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

DIRECT TESTIMONY

OF

JANET L. BUCHANAN

ON BEHALF OF KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

MARCH 1, 2024

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I. Position and Qualifications

Q. Please state your name and business address.

A. My name is Janet L Buchanan, and my business address is 7421 W. 129th Street, Overland Park, Kansas, 66213.

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

A. I am the Director of Rates and Regulatory Reporting for Kansas Gas Service ("KGS" or the "Company"), which is a division of ONE Gas, Inc. ("ONE Gas").

Q. Please describe your education and professional experience.

A. I earned a Bachelor of Arts degree and a Master of Arts degree in economics from the University of Kansas. From June 1993 through August 1998 and from May 1999 through August 2011, I worked for the Kansas Corporation Commission ("Commission") in various positions with varying levels of responsibility for examining rates for natural gas, electric, and telecommunications utilities, researching current policy issues within the industries, and managing projects.[1] The positions I held included: Utility Rates Analyst, Senior Research Economist, Managing Research

[1] I worked for the Kansas Department of Revenue as a Policy and Program Analyst providing the fiscal impact of proposed changes in the mineral severance tax and the motor fuel tax from September 1998 through April 1999.

Economist, Telecommunications Economist, Senior Telecommunications Analyst, Senior Managing Research Analyst, Chief of Telecommunications and Chief of Energy Efficiency and Telecommunications. In September 2011, I joined Texas Gas Service Company, a division of ONE Gas as a Manager of Rates and Regulatory Analysis. I was promoted to my current position in October 2017.

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

A. Yes, it was.

Q. Have you previously testified before this Commission?

A. Yes, I have testified before the Commission on numerous occasions.

I. Executive Summary

Q. Please summarize the key issues identified in the Company's request.

A. KGS's core values are centered on delivering safe and reliable natural gas service to our customers. As demonstrated in the direct testimony of Mr. Sean C. Postlethwait, the Company is dedicated to maintaining the safety of its natural gas system and its employees whose efforts are necessary to consistently offer not only reliable access to natural gas but exceptional customer service. Mr. Postlethwait also provides testimony describing the processes the Company has in place to ensure that KGS is a good steward of the resources employed in its efforts. To continue to provide safe and reliable delivery of natural gas service, KGS must be able to continue to attract capital to fund the needed capital expenditures. Thus, KGS must have the reasonable opportunity to: (1) recover the prudent costs incurred to provide service to its customers; and (2) earn a fair return on its investment.

This filing demonstrates that even with the efforts described by Mr. Postlethwait, KGS has a revenue deficiency of $93.1 million (or $58.1 million net of Gas System Reliability Surcharge revenue). As shown in Section 3 of the Minimum Filing Requirements ("MFR") on Schedule 3-A, the Company's current rate of return is 2.6137 percent. KGS's last base rate case was resolved through the Commission's approval of a settlement that did not specify the allowed rate of return; however, it is clear that a return of 2.6137 percent is well below a reasonable level. Accordingly, KGS is seeking to adjust its rates in this filing to recover a reasonable and fair return on its investment.

In this filing, KGS is addressing a provision of the Settlement Agreement approved by the Commission in Docket No. 22-KGSG-466-TAR to provide a review of an alternative rate design that could help customers have additional control over their natural gas bill. Mr. Paul H. Raab provides testimony on this issue. To be fully responsive to this provision of the Settlement Agreement, my testimony provides general information on KGS customers with low incomes. Additionally, I provide testimony concerning paragraph 19 of the Settlement Agreement.

KGS is also proposing a mechanism in this filing that will provide the Company with a more reasonable opportunity to earn the return approved by the Commission. As discussed by Mr. Mark W. Smith, earning a reasonable return is essential to the Company's ability to attract the capital necessary to continue to provide safe and reliable service to its customers. KGS is proposing a performance-based ratemaking mechanism be implemented to adjust rates on an annual basis. I provide support for this performance-based ratemaking mechanism. If this mechanism is not approved, KGS is requesting the continuation of the cyber security expense tracker, pension and other post-employment benefits expense trackers and the Ad Valorem Tax rider. Ms.

Lorna M. Eaton and Mr. Graham A. Jaynes provide further discussion of these mechanisms.

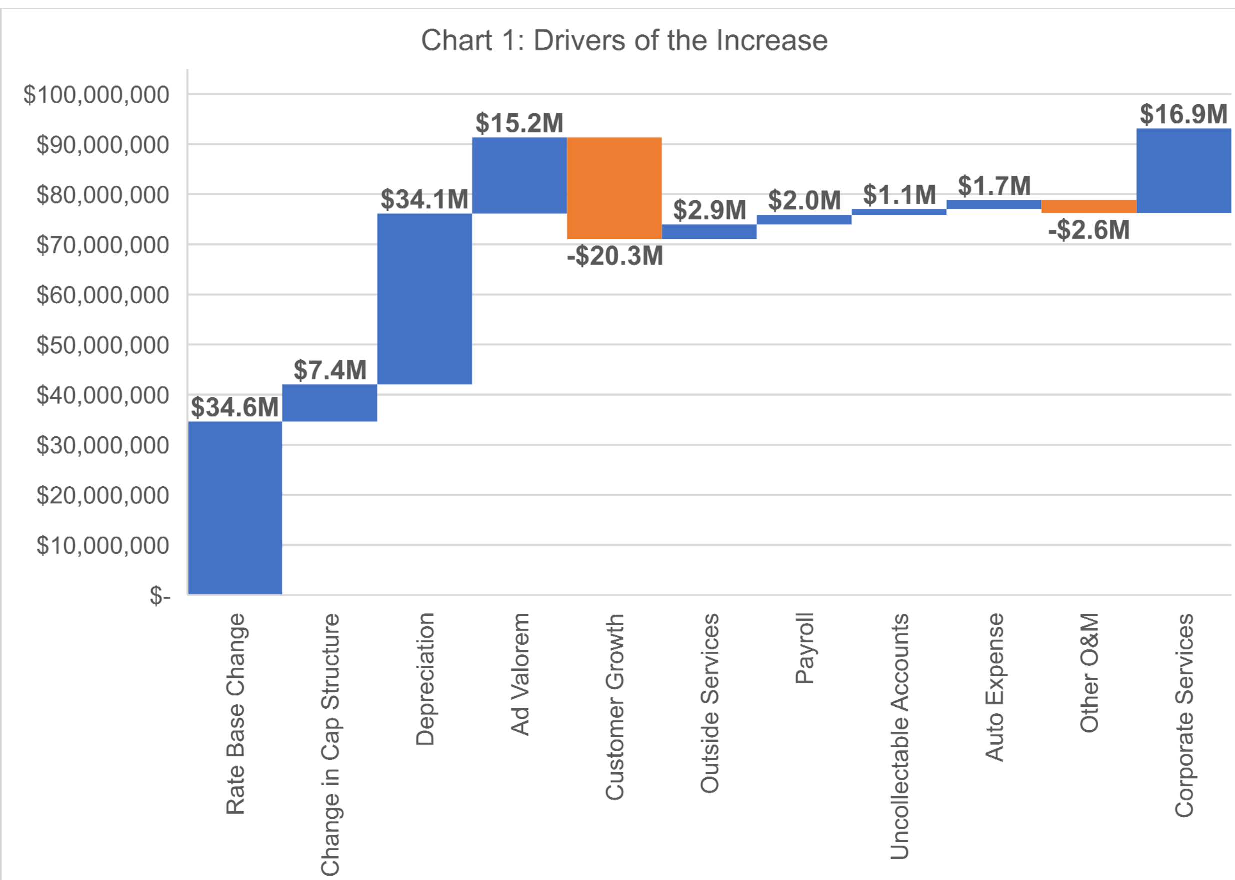
II. Explanation of Proposed Increase, Residential Customer Impact and Residential Bill History

