

**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) Docket No. 24-KGSG- 610 - RTS
the State of Kansas.)

**DIRECT TESTIMONY
OF
KEARA J. DOWNUM
ON BEHALF OF KANSAS GAS SERVICE
A DIVISION OF ONE GAS, INC.**

MARCH 1, 2024

**DIRECT TESTIMONY
OF
KEARA J. DOWNUM
ON BEHALF OF KANSAS GAS SERVICE
A DIVISION OF ONE GAS, INC.
DOCKET NO. 24-KGSG-___-RTS**

1 **I. Position and Qualifications**

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

3 A. My name is Keara J. Downum. My business address is 15 East Fifth Street in Tulsa,
4 Oklahoma.

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

6 A. I am employed by ONE Gas, Inc. ("ONE Gas") as a Rates Analyst II.

7 **Q. Please describe your education and professional experience.**

8 A. I am a licensed Certified Public Accountant with a Master of Science Degree in
9 Accounting and a Bachelor of Science Degree in Accounting from Oklahoma State
10 University. From February 2018 to June 2020, I worked as a contract employee in the
11 ONE Gas Rates and Regulatory department. From June 2020 through December
12 2020, I completed an internship with ONE Gas' Corporate Accounting and Rates and
13 Regulatory departments. From January 2021 through November 2022, I served as a
14 Tax Intern at Grant Thornton LLP and a contract tax preparer at Edwards Tax and
15 Accounting. In November 2022, I began serving as a Rates Analyst II at ONE Gas.

16 **Q. Was this testimony prepared by you or under your direct supervision?**

17 A. Yes, it was.

18 **Q. Do you sponsor any exhibits in connection with your testimony?**

1 A. Yes, I sponsor Exhibit KJD-1 attached to my testimony containing the Corporate
2 Allocation Manual (“CAM”) that documents the methodology used by ONE Gas to
3 allocate indirect costs through Dstrigas.

4 **Q. Are you supporting any of the Minimum Filing Requirement (“MFR”) schedules?**

5 A. Yes, I am supporting Schedules 12-A and 12-B in Section 12 of the MFR.

6 **Q. Have you previously testified before the Kansas Corporation Commission
7 (“Commission”)?**

8 A. No.

9 **II. Executive Summary**

10 **Q. Please summarize the key issue(s) you address.**

11 A. The purpose of my testimony is to: (1) explain and support ONE Gas’ cost allocation
12 methodology, including causal allocations and the ONE Gas Dstrigas formula; and (2)
13 explain and support ONE Gas’ operating expense adjustments for corporate expenses
14 allocated to Kansas Gas Service (“KGS” or the “Company”), including KGS’s direct
15 short-term incentive compensation. Company Witness Ms. Megan Gough describes
16 overall market-based compensation, including incentive compensation in her Direct
17 Testimony. The Direct Testimony of Company Witness Ms. Lorna Eaton addresses
18 the Commission’s precedent concerning recovery of incentive compensation and
19 KGS’s request for recovery of such compensation.

20 **III. Cost Allocation Methodology**

21 **Q. What is the purpose of cost allocations?**

22 A. The purpose of cost allocations is to determine and reasonably allocate each business
23 entity’s proportionate share of costs for certain support services it receives from ONE
24 Gas. In this case, ONE Gas’ “business entities” are its operating divisions: Kansas
25 Gas Service, Oklahoma Natural Gas (“ONG”), Texas Gas Service (“TGS”), and an

1 affiliate company, Utility Insurance Company (“UIC”), a wholly-owned captive
2 insurance subsidiary. Because the costs to provide these services are “shared” by
3 multiple business entities, cost responsibility for these services must be reasonably
4 allocated among the various ONE Gas business entities. These allocations are
5 accomplished by applying ONE Gas' cost allocation methodology.

6 **Q. Please describe ONE Gas' cost allocation methodology.**

7 A. The costs incurred by ONE Gas or any of its business entities can be described as
8 either direct or indirect. A direct cost can be fully attributed to a specific business
9 entity, so those costs are directly assigned to that specific business entity. Conversely,
10 indirect costs are costs that cannot be attributed to a specific business entity and thus
11 are allocated in accordance with the ONE Gas cost allocation methodology. For
12 example, if costs cannot be directly assigned, but a cost causation measurement can
13 be identified, then these indirect costs are allocated based on a causal relationship,
14 such as customer count, and would be considered shared costs, which are discussed
15 further below. Any remaining indirect costs that cannot be allocated in that manner
16 are allocated using the formula known as Distrigas. The Company's cost allocation
17 methodology has been accepted by the Commission in settled Docket Nos. 16-KGSG-
18 491-RTS (“16-491 Docket”) and 18-KGSG-560-RTS (“18-560 Docket”). Similarly, this
19 methodology has been approved in Oklahoma and Texas.

