff that the reconnection and disconnection fees should be re-established, then this adjustment is not necessary. The discussion of the reasonableness of reinstating the reconnection and disconnection fees follow in the section of my testimony titled "Tariff Recommendations."

Q. Does KGS have a response to the payroll adjustment proposed by KCC Staff?

A. Staff updated the KGS direct and corporate payroll adjustments to reflect Staffing levels through April 2024 which was provided through discovery through the rate case audit process and reflects the most recent payroll expense of the Company. The methodology that Staff utilized is appropriate and consistent with the methodology that KGS employs. This update also incorporates updates to corresponding payroll taxes, 401(k) costs, and defined contribution retirement plan costs. KGS agrees that Staff's adjustment updates the expenses appropriately.

Q. How does the payroll adjustment proposed in ACC-8 differ from the payroll adjustment proposed by KCC Staff?

A. ACC-8 removes 50% of the increase related to the bargaining unit employees. The adjustment made by Staff is more appropriate to include within the revenue requirement because it updates to the most recent known and measurable changes in payroll expense.

Q. Does KGS agree with adjustment IS-10 as proposed by Ms. Figgs?

A. Yes. KGS agrees with the amount that Staff included in Adjustment No. 10 to the pension and OPEB expense level in base rates premised on the approval of the APRA tariff sponsored by KGS witness Ms. Janet Buchanan. Ms. Figgs explained in her testimony that Staff's adjustment updates KGS's pension and OPEB expenses with actual amounts based on the twelve months ending April 2024. This is an appropriate adjustment to reflect the most recent known costs associated with pension and OPEB levels. If the Commission approves the APRA tariff, then the costs associated with pension and OPEB will be adjusted as part of the components of the APRA calculation.

Q. If the Commission does not approve the APRA tariff, would adjustment IS-10 need to be modified?

A. Absent the APRA tariff, which would allow the update of pension and OPEB expenses on a yearly basis, KGS would continue to use Tracker 1 to defer the difference between future actual pension and OPEB expense and the amount of pension and OPEB that are in base rates. KGS agrees with Staff that, for the purposes of the deferral mechanism, updated to the expense level proposed by Staff, the new benchmarks incorporated into base rates would be:

Pension Expense: $3,704,409

OPEB Expense: $0

The OPEB expense level is set to $0 as required in Docket No. 07-GIMX-1041-GIV due to the negative amount of OPEB costs during the test year. Therefore, the adjustment proposed by Staff should reflect the tracker level of $0 when establishing the base level of expense for rate making purposes. Staff's adjustment to KGS's original adjustment should be an increase to expense of $21,706 to reflect the OPEB level of expense equal to $0 and the 12-month ending April 2024 Pension expense. If the Commission approves the APRA tariff, then the adjustment made by Staff correctly reflects the OPEB expense level for rate making purposes.

Q. Can you continue your discussion of Staff Adjustment IS 11 and CURB adjustment ACC-11.

A. Yes. Both adjustments were done to reflect the updated Pension and OPEB Tracker 1 balances to be amortized over three years. KGS agrees that this is the correct approach to resetting the amortization amounts. However, when reviewing the workpapers of both Staff and CURB, KGS discovered that the number used to determine the new amortization amount was the projected December 2024 balance instead of the October 2024 ending balance as intended. The updated amortization amount should be ($5,280,403) for pension and ($667,388) for OPEB which reflects an updated adjustment amount that decreases test year expense by $4,617,568.

Q. Can you discuss the rate case adjustment by Staff and by CURB?

A. Both Staff and CURB made adjustments to include actual rate case expenses through a specific date. Although the numbers used by Staff and CURB are different, they both agree that the expenses should be updated with actual results as the case proceeds. The adjustment for rate case expenses should include the estimate for a fully litigated case in the revenue requirement amortized over 3 years, which is $357,116. The costs reflected include costs for Staff and CURB. As required by the procedural order, KGS will submit the estimated rate case expenses on August 5, 2024.