Q. What is the amount of the requested increase?

A. KGS is seeking an overall increase in base rates of $93.1 million, resulting in a net increase in rates of $58.1 million (i.e., net of the $35.0 million in Gas System Reliability Surcharge ("GSRS") revenues that are reclassified to base rates).

Q. What are the primary drivers of the requested increase?

A. The primary drivers of the $93.1 million revenue deficiency are summarized in Chart 1 below.



Since our 2018 rate case filing, the Company has continued to devote capital to its operations resulting in increases in plant in service and depreciation expense. KGS has invested over $600 million since its last base rate case. A significant portion of the proposed increase is related to those investments resulting in changes in rate base, depreciation, and the proposed weighted average cost of capital. Increases in plant have also contributed to a significant increase in Ad Valorem tax expenses. KGS has experienced increases in payroll expenses, costs for contractors (outside services), auto expenses, uncollectable accounts, and expenses related to corporate services. While the effect of these increased costs was dampened by customer growth since the last rate case and some decreases to various operations and maintenance expenses, it wasn't sufficient to entirely mitigate the increases.

Q. What is the estimated effect of the proposed increase on residential customers?

A. Net of the rebasing of GSRS, the effect on the average residential customer is an increase of $7.87 per month or $94.49 per year.[2] The proposed residential rate increase results in a net increase in rates of approximately 9.19 percent.[3] At the date the new rates become effective, the current residential GSRS rate, as well as the GSRS rates charged to all other classes of gas sales customers, will be reset to zero.

Q. Please explain the basic components of a residential customer's KGS bill.

A. When thinking of their bill, the component that is noticed first by many customers is the cost of the natural gas commodity provided to the customer. The "cost of gas" is billed to customers at the cost charged to the Company by upstream suppliers for gas delivered to KGS and the transportation and storage costs charged to the Company by intrastate and interstate pipeline companies. To be clear, the delivered cost of gas

[2] This is based on information from Sections 2 of the Minimum Filing Requirements and a residential GSRS charge of $3.57 per month. It does not indicate the increase for residential A and residential B rates.
[3] This calculation includes a cost of gas based on the average gas cost billed to the customer during the test year as shown in Section 17 of the Minimum Filing Requirements.

on the customer's bill does not include any fees or expenses for which KGS is seeking recovery in this rate case. The cost of the gas commodity is recovered through the Cost of Gas Rider ("COGR") and is not included in base rates.

The next basic component of a residential bill is the fixed monthly charge which allows KGS to recover a portion of the fixed costs incurred to serve each customer. This is the "Service Charge." Fixed costs, such as the cost of a service line, do not vary regardless of the amount of gas consumed by the customer. Currently, residential rates allow KGS to collect approximately 56 percent of its required revenues through the Service Charge.

The residential bill also has a charge that is applied to each unit of gas, measured in one thousand cubic feet ("Mcf") consumed by the customer. This is KGS's "Delivery Charge." KGS recovers the portion of its fixed costs *not* recovered through the Service Charge, and all costs that vary with usage, through the Delivery Charge.

The next component on the residential bill that customers will notice is the line item for the GSRS charge. Like the Service Charge, the GSRS charge is a fixed monthly fee which recovers safety and security-related capital investments, as well as capital invested to relocate facilities at the request of cities and/or state agencies. These costs are reviewed annually by Staff and the Citizens' Utility Ratepayer Board ("CURB") and approved by the Commission.

The residential bill also contains a line item for the weather normalization adjustment rider ("WNAR"). Through the WNAR, KGS compares actual usage of the residential class to the usage that would have occurred had weather been normal. The WNAR line item either increases or decreases the customer's bill to reflect the effects of weather deviating from normal.

Finally, the bill includes line items to recover city and county taxes, franchise fees, and the Winter Event Securitized Cost Rider charge.

Q. What is shown in Chart 2 below?

A. Chart 2 illustrates the primary components of the average residential customer's bills for a twelve-month period of the test year.[4] During the test year, the average KGS residential customer was billed $1,160.65. This calculation is based on an actual average annual residential customer usage of 69 Mcf. As can be seen in Chart 2, approximately $664.97 or 57 percent of the residential customer's bill was associated with the cost of the natural gas commodity and the actual cost charged to KGS to have that gas transported, stored and delivered to KGS's city gates. The costs KGS directly incurs to deliver natural gas to residential customers make up $370.18 of the annual bill.[5] Federal income tax, $12.97, and ad valorem tax, $39.60, are also included in base rates. These three components total $422.76 or 36 percent of the residential customer's bill. The average annual bill also includes sales tax, $22.87, and franchise fees, $50.05. Taxes and fees comprise $125.49 of the residential customer's bill. However, this does not include a breakout of the taxes that are incurred in the provision of service such as payroll taxes and various taxes incurred by the suppliers of the natural gas commodity or upstream transportation.