20 **Q. Please briefly explain “direct costs.”**

21 A. Direct costs are those costs that can be identified and directly assigned to a business
22 entity, such as KGS, and therefore are charged directly to KGS. Costs are directly
23 assigned for services such as meter reading, leak surveys, field customer service, fleet
24 expenses, certain information technology services, line location services, facilities

1 management, and labor and benefits costs for Property Accounting employees for
2 each ONE Gas Division for which the employee has accounting responsibility.

3 **Q. Please briefly explain “indirect costs.”**

4 A. Indirect costs are those costs incurred to provide services that cannot be directly
5 assigned to a business entity; thus, these costs are considered shared costs.
6 Therefore, these costs are shared among multiple business entities. Indirect or shared
7 costs are allocated to each business entity either on a causal basis or through
8 Distrigas.

9 **Q. Please describe the services and costs allocated on a causal basis.**

10 A. Indirect costs allocated using causal relationships are based on specific cost causation
11 measurements such as participation level, activity level, output level, or resource
12 consumption. Examples of indirect costs allocated on a causal basis include employee
13 health and welfare benefits for active employees that can be measured by output level
14 such as by employee headcount for each respective business entity, or the Billing
15 Control Group as a percentage of customer count, or Accounts Payable using a
16 percent of invoice processing volume by business entity.

17 **Q. Could you summarize Schedule 12-B of the MFR?**

18 A. Schedule 12-B of the MFR provides a summary containing the factors used to
19 calculate the annual causal allocation percentages. Included are the applicable causal
20 allocation percentages for calendar years 2022 and 2023 with a description and
21 allocation basis of the cost causations used by ONE Gas.

22 **Q. Please describe the services and costs allocated through Distrigas.**

23 A. Indirect costs that cannot be charged directly or cannot be associated with an
24 identifiable causal relationship are allocated through Distrigas. ONE Gas provides
25 many services that benefit all its business entities, including KGS. Those corporate

1 service operating costs are recorded on ONE Gas' financial books and are then
2 allocated to the various ONE Gas business entities using the Distringas factor.

3 A general summary of corporate services is provided below. A complete list
4 containing a more detailed explanation of each corporate service and associated
5 allocation can be found in the CAM attached to my testimony as Exhibit KJD-1:

- 6 • Human Resources – Provides professional development and training
7 programs for active employees;
- 8 • Information Technology – Supports ONE Gas' business entities by developing
9 and administering disaster recovery, data backup and recovery, data center
10 and support of all Company technology;
- 11 • Finance and Accounting – Supports ONE Gas' business entities by
12 administering processes related to corporate accounting, financial reporting,
13 tax, credit, risk and insurance, internal audit, financial planning and business
14 development;
- 15 • General Counsel – Supports ONE Gas' business entities by administering
16 processes related to legal aspects of day-to-day business activities;
- 17 • Corporate Communications – Provides a variety of communication related
18 support generally related to corporate communications efforts directed to
19 employees and external stakeholders; and
- 20 • Corporate Services – Supports ONE Gas' various business entities by
21 developing and administering programs and processes that facilitate general
22 day-to-day business activities such as purchasing, facilities, business
23 continuity, and environmental safety and health initiatives.

24 Finally, as noted in the CAM, certain miscellaneous costs such as rent and utilities
25 impacting all business entities are also allocated.

1 **Q. Would the same types of services as those provided by ONE Gas be required if**
2 **KGS were a stand-alone business?**

3 A. Yes, these services would need to be provided even if KGS was a standalone
4 business. KGS would likely have to independently provide these services if the
5 services were not provided by ONE Gas. However, having these services performed
6 centrally is efficient, allows for economies of scale, and for the costs of those services
7 to be spread across the business and divisions for which the services are provided.
8 These services are necessary for the operation of any gas utility business, regardless
9 of whether the service is performed centrally or on a decentralized basis at the division
10 level.