Q. Can you continue with a discussion of Staff Adjustment No. 16. Does KGS agree with the adjustment?

A. No. The Company disputes Staff's removal of miscellaneous expenses, meals, and travel totaling $339,304.

Q. Why does the company dispute Staff IS-16?

A. Staff adjustment IS-16 removes categories of expenses at 50% or 100% and contends that the categories are not necessary for the provision of natural gas to customers. KGS contends that these expenses are necessary to fulfil the ONE Gas core values of Safety, Ethics, Inclusion & Diversity, Service, and Value. The categories removed by Staff IS-16 were presented in three categories which are further separated into unique types of expenses in the table below.

Category	**Amount**	**Adjustment**
<u>Misc. - Dues, Donations, Sponsorships</u>		
Chamber, Conf, Events	108,579	
Engagement	16,211	
Floral	480	
Membership Fees, Registration and Dues	104,437	

Misc. Admin	9,607	
Safety	2,761	
Total Misc. Category		$ 242,093
Meals		
Catering/Events	41,108	
Meals with Alcohol	179	
Other Meals	12,946	
Non-Meals	1,873	
Soft Drinks	502	
Total Meals Category		$ 56,608
Travel		
Business Travel	32,705	
United Way	380	
Safety	1,553	
Training	5,965	
Total Travel Category		$ 40,603
Total Staff IS-16		**$ 339,304**

Q. Please describe the Chamber, Conferences, and Events category.

A. Staff removed $108,579 related to local Chamber of Commerce expenses. The expenses in question promote economic development throughout the KGS service territory which KGS believes is in the public interest, and thus should be included in KGS's revenue requirement.

Q. What type of expenses make up Engagement?

A. Staff removed $16,211 related to employee engagement and appreciation events. Employee engagement is crucial to maintaining employee morale, customer service, maintaining safe work practices, and minimizing employee turnover among many other aspects of providing natural gas service to KGS customers. Additionally, these activities are necessary in the pursuit of highlighting company initiatives. KGS believes these expenses promote the public interest.

Q. Are flowers a prudent business expense?

A. Yes. Flowers are occasionally appropriate to send for funerals or times of celebration. Sending flowers to employees in a time of loss respects the emotional impact of mourning and demonstrates that the company values an employee's well-being beyond the workplace. Similarly in celebration, flowers can be a recognition of significant accomplishments honoring milestones. Providing flowers to employees and community members is an active demonstration of Service, and Inclusion, & Diversity.

Q. Are memberships fees, registration, and dues necessary business expenses?

A. Yes. To maintain a high-performing workforce and a community presence, professional dues and memberships are required for items such as notary appointments, fire investigation, and other professional licenses. Registration for community events in Kansas is directly in line with the Company's core value of Service and benefits customers.

Q. What expenses make up the "Misc Admin" category?

A. The $9,607 of miscellaneous expenses include items such as printing, postage, signage, and police records that are normal expenses and which should not be removed from the revenue requirement.

Q. What expenses are you categorizing as safety?

A. Safety is KGS's first core value. The expenses associated with environmental, safety, and health ("ESH") activities which encourage employee involvement in proactive safety measures and associated with parts purchased for the KGS fire school make up this category and should be included in the KGS revenue requirement.

Q. Are occasional meals a prudent business expense?

A. Yes. Meals can be an appropriate business expense when traveling, serving a business function, recognition of milestones, and for holidays or community events.

Q. Are all meals considered "business meals"?

A. No. As stated in the ONE Gas Business Travel and Expenditure Policy "A business meal is a meal with an employee(s) and/or other invited attendees where Company related business is discussed during the meal or dining while out of town for business. Meals should be reasonable based on the purpose and location of the event." Employees can use their company credit cards for appropriate business meals that comply with the policy.

Q. Please describe the types of expenses that compose the meals category of Adjustment IS-16.

A. Meals for holidays, employee recognition, or purposeful events such as training or safety make up most of this category amounting to $41,108. Meals with alcohol account for $179. Other meals associated with normal business travel and specific business purposes composes $12,946. Staff inadvertently included $1,873 of non-meal expense in this category including expense related to door hangers and registration which are prudent expenses. Finally, soft drinks of $502 includes drinks and ice for crews, meetings, and break rooms.