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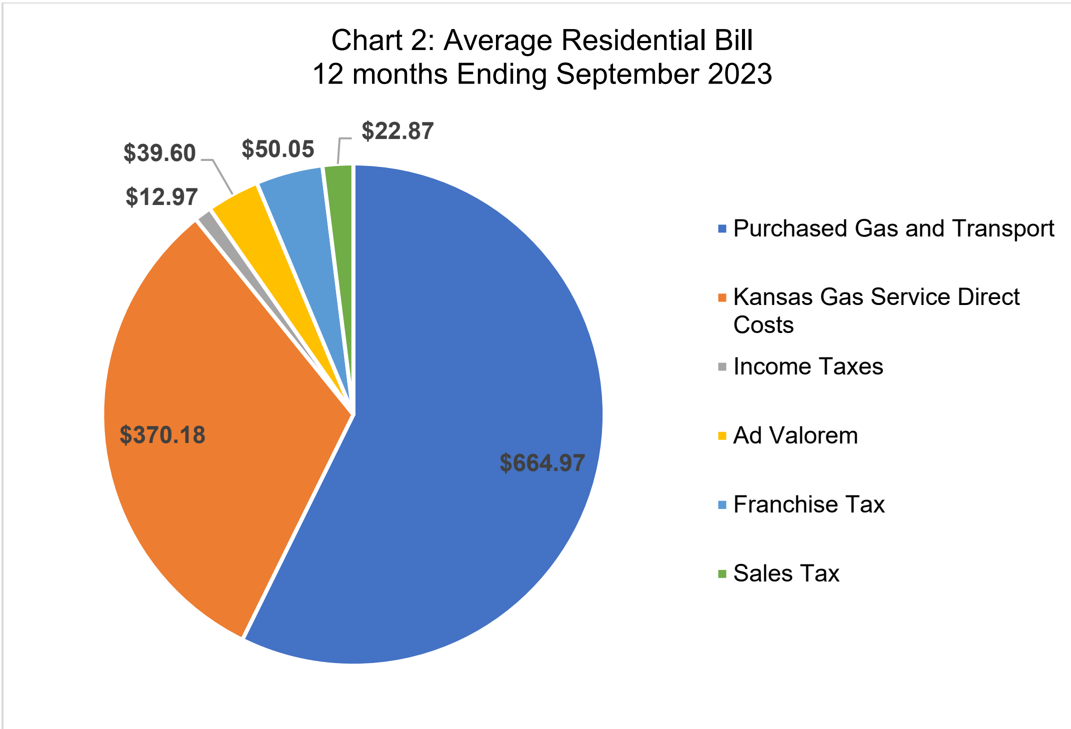
[4] The average annual customer bill information is taken from the Minimum Filing Requirements. Additional calculations were made to include the one month of Winter Event Securitized Cost Recovery Rider collections in the cost of the gas commodity, and to break out taxes from the KGS direct costs of providing service.

[5] Note that the base rates approved by the Commission do not reflect the full cost of providing service to residential customers. As discussed by Mr. Raab, the class cost of service study indicates that other customer classes subsidize the residential class. Additionally, the rates only reflect those costs the Commission has approved for recovery.



Q. How do the bills of KGS's customers compare to bills for electric service?

A. According to the Commission's "2023 Utilities and Common Carriers Annual Report," ("Report") the weighted average monthly residential electric bill for Kansas customers was $118.87 (for the period of July 2021 through June 2022), assuming usage of 914 kWh. The Report also states that the average monthly residential bill for a KGS customer was $74.59 (for the period of July 2021 through June 2022), based on usage of 5.784 Mcf. Converting the weighted average monthly residential electric bill to its equivalent thermal value results in an average rate of approximately $38.12 per Mcf for electric service compared to the approximately $12.90 per Mcf for natural gas service provided by KGS[6]. Therefore, KGS's natural gas service provides nearly three times the value of electricity.

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[6] To convert the weighted average monthly electric bill to its equivalent thermal value, KGS utilized information provided by the Energy Information Administration ("EIA") concerning the thermal value of electricity. The EIA indicates that each kWh has a Btu value of 3412. https://www.eia.gov/energyexplained/units-and-calculators/british-thermal-units.php. The formula utilized is: $118.7/914/3,412*100000 = $38.12 per Mcf.

III. Low-income Data

Q. Why is KGS providing low-income data and discussing the A/B rate structure (rate choice options) in this rate case?

A. The Settlement Agreement approved by the Commission in Docket No. 22-KGSG-466-TAR requires KGS to:

> . . . study whether its residential customer class would benefit by being separated into multiple subclasses similar to the rate choice options approved for [ONG]. [KGS] will present the results of this study during [KGS's] next general rate proceeding. In addition, and provided that Kansas legislation has been enacted authorizing the Commission to approve a low-income relief (or similar) tariff, the Joint Movants will work with each other to determine whether, and to what extent, a generic investigation into energy burden in Kansas could be conducted to benefit the Commission in its regulation of rates, including determining whether low-income rate relief is feasible and ways in which the same could be structured.[7]

KGS witness Mr. Raab is providing testimony discussing an A/B rate structure and supporting its implementation to provide all residential customers, including those customers with low-income, more control over their bills. I provide general data related to customers with low-income to aid the Commission in making determinations concerning this segment of the customer base.

Q. How is "low-income" defined?

A. Most definitions of low-income are based on either the federal poverty guideline, area median income or state median income level. For instance, income eligibility for the Income Energy Assistance Program ("LIEAP") eligibility can be no greater that 150 percent of the federal poverty guideline or 60 percent of the state median income. For

[7] Exhibit A to Order Approving Unanimous Settlement Agreement, Docket No. 22-KGSG-466-TAR, ¶ 24 (Aug.18, 2022).

2024, Kansas has adopted eligibility requirements that are 150% of the federal poverty guideline. The guidelines are presented in Table 1 below.[8]

Table 1: 2024 LIEAP Income Eligibility Guidelines		
Persons Living at the Premises	**Maximum Gross Monthly Income**	**Maximum Gross Annual Income**
1	$1,823	$21,870
2	$2,465	$29,580
3	$3,108	$37,290
4	$3,750	$45,000
5	$4,393	$52,710
6	$5,035	$60,420
7	$5,678	$68,130
8	$6,320	$75,840
9	$6,963	$83,550
10	$7,605	$91,260
11	$8,248	$98,970
12	$8,890	$106,680
$643 per month for each additional person		

As another example, the United States Department of Housing and Urban Development ("HUD") defines extremely low- and very low-income at 30 percent and 50 percent, respectively, of the area median income for an individual. Table 2 below provides the 2023 HUD income limits for definitions of low-income.[9]

[8] The Kansas LIEAP guidelines for 2024 can be found at https://www.dcf.ks.gov/services/ees/Pages/EnergyAssistance.aspx and on KGS's website at https://www.kansasgasservice.com/save-money/assistance-programs/low-income-energy-assistance-program