11 **Q. Please describe the history of the Distrigas allocation methodology.**

12 A. The Distrigas method was first approved in 1987 by the Federal Energy Regulatory
13 Commission (“FERC”) in a rate proceeding for a natural gas transmission company,
14 Distrigas of Massachusetts Corporation.¹ The formula used by Distrigas of
15 Massachusetts Corporation was a slight modification of the old Massachusetts formula
16 (a three-part formula consisting of gross plant, gross revenues, and labor) which, prior
17 to the acceptance of the Distrigas method, was widely accepted by numerous
18 regulatory agencies across the country. In its opinion, FERC accepted the Modified
19 Distrigas method (a three-part formula consisting of gross plant, net revenues, and
20 labor) as a reasonable and acceptable methodology for allocating costs for ratemaking
21 purposes.

22 **Q. Please explain how costs are allocated using the Distrigas method.**

23 A. The Distrigas method ONE Gas uses ensures that ONE Gas allocates corporate costs
24 to each division on a consistent basis by applying the same cost-causation principles

¹ Distrigas of Mass. Corp., Opinion No. 291, 41 FERC 61, 205 (1987).

1 and methodology. This method uses a three-factor formula comprised of: (1) gross
2 plant and investments; (2) operating income (income before interest expense and
3 income taxes); and (3) labor expense. As with the Modified Distringas Method, the
4 factors are individually calculated and then a simple average is calculated using the
5 three component percentages. ONE Gas utilizes gross plant and investments rather
6 than just gross plant in the event that ONE Gas invests in business(es) that are not
7 directly operated by ONE Gas.² These modifications further refine the Modified
8 Distringas Method to fairly and reasonably allocate the costs to the ONE Gas business
9 entities, including KGS.

10 **Q. Could you describe Schedule 12-A of the MFR?**

11 A. Schedule 12-A of the MFR provides a summary showing the factors used to calculate
12 the quarterly ONE Gas Distringas allocation percentages. Included are the applicable
13 ONE Gas Distringas allocation percentages for the fourth quarter of 2022 and all four
14 quarters of 2023.

15 **Q. Has the same cost allocation methodology been applied in prior ONE Gas**
16 **proceedings?**

17 A. Yes, it has. This methodology has been used since 1994 to allocate corporate costs.
18 It is important to ONE Gas to have a common allocation methodology approved by the
19 regulatory agencies in the states in which it operates to ensure that the method is fair
20 to each of the ONE Gas business entities and their customers. This methodology is
21 currently used in Kansas. The Commission accepted ONEOK's allocation
22 methodology in a settled proceeding, Docket No. 06-KGSG-1209-RTS, as well as
23 ONE Gas' allocation methodology settled in the 16-491 Docket and 18-560 Docket.
24 This methodology has been approved by the Texas Railroad Commission ("RRC") and

² Currently, ONE Gas has no investment in businesses that are not operated by ONE Gas. ONE Gas also uses operating income rather than net revenues as an allocator to eliminate the cost of gas component.

1 applied in Texas Gas Service filings.³ Additionally, the Oklahoma Corporation
2 Commission ("OCC")⁴ has approved the use of the cost allocation method used by
3 ONE Gas in prior Oklahoma Natural Gas rate cases.

4 **Q. Is ONE Gas' cost allocation methodology a reasonable methodology to allocate**
5 **corporate costs?**

6 A. Yes, it is. As mentioned above, the ONE Gas cost allocation methodology allows ONE
7 Gas to allocate corporate costs to each of its divisions on a consistent basis by
8 applying the same cost-causation principles and methodologies. Furthermore, this
9 methodology has been previously accepted by the Commission, and approved as a
10 reasonable means of allocating corporate costs by the FERC,⁵ the RRC, and the OCC.

