

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Application Kansas)
Gas Service, a Division of One Gas, Inc.)
for Approval by the Commission to Revise) Docket No. 23-KGSG-282-TAR
Section & of the Kansas Gas Service's)
General Terms and Conditions.)

NOTICE OF FILING STAFF REPORT AND RECOMMENDATION

COMES NOW the Staff of the State Corporation Commission of the State of Kansas, and for its Notice of Filing Staff Report and Recommendation states as follows:

Staff hereby files the attached Report and Recommendation dated March 30, 2023, providing Staff's analysis and recommendation regarding Kansas Gas Service's tariff filing revising its General Terms and Conditions, Sections 7.04.03(2) and 7.09. The proposed changes would amend the tariff provisions by instituting a new method for calculating service line reconnections, relocations, abandonments and meter locations, as well as service line installations. The proposed methodology would use the average embedded cost per service line to assess customers for yard line installations and replacements and various customer upgrades and relocations.

The Staff Report and Recommendation indicates customers are currently assessed for service line installations, upgrades and relocations on the basis of the actual cost of the project. The proposed procedure would calculate the average embedded cost of the projects that currently has been determined to be \$1,464.00. The average cost for these projects is roughly equal to the average embedded cost. Using the average embedded cost to assess customers for installations, upgrades and relocations will permit field staff to more efficiently calculate the rate and reduce administrative costs. The embedded cost figure will be revised on an annual basis and reflect a

closer approximation of the overall cost of providing service. The current rate for a 1¼ inch or less service line installation is \$4.54 per foot in excess of 200 feet, and with the adoption of the average embedded cost methodology, will increase to \$7.32 per foot in excess of 200 feet. For lines greater than 1¼ inch a credit attaches, and the credit will change to \$1,464, which is the calculation used to establish the service line allowance, based on a 200 feet free extension for service lines equal to or less than 1 ¼ inch. Moreover, a customer charge for abandonments will also be assessed at the rate of 1/3 of the average embedded cost.

Staff reviewed invoices furnished by Kansas Gas Service to verify the cost of installations, upgrades and relocations as well as abandonments and determined that the average embedded cost for these projects closely approximated the average cost. Accordingly, the Staff recommended the approval of the proposed tariff changes.

WHEREFORE, Staff presents its Report and Recommendation for the record and further determination in a Commission Order.

Respectfully Submitted,

/s/ Walker Hendrix

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Susan K. Duffy, Chair
Dwight D. Keen, Commissioner
Andrew J. French, Commissioner

Laura Kelly, Governor

REPORT AND RECOMMENDATION UTILITIES DIVISION

TO: Susan K. Duffy, Chair
Dwight D. Keen, Commissioner
Andrew J. French, Commissioner

FROM: Tim Rehagen, Senior Auditor
Justin Grady, Chief of Accounting and Financial Analysis
Jeff McClanahan, Director of Utilities

DATE: March 30, 2023

SUBJECT: Docket No. 23-KGSG-282-TAR – In the Matter of the Application of Kansas Gas Service, a Division of ONE Gas, Inc. for Approval by the Commission to Revise Section 7 of Kansas Gas Service’s General Terms and Conditions.

EXECUTIVE SUMMARY:

Staff recommends approval of Kansas Gas Service’s (KGS or Company) proposal to modify Section 7 of its General Terms and Conditions for Gas Service (General Terms and Conditions). This tariff revision would allow KGS to apply an Average Embedded Cost per Service Line (Average Embedded Cost) when calculating the costs of service line and yard line installations and replacements, as well as for calculating the costs of customer requested upgrades and relocations of KGS’s equipment.

BACKGROUND:

On August 26, 2022, KGS filed an Application with the Kansas Corporation Commission (Commission) requesting approval of revisions to sections 7.04.03 and 7.09 of its General Terms and Conditions.¹ Section 7.04.03 describes how customers are charged for service line and yard line installations and replacements. Section 7.09 explains how customers are charged for requested upgrades and relocations to the Company’s facilities. KGS is proposing the application of an Average Embedded Cost per Service Line to calculate customers’ bills rather than charging customers the actual cost for equipment upgrades and relocations. The proposed Average Embedded Cost will be calculated by taking the sum of the Company’s gross plant balances in FERC accounts 380, 381, 382, 383, 384 and 385 as of December 31st of the previous calendar year, and dividing it by the average number of customers for the previous calendar year.