[9] https://www.huduser.gov/portal/datasets/il/il2023/2023summary.odn?inputname=STTLT*2099999999%2BKansas&selection_type=county&stname=Kansas&statefp=20.0&year=2023

Table 2: 2023 HUD Kansas Income Limit			
Median Family Income		$92,700	
Persons Living at the Premises	**Extremely Low-Income Limit: 30% of Median**	**Very Low-Income Limit: 50% of Median**	**Low-Income Limit: 80% of Median**
1	$19,200	$32,100	$51,300
2	$21,950	$36,650	$58,650
3	$24,700	$41,250	$66,000
4	$27,450	$45,850	$73,300
5	$29,650	$49,000	$79,200
6	$31,850	$53,200	$85,050
7	$34,050	$46,850	$90,950
8	$36,250	$60,500	$96,800

HUD states that the income limits "may not equal exactly 50%, 30% or 80% of the statewide Median Family Income due to the application of ceilings and floors."[10]

Q. How does KGS's residential customer base fall into these categories?

A. As part of its review of whether usage for its residential customers was dependent upon income level, KGS examined demographic information that is overlayed with its customers through a contract with an outside company that specializes in gathering demographic information. From this examination, KGS estimates that approximately 18 percent of its residential customers fall into HUD's definition of extremely low-income, approximately 10 percent fall under HUD's definition of very low-income, and 19 percent fall under HUD's definition of low-income. The remaining 53 percent of KGS's residential customers would not be considered low-income by HUD.

Q. In looking at the A/B rate structure as possibly providing customers with low-income with the ability to have greater control over their bills, has KGS studied whether residential customer usage varies with the level of income?

[10] Id.

A. KGS conducted a review of its residential customers' usage compared to income. For KGS residential customers, income is not predictive of usage. In general, this means that customers with low-income fall into all usage categories from low to high.

Q. What data did KGS use to in its review?

A. KGS has a contract with an outside vendor which can gather publicly available demographic data and match this data to customers in the KGS service territory. KGS sampled 386,842 customer premises. The Company did not include customer premises with:

- No usage in 2022;
- No charges in 2022;
- No data concerning appliances in use;
- No data concerning dwelling type, value, age and residency length;
- No income data; and
- No data concerning the size of the household.

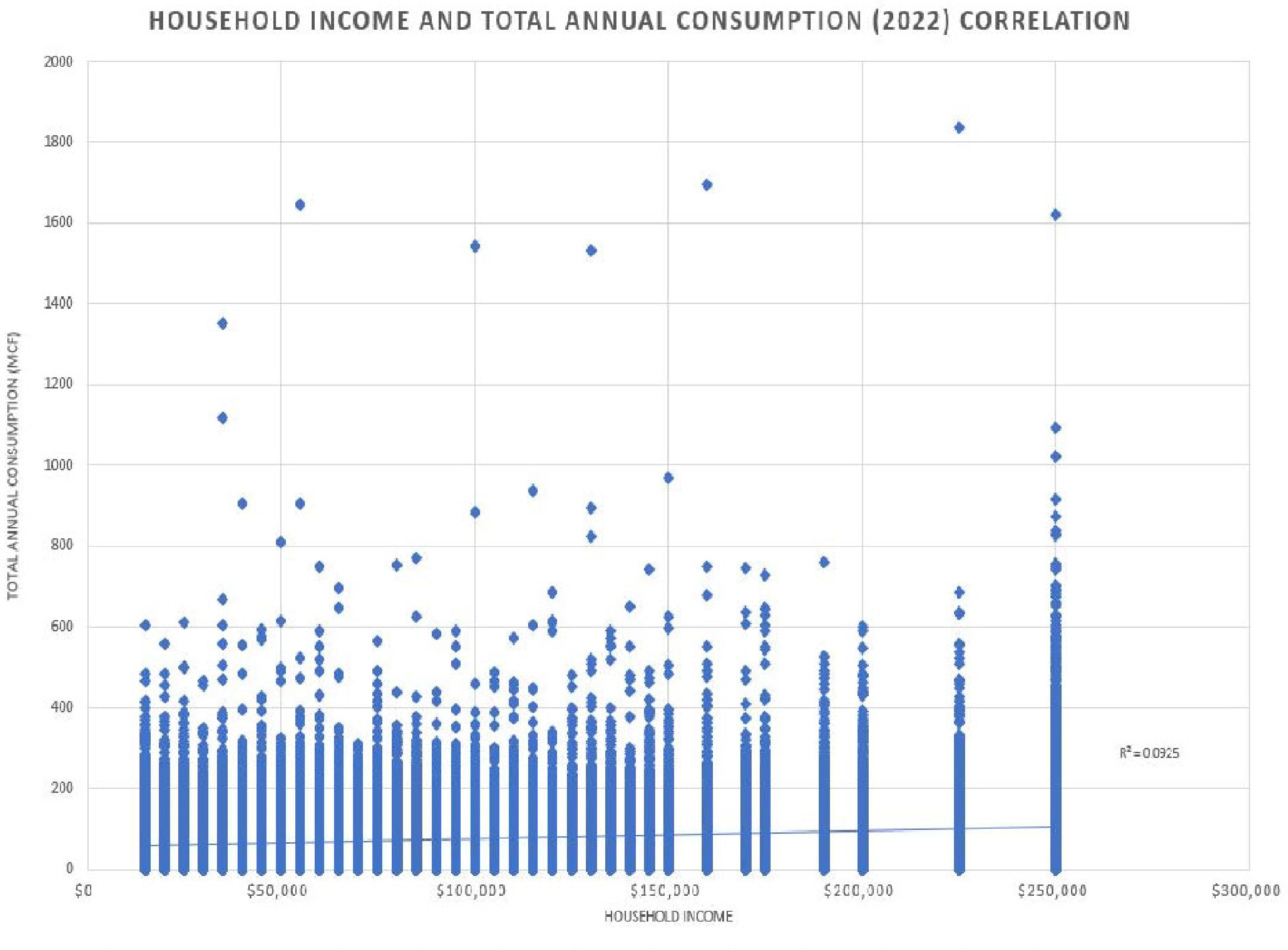
Q. What definition of low-income did KGS apply?

A. KGS utilized the HUD definition of low income discussed in testimony above. That is, KGS included customer premises meeting the extremely low-income income limit, the very low-income limit and the low-income limit.

Q. Can you illustrate the relationship between income and usage?

A. Below is Chart 3 that clearly shows that income is not predictive of usage level. Customers with high and low incomes have various levels of usage. Customers with low income are not significantly correlated with usage level.