11 **IV. Operating Expense Adjustments for Corporate Expenses**

12 **Q. Has the Company removed certain expenses from its rate filing?**

13 A. Yes. ONE Gas may incur expenses that are not included in the revenue requirement
14 for one reason or another. Examples of these types of expenses include contributions
15 to political organizations, expenses associated with legislative advocacy, civic
16 activities, sponsorships, and charitable contributions. The costs of these services are
17 billed to the divisions using ONE Gas' cost allocation methodology, regardless of
18 whether the divisions request recovery of those costs from customers. These costs
19 are charged using separate accounts specifically established to enable ONE Gas to
20 identify and track these expenditures so they can be removed when preparing

³ *Appeal of Texas Gas Service Company from the Actions of the Cities of Lockhart, Luling, Cuero, Gonzales, Nixon, Shiner and Yoakum; and, Statement of Intent Filed to Increase Rates in the Unincorporated Areas of the South Texas Service Area*, GUD No. 9770, Final Order at FoF 36 (Apr. 24, 2008); *Petition of the De Novo Review of the Denial of the Statements of Intent Filed by Texas Gas Service Company by the Cities of El Paso, Anthony, Clint, Horizon City, Socorro, and Village of Vinton, Texas*, GUD No. 9988, Final Order at FoF 23-24 (Dec. 14, 2010).

⁴ *In the Matter of the Application of Oklahoma Natural Gas Company, a Division of ONEOK, Inc., for Review and Change or Modification in its Rates, Charges, Tariffs and Terms and Conditions of Service*, Cause No. PUD 200400610, Order No. 512287 at 113 of 134 (Oct. 4, 2005).

⁵ *Distrigas of Mass. Corp.*, Opinion No. 291, 41 FERC 61,205 (1987).

1 regulatory filings and are therefore not included in the request for recovery from
2 customers.

3 **Q. Have any other costs been removed from this filing?**

4 A. Yes, and I detail the adjustment related to these costs below.

5 **Q. You indicated earlier that you are sponsoring adjustments to test year corporate**
6 **operating expenses allocated to KGS. Please identify those adjustments.**

7 A. I am sponsoring the Income Statement ("IS") Adjustments summarized in Table 1:

Table 1				
Adjustment Number	Description	KGS Direct Adjustment	Corporate Allocated Adjustment	Total Adjustment to Operating Income
IS 25	Miscellaneous Corporate Charges		\$508,788	\$508,788
IS 26	Distrigas Change in Allocation Ratio		\$700,488	\$700,488
IS 27	Normalized Compensation	\$(331,059)	\$1,097,732	\$766,673
IS 28	Corporate OPEB, Pension, and Health Benefits		\$(828,436)	\$(828,436)

8
9 **A. Corporate Cost Adjustments**

10 **Q. Please provide an explanation for Income Statement Adjustment IS 25.**

11 A. Adjustment IS 25 reduces Operating Expenses by \$508,788. This adjustment
12 removes costs related to governmental relations, civic activities, non-utility activity,
13 aviation, contributions and donations, non-recurring and prior period expenses,
14 division specific activity, and other corporate support costs for which management has
15 elected not to seek recovery in this case. This adjustment also includes an adjustment
16 to account for the known and measurable change in corporate office lease costs and
17 insurance costs.

18 **Q. Please provide an explanation for Income Statement Adjustment IS 26.**

1 A. Adjustment IS 26 reduces Operating Expenses by \$700,488. This adjustment reflects
2 the known and measurable change in the Distrigas allocation factor as of fourth quarter
3 2023.

4 **Q. Please provide an explanation for Income Statement Adjustment IS 27.**

5 A. Adjustment IS 27 reduces Operating Expenses by \$766,673 related to ONE Gas' 2023
6 Short-Term Incentive ("STI") and Long-Term Incentive ("LTI") compensation. This
7 adjustment includes the amounts that were direct charged to KGS, as well as indirect
8 amounts that were allocated from corporate. The adjustment to STI reflects: (1)
9 removal of fourth quarter 2022 STI, (2) inclusion of known and measurable fourth
10 quarter 2023 STI, (3) removal of prior year activity recorded during the test year, (4)
11 removal of 50% of the financial metric portion of STI for Officers, and (5) removal of
12 STI in excess of 100 percent for Officers and Non-Officers, resulting in a normalized
13 level of STI costs. The adjustment to LTI reflects the removal of 50% of Performance
14 and Restricted LTI for Officers. The rationale for this adjustment is provided in the
15 Direct Testimony of Ms. Lorna M. Eaton.

16 **Q. Please provide an explanation for Income Statement Adjustment IS 28.**

17 A. Adjustment IS 28 increases Operating Expenses by \$828,436. This adjustment
18 reflects the known and measurable change in Other Post-Employment Benefits
19 ("OPEB"), Pension, and Employee Health Benefit costs associated with corporate
20 employees.

