

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

In the Matter of Atmos Energy's Compliance Filing )  
of its Accelerated Pipe Replacement Plan Pursuant ) Docket No. 18-ATMG-316-CPL  
to Docket No. 15-GIMG-343-GIG )

**PRELIMINARY PLAN FOR THE SYSTEMATIC ACCELERATED  
REPLACEMENT OF BARE STEEL SERVICE/YARD LINES, CAST  
IRON MAINS, AND BARE STEEL MAINS WITHIN CLASS 3  
LOCATIONS OF ATMOS ENERGY CORPORATION**

Pursuant to Ordering Paragraph A of the Kansas Corporation Commission's ("KCC" or "Commission") Final Order, issued in Docket No. 15-GIMG-343-GIG ("343 Docket") on September 12, 2017, Atmos Energy Corporation ("Atmos Energy" or "Company") respectfully submits the following Preliminary Plan for the Systematic Accelerated Replacement of Bare Steel Service/Yard Lines, Cast Iron Mains, and Bare Steel Mains within class 3 Locations ("Preliminary Plan").

**I. BACKGROUND**

1. On February 2, 2015, the Commission Staff ("Staff") submitted a Report and Recommendation recommending the KCC open a general investigation docket to receive comments on programs for accelerated natural gas pipeline replacement. The KCC issued an *Order Opening General Investigation* on March 12, 2015, requesting comments and opening the 343 Docket to investigate programs for accelerated replacement of natural gas pipelines constructed of obsolete materials.

2. On March 19, 2015, the KCC issued an *Order Setting Procedural Schedule* establishing a timeline for briefs addressing the jurisdictional authority of the Commission in the 343 Docket. All briefs regarding this issue were filed on April 17, 2015. Finally, an Order was issued on June 18, 2015 asserting the Commission has jurisdictional authority over alternative ratemaking

mechanisms designed for accelerated replacement of natural gas pipelines.

3. Atmos Energy and Black Hills/Kansas Gas Utility, LLC, d/b/a Black Hills Energy ("Black Hills") filed their direct testimony addressing mechanisms for accelerated replacement of natural gas pipeline on October 8, 2015, while Kansas Gas Service filed their direct testimony a day later on October 9, 2015. All other parties submitted their direct testimony on January 29, 2016.

4. On February 26, 2016, rebuttal testimony was filed by Atmos Energy, Black Hills and Kansas Gas Service ("LDCs").

5. Beginning on March 30, 2016, an evidentiary hearing was conducted by the KCC.

6. Briefs were filed by all interested parties in May of 2016 and the Commission issued its Final Order on September 12, 2017 ("Order"). This Order, among other things, directed the LDCs that participated in the 343 Docket, including Atmos Energy, to provide a preliminary plan for the systematic accelerated replacement of bare steel service/yard lines, cast iron mains, and bare steel mains within class 3 locations within three months of the issuance of the Order. Rehearing of the Order was sought by all three LDCs but was denied by the Commission by its October 26, 2017, Order Denying Petitions For Reconsideration and Granting Clarification. The Commission subsequently clarified that the preliminary plan due date was January 24, 2018.

## **II. QUANTIFICATION OF MATERIALS**

7. Atmos Energy has currently identified approximately 550 to 600 miles of bare steel main within class 3 locations and approximately 26,000 to 29,000 bare steel service lines in its Kansas gas distribution system that meet the materials criteria in the Commission's Order in the 343 Docket.<sup>1</sup> The Company has no known quantities of cast iron main. The bare steel mains within class 3

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<sup>1</sup>This compares to approximately 1,500 total miles of mains and approximately 61,000 service lines made of obsolete materials identified by Atmos Energy witness Paige in the 343 Docket.

locations are located in 87 cities. Using the historic replacement rate of approximately eight miles per year as identified in the direct testimony of Mr. Christian Paige, it would take approximately 73 years to replace the bare steel main within class 3 locations and bare steel service lines included in this plan.