Chart 3


HOUSEHOLD INCOME AND TOTAL ANNUAL CONSUMPTION (2022) CORRELATION
TOTAL ANNUAL CONSUMPTION (MCF)
2000
1800
1600
1400
1200
1000
800
600
400
200
0
$0
$50,000
$100,000
$150,000
$200,000
$250,000
$300,000
HOUSEHOLD INCOME
R² = 0.0325

Q. Did KGS examine other data relevant to customers with lower incomes?

A. Yes. KGS reviewed information available on the Department of Energy's Low-Income Energy Affordability Data ("LEAD") tool.[11] This tool was developed by the Department of Energy ". . .to help stakeholders understand housing and energy characteristics for low- and moderate-income households."[12] While this information is not utility specific, it may assist the Commission in its review of solutions to address the energy burden of low-income customers in Kansas.

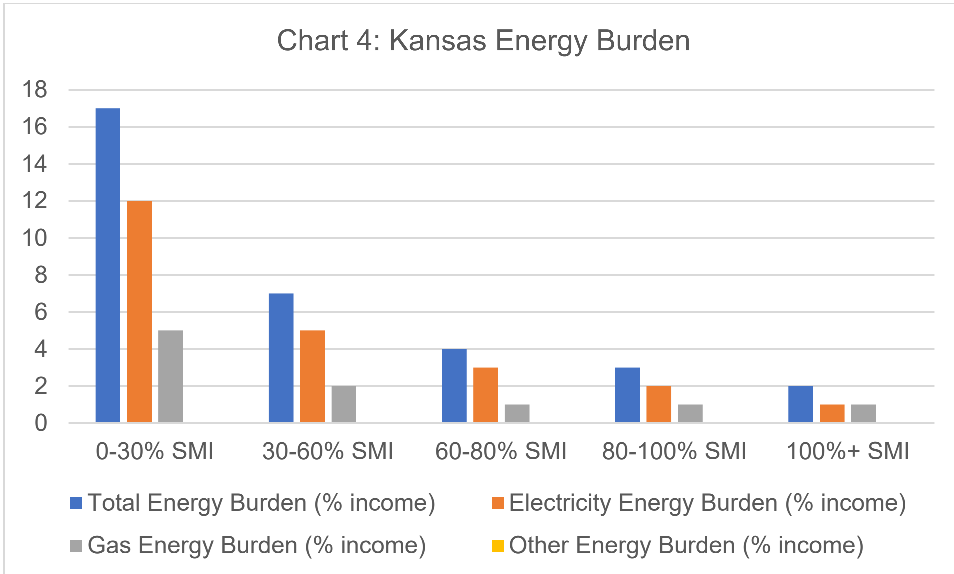
Q. What does "energy burden" mean?

A. Generally speaking, "energy burden" means the percentage of household income that goes toward energy costs. This includes energy used for lighting, heating, and cooling homes.

Q. In general, what is the energy burden faced by customers of Kansas utilities?

A. Using the state median income level as the measure of income, data for Chart 4 was downloaded from the LEAD tool. [13] This chart indicates that the energy burden for gas, electricity, and "other" fuel types. The LEAD tool defines energy burden as the percentage of gross income spent on energy costs.

[11] https://www.energy.gov/scep/slsc/low-income-energy-affordability-data-lead-tool
[12] Id., Website accessed on 1/14/2024.
[13] https://www.energy.gov/scep/slsc/lead-tool, Website accessed and data for chart downloaded on 1/14/2024.

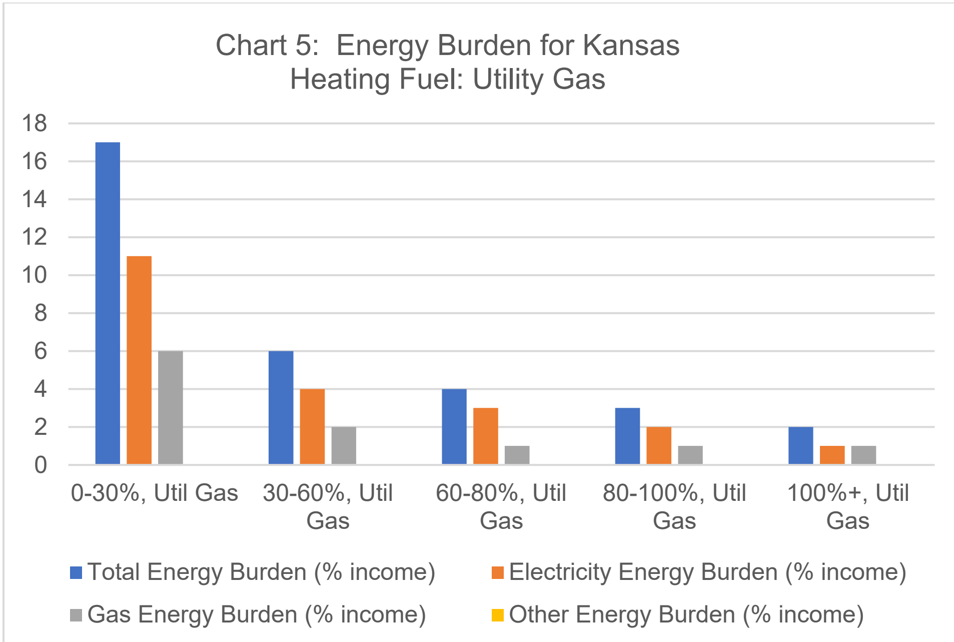


For customers of Kansas utilities with incomes less than 30 percent of the state median income, the total energy burden faced is 17 percent with the burden associated with gas being five percent. Customers with incomes between 30 and 60 percent of state median income face a total energy burden of seven percent with the burden associated with gas being two percent. Customers with incomes between 60 and 80 percent of state median income face a total energy burden of four percent with the burden associated with gas being one percent.

Q. Are you able to provide information about energy burden when distinguishing between heating fuel type?

A. Yes. The LEAD tool allows several filters to be applied. I downloaded the data from the LEAD tool for Chart 5 which demonstrates the energy burden at various income levels if utility gas (rather than bottled gas) is the customer's heating fuel.[14]

[14] Id.



Q. To assist with bill payment, do KGS customers participate in LIEAP and other energy assistance programs throughout Kansas?

A. Yes. In 2022, over 39,500 or approximately seven percent of KGS's residential customers received energy assistance funds. In 2023, that count was over 48,000. In 2022, the average assistance received was approximately $380. In 2023, the average assistance received was approximately $322. The major sources of energy assistance in 2023 were LIEAP and supplemental LIEAP, City of Wichita Rapid Rehousing, Johnson County Energy, Share the Warmth, Salvation Army, Catholic Charities, Center of Hope, Kansas Homeowners Assistance Fund, and City of Topeka Rapid Rehousing.