Q. Does KGS agree with adjusting any of these expenses?

A. KGS does not object to removing expenses associated with alcohol. As Staff applied a 50% disallowance to these expenses, KGS proposes removing the full amount at 100% amounting to $358, consistent with Staff's treatment on meals with alcohol that were allocated to KGS.

Q. Other than alcohol, are each of the remaining meals categories appropriate business expenses?

A. Yes. All other types of meals that Staff removed are ordinary and necessary to support a valued workforce. Recognizing holidays and employee milestones is a common business practice that is prudent in retaining employees and creating an inclusive and supportive workplace.

Q. Please describe the types of expenses that compose the travel category of Adjustment IS-16.

A. A total of $40,603 was adjusted by Staff relating to travel expenses. Routine business travel of $32,705 accounted for the majority of this expense. The remaining amounts were $380 related to travel for the United Way campaign, $1,553 for safety activities, and $5,965 for training activities.

Q. Why is travel a necessary business expense?

A. KGS operates within a large footprint across Kansas and the ONE Gas headquarters are located in Tulsa, Oklahoma. Occasional travel is required to facilitate community relations, employee training, and leadership development. The ability of employees to physically attend training and development, in person, is key to maintaining a high performing workforce. Given the large Kansas footprint, some services are centralized and require occasional travel. For roles such as community relations, routine travel is necessary.

Q. What does CURB recommend regarding meals and entertainment expense?

A. CURB proposed an adjustment removing 50% of meals and entertainment expenses amounting to $131,463.

Q. Does KGS agree with this proposal?

A. No. For the reasons stated above, meals are appropriate business expenses and should be included in the cost of service. KGS contends that the reasoning for adjusting meals by 50% is not reasonable.

Q. What is the basis for CURB's meals and entertainment adjustment?

A. CURB relies on IRS tax code and deductibility on the Company's income tax return.

Q. What conclusion does CURB derive from the IRS reference?

A. CURB argues that since the IRS limits the deductibility of meals and entertainment expenses to 50%, then only 50% of meals of entertainment expenses should be included in a regulated utility's cost of service.

Q. What is KGS's response to this argument?

A. CURB's conclusion assumes that the deductibility of an expense for tax purposes is a valid proxy for a determining whether meal and entertainment expenses are just and reasonable. However, using the IRS tax code to determine whether an expense should be included in a regulated utility's revenue requirement is not reasonable.

Q. Why is it not reasonable to use the IRS tax code as a proxy for what business expenses are prudent and necessary?

A. The IRS tax code outlines what expenses can be deducted from taxable income in calculating a business's tax liability. This structure is subject to political priorities, revenue needs of the federal government, and desired incentive structures for the public at large. While it may contain aspects of a prudency review, the specific types of deductions and level of disallowances is subject to change each year. For example, IRS treatment of bonus depreciation illustrates that incentive structures change periodically within the tax code.

Q. Has the IRS varied in treatment of business meals deduction over time?

A. Yes. In 1986, the IRS reduced business meals deduction to 80%. This was reduced further in 1994 to 50%. Most recently, the Taxpayer Certainty and Disaster Tax Relief Act of 2020 increased the business meals deduction to 100%. This was effective through December of 2022. From January 2023 forward, the deduction returned to 50%. This demonstrates that the deductibility is not purely a measure of appropriate expenses but subject to political changes and contains an element of incentivization.

Q. What adjustment does CURB propose related to membership dues expense?

A. Ms. Crane proposes removing 50% of AGA dues after the original company adjustment that removed lobbying associated AGA expenses.

Q. What support does CURB provide to remove other AGA dues over the identified lobbying expense?

A. CURB states "It is appropriate to eliminate such costs because in many cases organizations undertake other activities that do not benefit ratepayers, such as public affairs, promotions and media activities."[2] Then CURB's witness further speculates broadly that "organizations take a very narrow view of what constitutes 'lobbying', which effectively results in an underreporting of lobbying costs."[3]

Q. Is this enough justification to make an adjustment?

A. No. CURB's position is speculative. While CURB points to the risk and possibility of understatement, they did not provide any clear examples or evidence showing such misreporting of lobbying percentages are known or measurable. Put simply, CURB provided no evidence to substantiate this claim.