### **III. PRELIMINARY PROPOSED REMEDIATION PLAN**

8. Atmos Energy historically and currently replaces obsolete infrastructure as part of the normal course of business; however, the Company recognizes the need to accelerate this replacement. The Company has proposed many methods, including one in the 343 Docket, to accomplish this goal. In response to the Final Order in the 343 Docket, the Company plans to engage in a systematic acceleration of the replacement of bare steel mains within class 3 locations and bare steel service lines over an anticipated period of 30 to 35 years, subject to the cost recovery plan as described below in paragraph 11. This is essentially the same time frame proposed by Atmos Energy to replace all obsolete materials on its system supported by the SIP mechanism and will be possible only because of the narrower definition of materials to be replaced (bare steel mains and service lines in class 3 locations) defined by the Commission in its Final Order and if supported by effective cost-recovery. This schedule results in an acceleration of the timeline for replacement of these materials by more than 50% from historic levels. The Company will gather data to determine a prioritization score for each potential replacement project. The prioritization score will be utilized, along with other factors, to guide the Company in determining the order of replacement projects.

9. The Company will file each year by April 1 a report that will update the Commission on the mileage of mains per material broken down into class locations, which will include the progress made on the replacement of bare steel mains and services. Around the same time, the Company will also meet with KCC Staff and CURB to discuss the annual report. The Company requests that the systematic acceleration of the replacement of bare steel mains and service lines begin January 1, 2019

to allow the Company the opportunity to engineer and design projects, to procure appropriate construction contractors, to obtain the necessary permits and locates, and to notify cities and customers of upcoming projects. The initial report submitted by April 1, 2019 will be the baseline of identified bare steel mains within class 3 locations and bare steel service lines.

#### **IV. PROJECTED COSTS OF ACCELERATED REPLACEMENT**

10. The Company estimates that the total cost to replace the currently identified bare steel main within class 3 locations and bare steel service lines is between \$320 million and \$375 million (in 2018 dollars, uninflated) based on current construction costs. The total cost of replacement over the life of the plan may vary due to increases in the cost of labor, construction conditions, the cost of materials, inflation, and changing regulatory requirements. The anticipated annual rate impact associated with this level of capital investment is approximately \$1 million dollars a year and the cumulative rate impact over the life of the replacement plan is in the range of \$35 - \$40 million (in 2018 dollars). An average residential customer would see a monthly increase of about \$0.55 - \$0.60 in costs allocated to them as a result of the plan set forth above. Atmos Energy is aware of current discussions to potentially increase the GSRS cap from \$0.40 per month per residential customer to \$0.80 per month per residential customer. If approved by the Kansas Legislature the additional increase could be utilized by Atmos Energy to assist in cost recovery of the incremental capital investment Atmos Energy proposes to make under this proposed plan.

#### **V. COST RECOVERY**

11. As was discussed in the testimony of Staff witness Grady in the 343 Docket, adequate cost-recovery for capital investment in system remediation is both a necessary and required component of any plan to accelerate replacement of bare steel mains within class 3 locations and bare steel service lines in Atmos Energy's service territory. As such, the Company's ability to deploy the capital

necessary to effectuate the acceleration of bare steel main within class 3 locations and bare steel service line replacement is contingent upon the allowance of adequate cost-recovery by the Commission. In this regard, Atmos Energy would note that the Commission has rejected the System Integrity Program ("SIP") mechanism proposed by the Company in its rate case proceeding (which was accepted and supported, in slightly modified form, by CURB, and the Commission Staff in that proceeding and which was generally supported by all of the LDCs and Staff in the 343 Docket). Atmos Energy is also (and has been) fully utilizing the GSRS mechanism to address reactive facilities replacement in accordance with the restrictions on the use of that mechanism. Given this rejection of the SIP, the continued maximum utilization of the GSRS, and the deficiencies in the Commission's proposed ARP mechanism, which are discussed in more detail below, the only vehicles available to the Company to mitigate the cost impacts associated with an acceleration of its replacement program for bare steel mains within class 3 locations and bare steel service lines are traditional rate case filings and abbreviated rate proceedings (to the extent permitted by the Commission). The effectiveness of this cost recovery plan, plus any additional assistance that may be provided by an increase in the GSRS cap amount, will impact the pace at which Atmos Energy is able to replace the identified mains and services.

A. SYSTEM INTEGRITY PROGRAM

12. In the Company's 079 Rate Case, Atmos Energy, Staff and CURB agreed that the modified SIP was an acceptable recovery mechanism that addressed the 11 suggestions from Commission Staff found in Attachment 1 in their memorandum to the Commission regarding the 343 Docket. The SIP allowed the Company to accelerate replacement of obsolete materials (in fact, a broader set of obsolete materials than covered in the 343 Docket) and also allowed the Company to recover the costs of such activity on a timely basis. In the 343 Docket, Staff agreed that the SIP was

still an appropriate method to recover costs associated with the acceleration of obsolete materials.