Q. How does KGS assist customers who need help paying their bill?

A. While CURB introduced legislation in 2023 which would allow a specific rate for customers with low income (HB 2156), the legislation did not move out of the House

Committee on Energy, Utilities, and Telecommunications.[15] Thus, KGS is unable to offer a special rate to customers who meet certain income qualification requirements. KGS continues to provide information on resources to assist with bill payment through various avenues including through the contact center, website, social media, the newsletter (The Pipeline), and through messages on customer bills. KGS also provides energy savings tips on its website and through social media. Since 2021, the KGS Community Relations team has worked with cities and agencies throughout the state to distribute weatherization kits.[16] In that time, KGS has provided 3,381 kits for customers and it is estimated that 1,500 will be distributed in 2024. Along with materials for weatherization, the kits include a flyer with energy saving tips and information on how to reach KGS for assistance in paying their bill.

Q. Does KGS offer payment options to customers with difficulty paying their bill?

A. Yes. Consistent with its tariffs and the Commission's billing standards, KGS does offer customers payment options to pay their arrearage to maintain or restore service.

Q. Is KGS willing to continue to explore potential solutions for addressing energy burden and the difficulty some customers face in paying their utility bills?

A. Yes. KGS will continue to work with other stakeholders to explore additional means of assisting customers with their energy bills.

IV. Performance-based Ratemaking

Q. In general, what is a performance-based ratemaking mechanism?

A. Performance-based ratemaking ("PBR") mechanisms provide an alternative to traditional ratemaking by more effectively aligning the financial interests of a utility with

[15] In addition to CURB, proponents of the bill were Atmos Energy, Black Hills Energy, Evergy, Liberty Utilities, AARP, Climate + Energy Project, Kansans for Lower Electric Rates, Kansas Sierra Club and the National Resources Defense Council. Staff presented neutral testimony on the bill and there were no opponents.

[16] KGS has worked with cities and agencies such as City of Leavenworth, City of Haysville, City of Topeka, City of Wichita, the Salina Food Bank, Doorstep, KC Shepherd's Center, Catholic Charities of NE Kansas and Habitat for Humanity.

those of the regulator and the utility's customers. PBR mechanisms generally specify a process which allows for annual rate adjustments to reflect changes in investment and expenses. Many allow for a sharing, between customers and the utility, of earnings above a prescribed level. Some also incorporate performance metrics to be achieved by the utility. According to the Regulatory Research Associates,[17] 14 states currently have some type of formula-based ratemaking in place for one or more utilities.

Q. Have PBR mechanisms been studied or implemented in Kansas?

A. Yes. During the 2019 legislative session, the Kansas Legislature directed the Kansas Legislative Coordinating Council to study retail rates of Kansas' electric public utilities. In Docket No. 20-GIME-068-GIE, the Commission published the results of the London Economics International, LLC ("London Economics") Study of Retail Rates of Kansas Electric Public Utilities. A portion of this study focused on PBR mechanisms, and how PBR mechanisms could be implemented. As London Economics noted, there is no one size fits all PBR mechanism, and a PBR mechanism would need to be customized to fit the specific environment and circumstances of the utility.[18] In Commission Staff's February 6, 2020, presentation to the Kansas Legislature, Staff noted Evergy's Earnings Review and Sharing Plan was a form of light to medium PBR, and Southern Pioneer (an electric cooperative) used a PBR mechanism.

Q. The London Economics Study focused on electric utilities. Why is that relevant to KGS?

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[17] Federico, Lillian, "RRA State Regulatory Evaluations – Energy," RRA Regulatory Focus Quarterly State Regulatory Evaluations, S&P Global, October 15, 2022, page 25.
[18] *London Economics Report*, p. 16.

A. PBR concepts are relevant to both electric and gas utilities. As such, KGS is proposing to implement a PBR mechanism in Kansas because KGS believes it can provide benefits to all stakeholders – customers and shareholders alike.

Q. What benefits can be achieved through the implementation of a PBR mechanism?

A. PBR mechanisms can provide many benefits. The following is a description of several important advantages that can be gained:

- PBR mechanisms emphasize customer satisfaction and quality of service. Utilities have an incentive to strive to meet customer expectations and service preferences and, potentially, improved customer experiences.
- PBR mechanisms allow for gradualism in changes in rates, which thereby leads to gradual changes in customer bills. Rates are adjusted annually, but in smaller increments when compared to rate changes associated with a traditional rate case.
- PBR mechanisms provide an incentive for efficient operations and cost management. Utilities have a greater incentive to optimize processes and control expenses in an effort to improve overall efficiency.
- While the Gas System Reliability Surcharge mechanism currently provides recovery for investment in replacing, upgrading, or modernizing obsolete facilities as well as in physical security and cyber security assets, PBR mechanisms can also provide for this recovery and allow the Company to be proactive in responding to changing regulatory requirements around safety and reliability as well as responding to issues identified around the country related to vintage pipe or other types of infrastructure.

- PBR mechanisms can provide the incentive to invest in measures to improve reliability and resilience of the distribution system and for risk management. This can ensure continuous and reliable service during extreme weather events, natural disasters, or emergency situations.
- PBR mechanisms provide greater transparency by requiring utilities to report annually on their financial and operational performance. This provides greater insight into the utility's operations for regulators, customers, and other stakeholders. Every dollar the utility invests in the distribution system and every dollar the utility spends on operations and maintenance comes under regulatory scrutiny every single year.
- PBR mechanisms encourage adoption of innovative technologies to enhance their operations, such as leak detection systems and advanced metering.
- PBR mechanisms can assist in economic growth by encouraging investments in infrastructure necessary to serve new businesses and the new workforce. Likewise, the additional investment itself can create new opportunities for jobs and contribute to local economies.
- PBR mechanisms provide greater flexibility to address changing market conditions, technological advancements, and shifts in energy demand and consumption patterns.
- PBR mechanisms can result in reduced administrative and regulatory costs compared to a traditional rate case.
- PBR mechanisms can align with environmental goals by providing an incentive for the utility to reduce methane leaks and emissions. Additionally, PBR mechanisms can provide an incentive for the utility to

invest in infrastructure to connect to alternative sources of gas supply such as Renewable Natural Gas.