¹ See the Suspension Order filed on September 8, 2022, in this Docket, wherein the Commission established a deadline of April 24, 2023, for issuing a final Order.

According to section 7.04.03 of the General Terms and Conditions, customers are currently charged \$4.54 per foot of pipeline in excess of 200 feet for additional installations or replacements of service lines and yard lines less than or equal to 1¼ inches in diameter. For pipelines that exceed 1¼ inches in diameter, customers are currently charged the construction cost of the project minus an allowance of up to \$908 per service line (\$4.54 X 200 feet).² KGS is proposing to replace the current \$4.54 rate with a \$7.32 rate based on the proposed Average Embedded Cost of \$1,464. As a result, the customer allowance for projects on pipelines greater than 1¼ inches in diameter will equal the Average Embedded Cost of \$1,464.³

KGS is also proposing to add language to section 7.09 of the General Terms and Conditions that would establish the following specifications:⁴

- KGS will be reimbursed the Average Embedded Cost for customer requested meter relocations, and service line reconnections and/or relocations of pipe less than or equal to 1¼ inches or less in diameter;
- The calculation of the Average Embedded Cost;
- Customers will be charged 1/3 of the Average Embedded Cost for service line abandonments;
- KGS shall update its Average Embedded Cost annually, prior to May 1st of each year.

ANALYSIS:

Customers are currently charged the actual cost of equipment upgrade and relocation projects. KGS has stated that it has tracked the costs of these projects over a period of several years and has determined that the average of these actual costs is virtually equal to the proposed Average Embedded Cost. At Staff's request, KGS provided workpapers that included an itemization of all relocation, reconnection and upgrade projects undertaken during the period of January 2019 through December 2021, as well as all service line abandonments during that same three-year period. The workpapers include the calculation of the average cost of all relocation, reconnection and upgrade projects for this period. The average cost of these projects is \$1,467, which is practically equal to the proposed Average Embedded Cost of \$1,464. Additionally, Staff selected a sample of projects from the project itemization in the workpapers and requested supporting documentation for each of the selected projects. Staff reviewed the supporting documentation and did not discover any improper or unnecessary costs.

Staff concurs with KGS's proposal to charge customers 1/3 of the proposed Average Embedded Cost of \$1,464 (which amounts to \$488) for all service line abandonments. KGS stated that this proposed charge is based on the average of the service line abandonment costs incurred from January 2019 through December 2021, which amounts to \$448. Staff reviewed KGS's itemization of all service line abandonment costs incurred during this three-year period and confirmed that the

² The \$4.54 per foot rate was established in Docket No. 13-KGSG-615-TAR. See page 4 of the Application in the current Docket for an explanation of how the \$4.54 rate was derived.

³ See Exhibit A, Index 7.3 of the red-lined tariff in the Application for the proposed revisions to Section 7.04.03.

⁴ See Exhibit A, Index 7.5 of the red-lined tariff in the Application for the proposed revisions to Section 7.09. Additionally, KGS added language to this section further specifying that mains, service lines and upgrades to KGS's equipment are subject to the provisions of this Section.

average service line abandonment cost for this period does in fact equal \$448, which is approximately 1/3 of the proposed Average Embedded Cost.

Finally, Staff agrees with KGS's conclusion that by applying an average embedded cost methodology and updating the average embedded cost annually, customers will be charged the most updated amount and can be certain of the cost of any project.⁵ Moreover, applying an Average Embedded Cost methodology will reduce the administrative costs incurred in the process of quantifying the costs of each individual customer requested job. At Staff's request, KGS provided a flowchart depicting the administrative process that it currently applies for billing customers for customer requested work. The flowchart shows the steps in the process that would be eliminated as a result of employing the Average Embedded Cost methodology, thereby facilitating the billing process.⁶

RECOMMENDATION:

Staff recommends the Commission approve KGS's request for implementing the aforementioned revisions to sections 7.04.03 and 7.09 of its General Terms and Conditions, which include the following provisions:

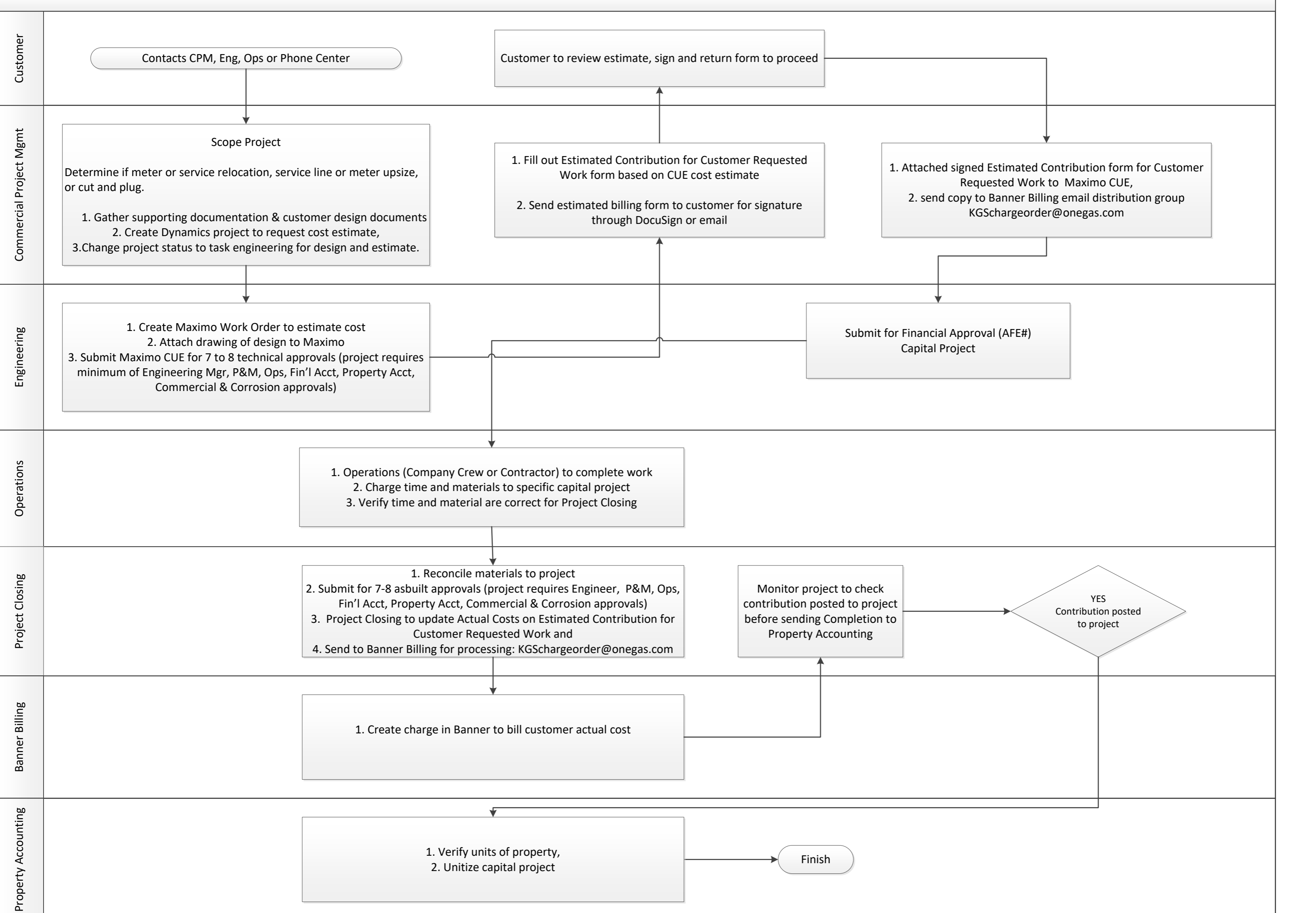
- To charge customers the proposed Average Embedded Cost (updated annually) for customer requested meter relocations, service line reconnections and relocations of pipeline no longer than 1¼ inches in diameter.
- For pipeline greater than 1¼ inches in diameter, customers will be charged the cost of a project minus an allowance of up to \$1,464, based on the proposed Average Embedded Cost.
- To charge customers 1/3 of the proposed Average Embedded Cost for all service line abandonments.

⁵ According to the flowchart that outlines the administrative process that KGS currently utilizes to calculate the costs to bill customers for all customer requested jobs (discussed later in this same paragraph above and included in Staff Exhibit 1), customers must review a requested project's estimated costs and give their consent before the project can commence. By charging the proposed average embedded cost (updated annually) for every project, customers can be certain of the actual costs of any project before it can proceed.