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

22 A. Yes, it does.

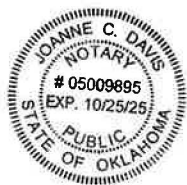
VERIFICATION

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

Keara J. Downum, being duly sworn upon her oath, deposes and states that she is the Rates Analyst II for ONE Gas, Inc.; that she has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of her knowledge, information, and belief.


Keara J. Downum

Subscribed and sworn to before me this 21st day of February 2024.




NOTARY PUBLIC

My appointment Expires:
October 25, 2025



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

The Corporate Allocation Manual provides documentation for allocation of corporate administrative costs of ONE Gas, Inc. (ONE Gas to its divisions and subsidiaries. Direct costs incurred for the direct benefit of a specific business entity of ONE Gas are not addressed in this manual because the objective and scope of this manual pertains to general charges that cannot be assigned to a single operating business entity.

ONE Gas maintains a fully distributed cost model that assigns each business entity its proportionate share of corporate administrative costs based on a reasonable and justifiable method.

Proper classification of costs is the responsibility of each employee and his or her supervisor when preparing, approving, and processing any accounting document (invoices, journal entries, etc.). The classification of costs is determined using our Classification of Accounts Manual (which includes codes for each company, cost center, natural account, expense indicator and RFU) when processing the transaction. The account coding string is the basis upon which costs are identified as costs to be allocated in our process.

Three-Step Allocation Process

Our fully distributed cost model occurs through a "three-step" process. The first step begins with the premise that costs specifically attributed to a business entity are charged directly to that business entity to the extent practical. In the second step, costs that are significant in amount and benefit multiple business entities on the basis of a causal relationship are charged to the business entities based on that causal relationship. The causal relationships are specific measurements based on the type of cost, which can be a measure of participation level, activity level, output level, or resource consumption. In the third step, any remaining costs, which are not charged directly or associated with an identifiable causal relationship, are allocated to business entities using the ONE Gas Modified Distrigas Allocation methodology (ONE Gas Distrigas).

ONE GAS Distrigas Methodology

The Distrigas Cost Allocation Methodology (Distrigas Method) is a Federal Energy Regulatory Commission (FERC) approved cost allocation methodology that is considered a reasonable and acceptable methodology for allocating costs for ratemaking purposes. ONE Gas, Inc. has used the Distrigas Method as the basis for its methodology to allocate corporate administrative costs since 1994. It is important to ONE Gas to have a common allocation methodology that is broadly accepted by our regulatory authorities and that results in a justifiable and reasonable allocation of corporate administrative costs to each of ONE Gas's business entities.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

The ONE Gas Distrigas methodology uses a three factor formula comprised of the average of gross plant, net operating income and labor expenses (excluding contract labor).

To calculate the overall allocation factor for each business entity, the three allocation factor amounts are determined for each business entity and calculated as a percentage of the combined total. In cases when a business entity has an operating loss, a factor of zero is used for the operating income allocation factor. The three component allocation factors for each business entity are then combined using a simple average to derive the overall allocation factor.

ONE Gas periodically reviews its existing allocation methodologies to ensure that costs are being appropriately allocated. ONE Gas's Distrigas allocation factors are updated quarterly or when significant changes to its corporate structure occur, such as acquisitions, divestitures, or corporate restructuring.

ONE Gas uses the following methodology to allocate costs when costs cannot be charged directly or allocated using a causal relationship to a business entity. The allocation methodology allows the allocation of costs to the business entities that receive the benefit of the administrative costs. The allocation methodology is described as follows:

Methodology Name	Cost Center	Description
OGS-Distrigas	1007	Calculates allocation percentages using the respective allocation factors for the business entities of ONE Gas's business entities including Oklahoma Natural Gas, Kansas Gas Service, Texas Gas Service, and Utility Insurance Company

Appendix A provides an example calculation of ONE Gas's Distrigas methodology.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020
Corporate Accounting Department

Allocated Costs

Costs to be allocated can be aggregated in the following general categories:

- Executive
- Human Resources (HR)
- Information Technology (IT)
- Finance and Accounting
- General Counsel
- Corporate Communications
- Corporate Services (includes Environmental Health & Safety, Engineering, and Resource Management)
- Customer Service
- Other

The costs allocated in these general categories are allocated in accordance with our "three step allocation methodology" described above. The following sections provide a general description of the types of costs allocated in each general category and the method in which those costs are allocated.