Q. Can you turn your attention to Staff's recommendations on the Cyber Security Tracker?

A. In general, Staff supports the continuation of the Cyber Security tracker for an additional 5 years, consistent with KGS's request to continue the tracker absent the approval of the APRA proposal. Staff did a thorough review of the expenses that were deferred through the Cyber Security Tracker. Staff made several recommendations to disallow certain deferred expenses related to membership dues, travel-related meals, and miscellaneous other expenses. These adjustments were similar to the adjustments that Staff made in Staff adjustment IS-16 to Miscellaneous Expenses.

[2] Direct testimony of Andrea Crane, 24-KGSG-610-RTS, page 45.
[3] Ibid., page 46.

Additionally, Staff updated the deferred balance through February 2024, consistent with the sunset timeframe established in Docket 18-KGSG-560-RTS ("Docket 18-560") and made a small adjustment to an accounting error. Staff proposed an amortization period of five years.

Q. Is the adjustment for Staff made for previously deferred Miscellaneous Expenses in the Cyber Security Tracker consistent with what was established in Docket 18-560?

A. No. In addition to the reasons outlined earlier in my testimony on why these expenses are reasonable to include when setting the revenue requirement, Docket 18-560 set a base level of expenses for the tracker. These base level test year expenses contained miscellaneous expenses that Staff is now trying to remove from the Cyber Security Tracker. If these miscellaneous expenses should not have been included within the Cyber Security Tracker, then it would be appropriate to re-evaluate the test year expenses from Docket 18-560 to reestablish a new base level of expenses to use within the tracker. Absent that re-evaluation, the deferred expenses that were included during the last 5 years should be allowed to be recovered.

Q. Did Staff make any other adjustments to the deferred expenses within the Cyber Security tracker?

A. Yes. Staff identified an error to the Distrigas percentage that KGS used while calculating the amount to defer in October 2022. KGS agrees that this amount was incorrect and should be revised consistent with Staff's revision.

Q. Can you discuss Staff's recommendation on what to include in the tracker going forward?

A. Even though KGS contends that the miscellaneous expenses should not be disallowed for rate making purposes or for purposes of the last Cyber Security Tracker, KGS can agree to eliminate those expenses from the cyber security expenses included in the tracker on a go-forward basis.

Q. Please summarize the changes to the adjustment for the Cyber Security Tracker that KGS is proposing?

A. KGS is proposing to include the updated balance through February 2024 of the Cyber Security deferral, the correction to October 2022 Distrigas percentage, amortizing the balance over 3-years consistent with the pension and OPEB amortization periods. For purposes of making sure the correct level of expense is included for rate making purposes, KGS adjusted the test year expenses to include Staff's adjustment to the miscellaneous expenses. For the Cyber Security Tracker going forward, KGS agrees to Staff's baseline amount of $1,046,538 and will not include the types of miscellaneous expenses that Staff eliminated in the next tracker. The total net adjustment is $560,621 increase to expense.

Q. Please continue with a discussion on Staff Adjustment IS-22 for bad debt Expense. Does KGS agree the adjustment?

A. Yes, in part. The Company disputes Staff's adjustment amount of $1,7947,58 due to a different revenue requirement applied to calculate a proposed bad debt amount; however, KGS agrees with the update related to test year bad debt.

Q. Can you elaborate on the difference in the Company's bad debt calculation and Staff's IS-22?

A. Yes. Staff witness Ms. Luke Fry is correct in the description of an oversight that was necessary to correct KGS's as-filed calculation of bad debt. KGS agrees with correcting test year bad debt expense to $4,671,094. Additionally, KGS agrees that updating to a 3-year bad debt average ending April 2024 is appropriate. Together these changes amount to an adjustment of $1,769,059 increase in gross margin.