Q. Will you please describe the PBR mechanism proposed by KGS?

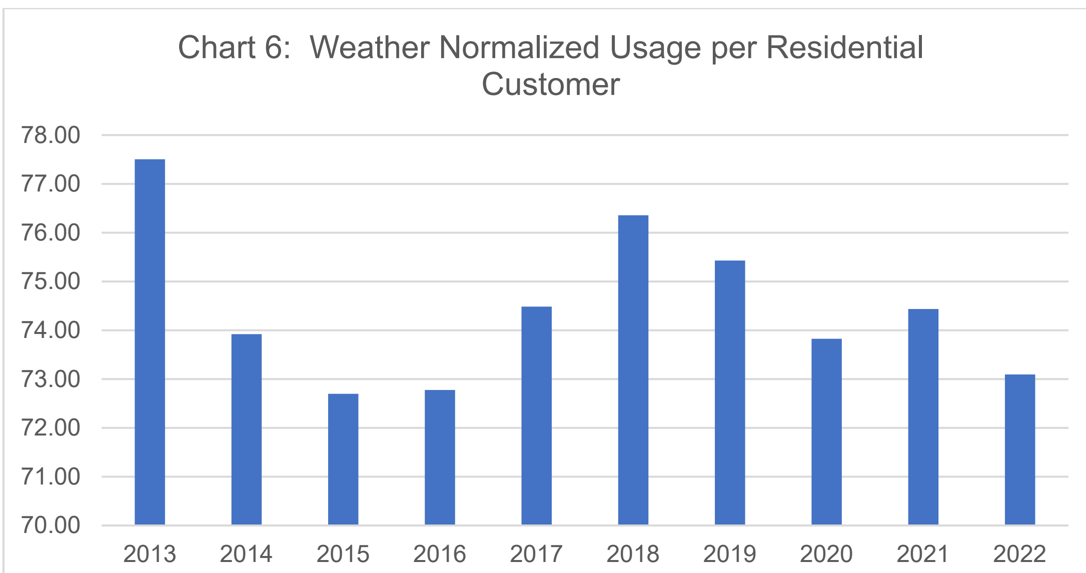
A. Yes. The proposed PBR mechanism is similar to that utilized by Oklahoma Natural Gas, a division of ONE Gas, Inc. ("ONG") since 2011. The primary difference is that KGS is proposing the addition of performance metrics as part of the mechanism. In general, the PBR mechanism will allow Staff, the CURB and other interested parties to monitor KGS's earnings and adjust rates (up or down) based upon changes in the Company's investments, expenses and revenues. The mechanism is designed to permit KGS's rate of return on investment to remain within an approved range by allowing adjustments to rates between rate cases.

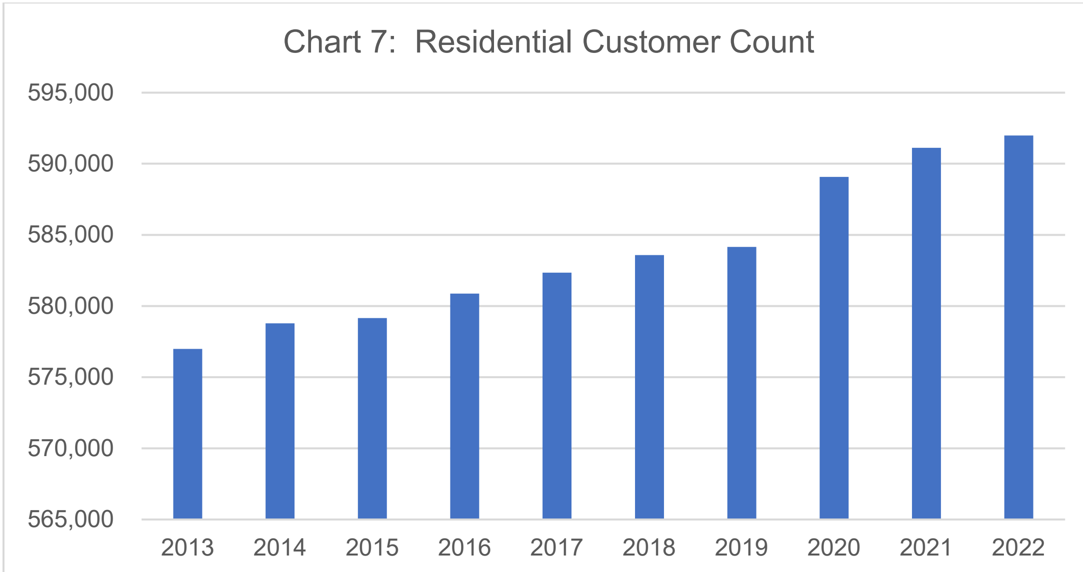
Q. What circumstances lead the Company to believe a PBR mechanism is necessary?

A. Traditional ratemaking does not adeptly adjust to changing market conditions and capital demands faced by KGS. As the Commission is aware, KGS has a systematic infrastructure replacement program for replacing all cast iron mains, bare steel service lines, and bare steel mains in populated areas by 2053.[19] This replacement program places significant capital demands on KGS. Traditional ratemaking is slow to recognize the increased costs associated with replacing an aging infrastructure and other capital demands necessary to support that effort and maintain safe and reliable service. This is heightened when facing inflationary pressures in the utility (and other) industries. The PBR mechanism will allow KGS to recoup those increased costs resulting from inflation on a timely basis. Similarly, it allows the timely provision of the benefits of lower costs to customers when inflation subsides.

[19] Mr. Postlethwait discusses progress with these replacements in his testimony.

Additionally, KGS has been experiencing declining usage per customer with little customer growth for many years. Since 2013, normalized usage per residential customer has decreased by approximately 5.6 percent while residential customer growth over that same period has been approximately 2.4 percent. Less natural gas is being consumed as Kansans address the envelope of their home and purchase more energy efficient gas appliances and space heating equipment. Additionally, growth is not occurring at a pace to offset the reduced revenue that occurs during the periods between traditional rate cases. See the charts below for average weather normalized usage per residential customer and residential customer count.





These facts make it nearly impossible for KGS to collect the revenues approved by the Commission within a traditional rate case and earn a reasonable return, regardless of the efficiency of the Company's operations. Mr. Smith provides an analysis of KGS's actual return on rate base during the years between traditional rate cases as compared to that authorized by the Commission.

A PBR mechanism will allow KGS to manage its business more effectively for the benefit of its customers and other stakeholders. The annual mechanism will provide the timely recovery of costs and opportunity to earn a reasonable return which will enhance the Company's ability to access the capital necessary for system upgrades and will provide Staff, CURB and the Commission with timely insight into why costs have been incurred. The Company's investments and expenses will be subject to more frequent Commission scrutiny to assure the expenditures have been in the customers' best interest. The PBR mechanism also provides the Company with an incentive to control costs and invest wisely in its system through both the design of the terms for recovery of expenditures and the performance metrics.