Executive

The executive organization provides leadership and strategic direction for ONE Gas's business activities. Examples of costs incurred in this area are related to salaries and expenses of the President and Chief Executive Officer, his or her direct reports, and corporate officers with responsibility for corporate administrative functions that are not assigned to a specific business entity. These costs are primarily allocated through the OGS-Distrigas methodology.

Human Resources

The HR organization supports our various business entities and the employees of ONE Gas by developing and administering plans and processes related to compensation, employee benefits, employee development and payroll. Typical examples of costs incurred in this area are related to:

Types of Costs	Allocation Methodology
Administrative fees for all defined plans, health & welfare and retirement plans	1. These costs are allocated using the causal



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020
 Corporate Accounting Department

	<p>relationship of plan participant count or employee headcount for each respective business entity.</p> <ol style="list-style-type: none"> Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
<p>Health and welfare benefits for active employees</p>	<ol style="list-style-type: none"> These costs are allocated using the causal relationship of employee headcount or plan participant count for each respective business entity. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
<p>Retirement benefits for active and retired employees</p>	<ol style="list-style-type: none"> These costs are allocated using the causal relationship of plan participant count for each respective business entity where the plan participant works at each measurement date or where the plan participant worked immediately prior to retirement. Plan participant or retiree costs allocated to corporate departments (Executive, HR,



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

	Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Workforce and professional development support and training programs for all active employees	<ol style="list-style-type: none"> 1. These costs are allocated using the causal relationship of employee headcount 2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
HR administration and financial services support, including compensation, payroll and benefits accounting and IT support	<ol style="list-style-type: none"> 1. These costs are allocated using the causal relationship of employee headcount for each respective business entity. 2. Cost allocated to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.

Information Technology

The IT organization supports our various business entities by developing and administering technology solutions and information security to facilitate day-to-day business activities. Typical examples of costs incurred in this area are related to:

Types of Costs	Allocation Methodology
IT administrative functions such as administration, financial planning, accounting and reporting	Allocated through the OGS-Distrigas methodology



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

Disaster recovery, data backup and recovery, change management and problem management	Allocated through the OGS-Distrigas methodology.
Websites, intranet, business intelligence, legal applications, imaging and scanning, and document management technologies	Allocated through the OGS-Distrigas methodology.
ONE Gas customer billing system	Allocated using the causal relationship of customer count for each of the business entities.
Data center and general support	1. Allocated through the OGS- Distrigas methodology.
Telecommunications and Mobile Services	<ol style="list-style-type: none"> 1. Charged directly to the business entity receiving benefit of the service. 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Financial and HR systems and related systems such as fixed asset accounting, project estimation and accounting, financial reporting and HR reporting	Allocated through the OGS-Distrigas methodology.
Supporting the operational accounting systems and the measurement systems used for non-residential gas meters	<ol style="list-style-type: none"> 1. Charged directly to the business entity that is providing service to the non- residential gas meter. 2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

Support and maintenance of the corporate and operations applications such as cash management systems	<ol style="list-style-type: none"> 1. Costs are charged directly to the business entity receiving benefit of the service. 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Supporting systems related to field operations including construction and engineering	<ol style="list-style-type: none"> 1. Charged directly to the business entity receiving benefit of the service. 2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.
Support of compliance and network security monitoring (cyber security)	Costs are allocated through the OGS-Distrigas methodology.
Pipeline Support Systems	Costs are allocated through the OGS-Distrigas methodology.

Finance and Accounting

The Finance and accounting organization supports our various business entities by administering processes related to corporate accounting, financial reporting, tax, credit, risk and insurance, internal audit, financial planning and business development. Typical examples of costs incurred in this area are related to payroll and business expenses associated with departments responsible for:

Types of Costs	Allocation Methodology
Corporate general accounting and consolidations, corporate financial planning and business development	Allocated through the OGS-Distrigas methodology.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