13. It goes without saying that accelerated replacement of bare steel mains and service lines, which are obsolete by today's natural gas construction standards, is beyond the scope of the capital investment required to meet customer demand, comply with state and federal regulatory requirements, and conduct normal maintenance and upgrades to the system and thus calls for a significant increase in capital investment. Atmos Energy, placing safety at the forefront, voluntarily began such increased investment years before the 343 Docket began and, as is described in the testimony of Staff witness Grady in the 343 Docket, this increased investment caused a significant increase in the frequency of the Company's rate case filings. Under Atmos Energy's accelerated replacement plan, as set forth herein, the annual capital investment in system remediation by the Company would continue to require an increased level of capital investment associated with reducing the replacement period for bare steel mains and service lines from approximately 73 years to between 30 and 35 years as proposed herein will require frequent and significant rate relief in order to preserve Atmos Energy's opportunity to earn a reasonable return. Atmos Energy continues to believe that its SIP mechanism is a reasonable and reasoned approach to providing such rate relief which is administratively efficient and limited to the specific capital investment necessary to engage in system remediation (while preserving regulatory lag associated with the Company's normal capital expenditures). The Staff agrees with this assessment, as did CURB in the Company's 079 Rate Case.

B. ACCELERATED REPLACEMENT PLAN

14. The Accelerated Replacement Plan ("ARP") proposed by the Commission in the 343 Docket as an alternative recovery mechanism for the accelerated replacement of bare steel mains within class 3 locations and all bare steel service lines is not a viable mechanism to allow the Company a reasonable opportunity to recover the costs associated with an accelerated investment in

replacing bare steel mains and service lines. Specifically, Atmos Energy perceives the following problems with the proposed ARP mechanism, each of which was identified in Atmos Energy's Petition for Reconsideration of the Final Order which was filed on September 27, 2017, in the 343 Docket:

a. The ARP's requirement of a commitment to replace all bare steel mains within class 3 locations and all bare steel service lines on the Atmos Energy system over a ten-year period is unreasonable and would require capital investment at rates that would make natural gas service economically prohibitive for Kansas customers.

b. The ARP would restrict Atmos Energy's ability to recover costs associated with accelerated capital investment on main and service line replacement (and other normal capital expenditures) to such a degree that the Company would have no practical opportunity to earn a reasonable return on its investment.

c. The ten-year replacement period of the ARP would additionally result in disruption of roads, facilities, etc. because of the amount of construction that would be required within the compressed time frame and such disruption would not promote the public interest. The relationship with local governments and residents would be strained due to the disruption of roads, the impact of obtaining necessary local construction and other permits, the availability of local and state inspectors to review the level of construction, and the increase in locates for underground facilities.

d. The compressed timeline would also result in a strain on the availability of resources, including the ability to obtain enough qualified contractors and construction crews at reasonable rates.

e. The cap on ARP recovery of \$0.40 per customer per month is grossly insufficient to cover a ten year replacement plan. In fact, that level of recovery, which is the

same cap as exists on the current GSRS mechanism, would only support an approximate annual incremental investment of \$7.5 million. Utilizing the conservative projected costs set forth above for Atmos Energy's plan to accelerate bare steel main and service line replacement of approximately \$320 million, the average annual capital investment associated with a ten-year replacement plan (if such a short-time frame were even feasible) would be approximately \$32 million a year. Thus, the ARP would only provide cost recovery for approximately 22% of the annual investment necessary to replace bare steel mains within class 3 locations and bare steel service lines over a ten year period.

f. Finally, the ARP mechanism would exclude the approximate incremental investment of \$7 million a year that Atmos Energy has been voluntarily making toward system remediation and would require Atmos Energy to seek cost recovery for that investment (as well as normal capital expenditures) through rate case proceedings. This is the same annual capital investment that Staff witness Grady testified was driving Atmos Energy to file rate cases on almost an annual basis but under the ARP procedures Atmos Energy would be highly constrained in its ability to seek such relief.

15. These attributes of the ARP mechanism render it practically unusable by Atmos Energy as an effective means to enable Atmos Energy to accelerate capital investment in bare steel mains and service line replacement with manageable impacts to its ability to timely recover its investments. In fact, utilization of the ARP by the Company would increase regulatory lag associated with capital investments and, at least with respect to the situation of Atmos Energy, does not support accelerated replacement of obsolete materials - which is the Commission's stated goal in its Final Order.