Consistent with Staff's adjustment, KGS has updated the associated bad debt expense that results from the revenue increase. In total this brings KGS Bad Debt adjustment to $938,934.

Q. Please address CURB's adjustment to bad debt expense.

A. Like Staff's bad debt adjustment, CURB corrected the miscalculation in test year bad debt and recalculated based on a revised revenue requirement. As stated earlier, it is appropriate to update the bad debt expense for the updated revenue requirement. KGS is making a similar adjustment to account for the updated revenue requirement.

Q. Can you discuss the income tax adjustments included by Staff?

A. Yes. KGS agrees with Staff that income tax expense needs to be adjusted to account for the changes to all other adjustments. As such, KGS is including an updated income tax calculation to account for the updated adjustments within the revenue requirement.

Q. Will you continue with a discussion of CURB's interest synchronization calculation?

A. Yes. CURB is correct that the income taxes related to interest expense should be synchronized for updates to rate base and capital structure. However, KGS disputes the amounts that CURB is using for both rate base and capital structure. Accordingly, KGS disputes the amount that CURB is including in this adjustment and is including the amount of income taxes consistent with the interest expense consistent resulting from the proposed rate base and capital structure.

V. <u>Tariff Recommendations</u>

Q. Can you discuss KCC Staff witness Mr. Campbell's recommendation for the requested Disconnect and Reconnect Fee?

A. Staff recommends approving KGS's request to end its involvement in the Knock and Collect Pilot Program and to reinstate disconnection and reconnection fees.

Q. What is KGS's response to Staff's recommendation?

A. In reviewing Staff's recommendation, KGS believes its position should be clarified. In a separate proceeding pending before the Commission, Docket No. 24-GIMG-453-GIG ("Docket No. 24-453"), KGS along with Atmos Energy Corporation have filed a joint application requesting a permanent waiver to the billing standards to allow for the continued discontinuation of the knock and collect requirement prior to disconnection. Essentially, KGS has requested Commission approval to make its Knock and Collect Pilot program a permanent program. KGS will remain in the Knock and Collect Pilot Program until a determination is made in Docket No. 24-453. In this rate case, however, KGS has only requested to reinstate the disconnection and reconnection fees. The request to reinstate these fees is to recognize that KGS cannot disconnect a customer remotely and must physically disconnect a customer, and thus incurs costs to do so. Additionally, reconnection cannot be accomplished remotely. Between the two dockets, KGS is requesting to: (1) reinstate its disconnection and reconnection fees since KGS does not have the ability to remotely disconnect or reconnect customers, and (2) make the Knock and Collect Pilot Program's disconnection procedures permanent.

Q. Can you address CURB's response to the request to reinstate the disconnection and reconnection fees?

A. CURB witness Mr. Josh Frantz states that the correct docket to address the reinstatement of the disconnection and reconnection fees is Docket 24-453. KGS disagrees with this argument. If KGS waits to address this issue in Docket 24-453, KGS would not be able to include a revenue adjustment while resetting of the base rates to account for the increase in miscellaneous service fee revenues that occurs when the reconnection and disconnection fees are reinstated. This could result in

KGS over-collecting the revenue requirement. Additionally, CURB states that since there has not been a procedural schedule or designated date for intervenor commentary in Docket 24-453 established, KGS is premature in requesting the increase. KGS disagrees with this argument as well. Regardless of when the Commission rules on KGS's request in Docket 24-453, KGS incurs costs when disconnecting and reconnecting a customer. The customers that cause a cost to be incurred should be responsible for paying for that cost instead of socializing the cost to other customers. If KGS is not allowed to reinstate the reconnection and disconnection fees in this docket, all of KGS's customers will pay for the costs associated with disconnecting and reconnecting customers that were disconnect for non-payment.

Q. Did Atmos Energy request to change their disconnection and reconnection fees in their most recent rate case in Docket No. 23-ATMG-359-RTS ("Docket 23-359")?

A. Yes. Atmos requested that the disconnection and reconnection fees be set to zero along with all other miscellaneous service fees.