SEC and external reporting for ONE Gas	Allocated through the OGS- Distrigas methodology.
Accounts payable	<ol style="list-style-type: none"> 1. Allocated using a causal relationship derived from an internally developed analysis of invoice processing volume by business entity. 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Investor relations	Allocated through the OGS-Distrigas methodology.
Treasury Services	Allocated through the OGS-Distrigas methodology.
Sustainability	Allocated through the OGS-Distrigas methodology.
Federal and state income tax accounting and compliance activities, ad valorem, sales & use tax and franchise tax accounting and compliance activities	<ol style="list-style-type: none"> 1. Taxes incurred are charged directly to the business entity incurring the tax obligation. 2. General administrative costs, including labor and benefits are charged directly to the business entity receiving benefit of the service. 3. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Maintaining long-term financing and short-term working capital	<ol style="list-style-type: none"> 1. General administrative costs associated with our finance department are allocated through the OGS-Distrigas methodology.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

Risk mitigation and insurance	<ol style="list-style-type: none"> 1. Labor, benefits and administrative expenses associated with administration of our insurance programs are allocated to the business entities through the OGS- Distrigas methodology. 2. Costs associated with specific insurance programs are allocated as follows: <ol style="list-style-type: none"> a. Primary & Excess Workers' Compensation: Allocated through the OGS-Distrigas methodology. b. Excess Liability: Allocated through the OGS-Distrigas methodology. c. Directors & Officers Liability: Allocated through the OGS-Distrigas. d. Property and Terrorism: Allocated through the OGS-Distrigas methodology. e. Various others (e.g. Fiduciary Liability, Blanket Crime, Mail and Transit, etc.): Allocated through the OGS- Distrigas methodology
Internal audit services (which includes our costs related to compliance with the Sarbanes-Oxley Act of 2002)	Costs are allocated to the business entities through the OGS-Distrigas methodology.
Independent auditor fees	<ol style="list-style-type: none"> 1. Charged directly to the business entity being audited. 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

Centralized team responsible for fixed asset accounting	<ol style="list-style-type: none"> 1. Labor and benefits are charged directly to each business entity for which the employee has accounting responsibility. 2. General and administrative supplies and expenses are allocated based on the causal relationship of gross property, plant, and equipment values.
Centralized team responsible for accounting for the customer billing process	Allocated to the business entity based on the causal relationship of customer count.

General Counsel

The general counsel organization supports our various business entities by administering processes related to legal aspects of our day-to-day business activities. Typical examples of costs incurred in this area are related payroll and business expenses (including third party legal costs) associated with departments responsible for:

Types of Costs	Allocation Methodology
Third-party damages and workers' compensation claims	<ol style="list-style-type: none"> 1. Charged directly to the business entity incurring the damages or workers' compensation claim. 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Commercial contracts	<ol style="list-style-type: none"> 1. Charged directly to the business entity named in the commercial contract. 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

Regulatory affairs	<ol style="list-style-type: none"> 1. Charged directly to the business entity receiving benefits of the services provided in certain instances. 2. Costs are allocated to the business entities through the OGS-Distrigas methodology.
Human resources	<ol style="list-style-type: none"> 1. Allocated using the causal relationship of employee headcount for each respective business entity. 2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Litigation	<ol style="list-style-type: none"> 1. Charged directly to the business entity receiving benefits of the services provided. 2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Corporate secretary and board of directors	Allocated through the OGS- Distrigas methodology.
General legal matters, ethics and compliance and pipeline safety	<ol style="list-style-type: none"> 1. Charged directly to the business entity receiving benefit of the legal services. 2. Costs not attributable to a specific business entity are allocated through the OGS- Distrigas methodology.

Corporate Communications

The corporate communications organization supports our various business entities by administering processes related our corporate communications efforts with employees and



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

external stakeholders. Typical examples of costs incurred in this area are related payroll and business expenses associated with departments responsible for:

Types of Costs	Allocation Methodology
Governmental affairs	<ol style="list-style-type: none"> 1. Costs are charged directly to the business entity receiving benefit of the services provided. 2. All other costs are allocated to the business entities through the OGS-Distrigas methodology.
Corporate communications (including advertising costs, costs associated with electronic communications and costs associated with general employee communications)	<ol style="list-style-type: none"> 1. Costs are charged directly to the business entity receiving benefit of the services provided. 2. All other costs are allocated to the business entities through the OGS-Distrigas methodology.
Corporate responsibility (includes civic donations)	Allocated through the OGS-Distrigas methodology.