16. Based on the foregoing, the Company finds itself agreeing with Commissioner Albrecht that "the parameters for the ARP . . . seem more suited for discouraging than encouraging progress



in this important public safety policy" and that several of the pre-conditions placed on the use of the ARP mechanism may be inconsistent or contrary to the Commission's stated objectives of facilitating accelerated replacement of obsolete materials in the systems of Kansas local distribution companies.<sup>2</sup>

17. The requirements and limitations of the ARP make the mechanism unusable by Atmos Energy. For these reasons, the Company cannot consider the ARP as a viable mechanism for recovering costs associated with the acceleration of the replacement of obsolete materials.

C. FREQUENT RATE CASE FILINGS

18. The SIP has been rejected by the Commission, the Company cannot consider the ARP as a viable mechanism, therefore, the Company is left with no choice other than utilizing a combination of annual GSRS filings, frequent traditional rate case filings, and abbreviated rate case filings (to the extent permitted by the Commission) to recover costs associated with the acceleration of the replacement of bare steel mains within class 3 locations and bare steel service lines. This recovery plan will require the Company to file near annual general or abbreviated rate cases and incur rate case expenses that will be passed along to customers. It will also involve rolling "normal" capital expenditures and any increases in O&M costs into customer rates on a more frequent basis. This is an undesirable but unavoidable impact of not having a viable alternative cost-recovery mechanism for accelerated investment in system remediation. It is also the reason that alternative cost-recovery

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<sup>2</sup>See Final Order, Commissioner Albrecht, concurring in part, dissenting in part. Commissioner Albrecht's assessment of the problematic nature of the ARP mechanism was echoed by Moody's Investor Services shortly after issuance of the Final Order in this docket which stated that: "we believe the ARP places gas distribution utilities like those owned by ONE Gas, Inc. (A2 stable), Atmos Energy Corporation (A2 stable), and Black Hills Corporation (Baa2 stable) in a difficult position since the program is far from sufficient to cover all the necessary investments to meet the KCC's ARP goal to replace all of the state's obsolete pipes over a decade. Participating utilities will have to delay recovery of part of their investment until sometime into the future, likely stressing these utilities' financial profile during that time. Accelerated pipeline replacement programs exist in over 40 states across the U.S. However, unlike the one proposed by the KCC, these programs have more timely recovery of investments, offer substantially more flexibility, and are less financially burdensome to the utility company." and "Based on our internal analysis (Moody's), this limit (\$.40) is far from sufficient to cover the required investments."

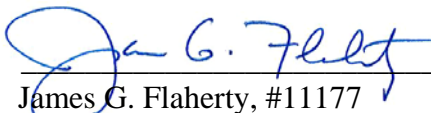
mechanisms like the SIP have been widely adopted across the country for system remediation activities like those described above.

## VI. CONCLUSION

19. Atmos Energy respectfully submits its preliminary plan for the accelerated replacement of bare steel mains within class 3 locations and bare steel service lines as directed by the Commission in its Final Order in the 343 Docket and provides the attendant comments reflected herein in an effort to be sure that the Commission is informed of the practical and operational realities associated with such plan as they will impact Atmos Energy and the Commission.

Respectfully submitted, this the 24<sup>th</sup> day of January, 2018.

ATMOS ENERGY CORPORATION



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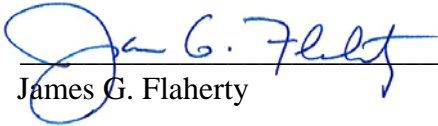
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**VERIFICATION**

STATE OF KANSAS            )  
  )ss:  
COUNTY OF FRANKLIN    )


James G. Flaherty, of lawful age, being first duly sworn on oath, states:

That he is the attorney for Atmos Energy Corporation, named in the foregoing Compliance Filing, and is duly authorized to make this affidavit; that he has read the foregoing Compliance Filing, and knows the contents thereof; and that the facts set forth therein are true and correct.

  
\_\_\_\_\_  
James G. Flaherty

SUBSCRIBED AND SWORN to before me this 24<sup>th</sup> day of January, 2018.



  
\_\_\_\_\_  
Notary Public

Appointment/Commission Expires:

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via U. S. Mail, postage prepaid, hand-delivery, or electronically, this 24<sup>th</sup> day of January, 2018, addressed to:

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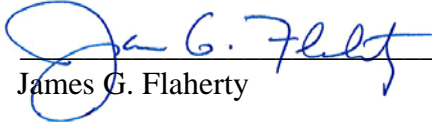
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