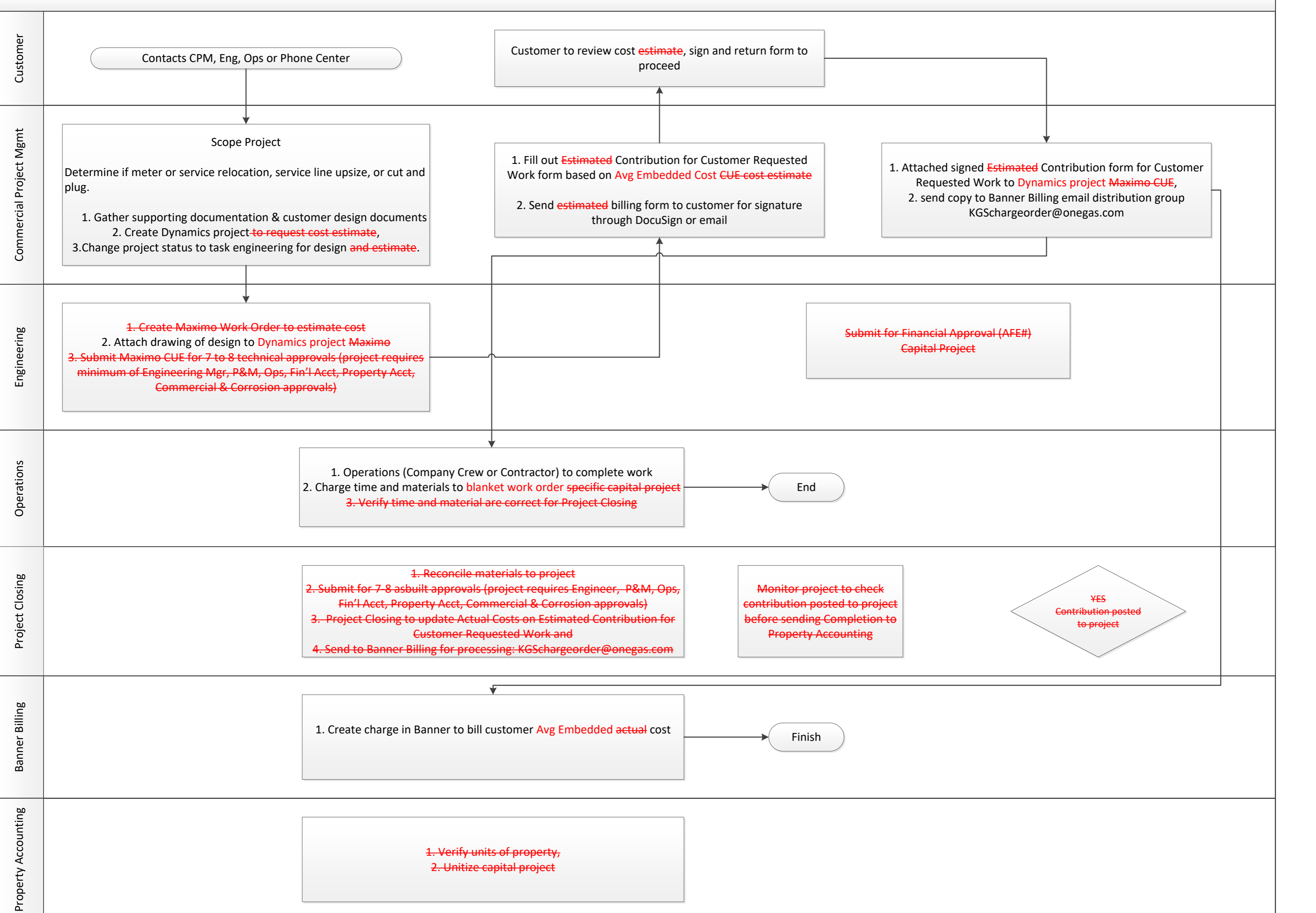
⁶ See Staff Exhibit 1 for this flowchart. There are two versions of the flowchart. The first version illustrates the process currently employed by KGS, while the second version is a "red-lined" flowchart showing the proposed changes to the process that would be implemented if the Average Embedded Cost methodology is approved by the Commission. Several steps in the current process would be eliminated, particularly the entire project closing and project accounting stages.

STAFF EXHIBIT 1

Customer Charge Process - Current Work Flow



Customer Charge Process - FUTURE Work Flow



CERTIFICATE OF SERVICE

23-KGSG-282-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing Staff Report and Recommendation was served via electronic service this 5th day of April, 2023, to the following:

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