Q. How did CURB address Atmos' request to discontinue their disconnection and reconnection fees in Docket 23-359?

A. CURB has significantly revised, if not reversed, its position from that taken in the Atmos rate case. In Docket 23-359, Mr. Frantz stated that disconnection fees should not be recovered from other rate payers who did not cause the costs to be incurred.[4] In particular, he went on to argue socialization of these costs would be harmful to low-income customers who pay their bills on time. In this docket, Mr. Frantz is arguing that reinstating the disconnection and reconnection fees is punitive and specifically

[4] Testimony of Josh Frantz, Docket 23-ATMG-359-RTS, page 26.

targeted toward customers who cannot afford their utility bill.[5] KGS recognizes that charging the disconnection and reconnection fees add to the debt burden of the customers who were disconnected for non-payment. However, the alternative, not charging these fees, results in customers who did not cause the costs to be incurred becoming responsible for paying for the costs within base rates, including other low-income customers who pay their bills on time. Additionally, deferring the reinstatement of the fee to Docket 24-453 as suggested by CURB means that KGS's customers will be subsidizing the costs related to disconnection and reconnection of non-paying customers.

Q. How do you respond to Mr. Frantz and the "poverty traps"[6] that he alleges KGS is setting for customers by charging the disconnection and reconnection fee?

A. KGS outright denies the allegation. As described in Ms. Janet Buchanan's direct testimony, KGS offers customers payment options to pay their arrearage to maintain or restore service consistent with its tariffs. KGS routinely informs customers of payment options and additional resources if they are facing difficulties paying their utility bills. The idea that KGS's request to reinstate prior Commission-approved fees sets a trap for customers is shocking.

Q. Is KGS prepared to continue working with others to help address energy burden issues in Kansas?

A. Of course. As stated in Ms. Buchanan's direct testimony, KGS is willing to continue to work with other stakeholders to explore additional means of assisting customers with their energy bills. The issues facing low-income customers are important, and CURB's continued focus on these issues is welcomed and endorsed by KGS. At the same

[5] Testimony of Josh Frantz, Docket 24-KGSG-610-RTS, page 7.
[6] Testimony of Josh Frantz, Docket 24-KGSG-610-RTS, page 7.

time, disconnection and reconnection fees should be borne by the customer that caused those costs to be incurred.

Q. Can you address Mr. Campbell's statement that KGS has not recommended a separate fee schedule for disconnection/reconnection of customers at the distribution main?

A. Yes, I can. Mr. Campbell is correct that KGS is not requesting a fee schedule to account for disconnections or reconnections that occur at the distribution main. KGS also agrees that the extra costs incurred to disconnect and reconnect customers should not be borne by all of its customers. KGS requested an amendment to Section 5.09 Reconnection Charge to add language to address this very scenario. The added tariff language would allow for the Company to charge a customer the actual cost for the additional work of physically disconnecting or reconnecting the service at the distribution main which addresses Staff's concern that the extra costs incurred would be borne by other customers. However, Staff and CURB did not indicate that they opposed this updated tariff language to bill those customers the actual costs related to disconnection and reconnection that occurs as a result of the customer being physically disconnected at the main.

Q. Does this conclude your testimony.

A. Yes, it does.

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

Lorna M. Eaton, being duly sworn upon her oath, deposes and states that she is the Manager, Rates and Regulatory for Kansas Gas Service, a Division of ONE Gas, Inc.; that she has read and is familiar with the foregoing Rebuttal Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.

Lorna M Eaton

Lorna M. Eaton

Subscribed and sworn to before me this 22 day of July 2024.

STATE OF KANSAS NOTARY PUBLIC
JILL TENNANT
My Appointment Expires
June 21, 2026

Jill Tennant

NOTARY PUBLIC

My appointment Expires:
June 21, 2026

CERTIFICATE OF SERVICE

I, Robert Elliott Vincent, hereby certify that a copy of the above and foregoing ***Rebuttal Testimony*** was served via electronic service this 22nd day of July, 2024, addressed to:

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