Corporate Services (includes Environmental Health & Safety)

The corporate services organization supports our various business entities by developing and administering programs and processes that facilitate general day-to-day business activities and environmental safety and health initiatives. Typical examples of costs incurred in this area are related to payroll and business expenses associated with departments responsible for:

Types of Costs	Allocation Methodology
Purchasing and materials management	<ol style="list-style-type: none"> 1. Costs are charged directly to the business entity receiving benefit of the services provided. 2. Allocated using a causal relationship derived from miles of



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

	<p>pipe in the ground for each respective business entity.</p> <ol style="list-style-type: none"> Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Facilities and fleet management	<ol style="list-style-type: none"> Costs are charged directly to the business entity receiving benefit of the services provided. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Right-of-way management	<ol style="list-style-type: none"> Allocated using a causal relationship derived from miles of pipe in the ground for each respective business entity. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.
Business continuity planning	<p>These costs are allocated using the causal relationship of employee headcount for each respective business entity.</p>
Environmental management	<ol style="list-style-type: none"> Charged directly to the business entity responsible for the environmental cost incurred. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT,



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

	etc.) are allocated through the OGS-Distrigas methodology.
Safety programs	<ol style="list-style-type: none"> 1. Charged directly to the business entity responsible for the cost incurred. 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Records Retention	<ol style="list-style-type: none"> 1. Charged directly to the business entity responsible for the cost incurred. 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Performance Management	<ol style="list-style-type: none"> 1. Charged directly to the business entity responsible for the cost incurred. 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Enterprise Resources	<ol style="list-style-type: none"> 1. Charged directly to the business entity responsible for the cost incurred.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

	<ol style="list-style-type: none"> 2. Costs not attributable to a specific business entity or costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Aviation services	Allocated through the OGS-Distrigas methodology.
Engineering	<ol style="list-style-type: none"> 1. Allocated using a causal relationship derived from miles of pipe in the ground for each respective business entity. 2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology
Resource Management (includes costs for workforce strategy and planning, contractor)	<ol style="list-style-type: none"> 1. Allocated using a causal relationship derived from miles of pipe in the ground, employee headcount, or customer count for each respective business. 2. Costs not attributable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020
Corporate Accounting Department

Customer Service

The customer service organization supports our various business entities by providing responsive, flexible, efficient service to our customers. Typical examples of costs incurred in this area are related to payroll and business expenses associated with departments responsible for:

Types of Costs	Allocation Methodology
Customer Service Support	1. Allocated to the business entity based on the causal relationship of customer count.

Other

This section represents miscellaneous costs impacting multiple business entities

Types of Costs	Allocation Methodology
Incentives, short- and long-term (stock-based compensation)	<ol style="list-style-type: none"> 1. Short-term incentive costs charged directly to the business entity for which the employee has responsibility. 2. Long-term incentive costs are allocated using the causal relationship of plan participant count for each respective business entity. 3. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Employee stock purchase program, excluding long-term incentives	1. These costs are allocated using the causal relationship of plan participant count for each respective business entity.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

	<ol style="list-style-type: none"> 2. Costs charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
OGS Meter Shop Expense	<ol style="list-style-type: none"> 1. Allocated using the causal relationship of customer count for each business entity.
Payroll taxes	<ol style="list-style-type: none"> 1. Charged directly to each employee's respective payroll organization. 2. Cost charged directly to corporate departments (Executive, HR, Accounting, IT, etc.) are allocated to the business entities through the OGS-Distrigas methodology.
Other taxes (ad valorem, franchise, etc.)	<ol style="list-style-type: none"> 1. Charged directly to the business entity incurring the tax obligation. 2. Costs not identifiable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.



CORPORATE ALLOCATION MANUAL

Revised /April 22, 2020

Corporate Accounting Department

<p>Depreciation associated with general corporate assets</p>	<p>Allocated through the OGS-Distrigas methodology except as follows:</p> <ol style="list-style-type: none"> a. Banner Customer Information System: Allocated using the causal relationship of customer count for each business entity. b. PowerPlant Fixed Asset Accounting System: Allocated using the causal relationship of Gross PP&E value attributable to each business entity. c. Maximo: Allocated using the causal relationship of miles of pipe for each business entity. d. Concur: Allocated using the causal relationship of employee count for each business entity. e. Certain Journey costs: Allocated using the causal relationship of employee count for each business entity. Costs not identifiable to a specific business entity are allocated to the business entities through the OGS-Distrigas methodology.
--	---