Q. Could KGS simply file more frequent traditional rate case applications to address its desire to improve the timeliness of cost recovery?

A. Yes. KGS could file more frequent general rate cases. However, rate cases are expensive to prepare and process before the Commission. The PBR mechanism is less expensive to prepare and process since it relies on the Commission's order from a general rate case to set many of the parameters for determining the revenue requirement.

Q. What are the specific terms of the PBR mechanism proposed by KGS?

A. KGS's proposed PBR mechanism is referred to as the Annual Performance-based Rate Adjustment ("APRA") and is set out in the APRA tariff attached as Exhibit JLB-1. I will discuss the tariff in more detail below.

Q. What time period will serve as the test year for each APRA filing?

A. The test year will be each 12-month period ending December 31.

Q. When would the APRA be filed with the Commission for review by interested parties?

A. The APRA would be filed no later than March 15 of each year.

Q. What is the proposed review period for the Commission?

A. KGS proposes that the Commission issue an order on the APRA within 120 days of the date of filing.

Q. How frequently would KGS be required to file a general rate case?

A. KGS proposes that it be permitted to make five APRA filings before another rate case would be required. However, nothing would prohibit KGS from filing a general rate case sooner nor would any provision limit the Commission's authority to initiate a Show Cause proceeding. If the APRA tariff is approved, then KGS's next required general rate case would be filed in 2030 based on a 2029 calendar year test year.

Q. Is the APRA designed to limit the disputes related to adjustments to test year information?

A. Yes. The Commission's order in KGS's base rate case will set the baseline for implementation of the APRA. The rate base and cost of service for the APRA will be computed in the same manner as approved by the Commission in the Company's last general rate case and will be used to determine the Company's Earned Return on Equity ("ER"), which will be discussed further below. Specifically, the APRA will utilize the allowed return on equity, cost of debt and capital structure determined by the Commission in the Company's most recent general rate case. It will also utilize the depreciation rates approved in the same general rate case. Revenues will be annualized for any base revenue increases authorized after the beginning of the test year in certain circumstances.[20] Any adjustments to incentive compensation or other expenses will be made for the APRA application as determined by the Commission in the most recent general rate case. While KGS is proposing normalization adjustments within this rate case Application, if the PBR mechanism is approved, normalization adjustments (other than weather normalization) would not be necessary in either a future rate case or APRA filing. As with a general rate case, KGS would remove gas cost revenues and expenses. The level of salaries, wages, savings plan expenses, payroll taxes and other payroll-related expenses will be annualized based on the month of December (last month of the test year). Depreciation and amortization expense will also be annualized based on the month of December.

Further, KGS proposes that rate base include the December 31 test year end Construction Work In Progress ("CWIP") balance. KGS has reviewed the net plant in

[20] If the earned return on equity falls below the dead-band, the calculated revenue requirement deficiency shall be offset by including an adjustment to annualize any base rate revenue increase authorized after the beginning of the test year. This annualization adjustment shall not be applied when the earned return on equity without such adjustment falls within or above the dead-band.

service and CWIP balances as of December 31 for each year from 2018 through 2022 and compared to the net plant in service amounts as of June 30 the following year. For four of the five years, the net plant in service plus CWIP balance as of December 31 was less than the net plant in service six months later. Thus, the net plant in service plus CWIP balance as of December 31 is a reasonable approximation of the net plant in service when a rate change (if necessary) would be implemented.

By limiting adjustments to those approved by the Commission and setting out parameters for CWIP and annualizations, the preparation and review of the APRA filing will be streamlined.

Q. Why is it necessary to calculate an ER?

A. It is necessary to calculate the ER based on the limited adjustments to test year data discussed above because the APRA will allow for increases in rates, or bill credits to customers, when the ER is not equal to the approved return on equity ("AROE") and is also outside the dead-band within which no increase or bill credit will occur.

Q. What is the suggested dead-band around the AROE?

A. KGS is proposing an AROE dead-band of 100 basis points. Assuming KGS's requested return on equity of 10.25 percent is the AROE, then the dead-band in which no rate changes would occur would be for an ER of 9.75 percent to 10.75 percent. Only when the ER fell below 9.75 percent would KGS request a rate increase to restore the ER to the AROE. If the ER is above 10.75 percent, KGS would propose that 75 percent of the earnings above 10.75 percent be returned to customers through a bill credit. KGS would retain the remaining 25 percent of earnings above the dead-band assuming the performance metrics (discussed below) are met. If the performance metrics are not met, customers will receive a greater amount of the earnings and KGS will receive less of the earnings based on the level of KGS's performance. Additional discussion on the dead-band mechanism is provided following the discussion of the performance metrics proposed by KGS. Due to practical constraints, KGS proposes that no change would be made, even if the ER is outside the dead-band, if the necessary adjustment is less than $200,000. This is consistent with the GSRS statutory framework for establishing a minimum threshold for rate changes.

Q. Is it fair and reasonable for KGS to retain up to 25 percent of the earnings above the dead-band?

A. Yes. While customers retain the majority of the earnings above the dead-band, it is reasonable to allow KGS to retain up to 25 percent as an incentive to control costs and increase efficiency while preserving or enhancing the customer experience.

Q. How will APRA rate changes be implemented?

A. Changes to rates as a result of the ER falling below or bill credits for the ER rising above the dead-band will be allocated to customer classes based on each class's relative percentage of the total revenue established in the proof of revenues for the most recent rate case. Rate increases will be applied to the monthly Service Charge of each rate schedule. Sharing of earnings above the dead-band will be returned to customers through a credit to customer bills over a 12-month period. Any rate change or bill credit will be effective with the first billing cycle in July of each calendar year.

Q. What processing schedule does KGS propose?

A. As stated previously, the Commission will have 120 days to issue an order. KGS proposes an expedited processing schedule be established to provide notice to all interested parties, including customers. Additionally, KGS proposes that any of its calculations which are disputed by the parties be identified to the Company prior to May 1. The parties would then work in good faith to resolve all disputes prior to May

30. If a settlement cannot be reached, the disputed issues would be presented to the Commission for determination.

Q. What performance metrics is KGS proposing be included in the PBR mechanism?

A. KGS proposes that the performance metrics approved in Docket No. 14-KGSG-100-MIS ("14-100 Docket") be utilized as performance metrics for the APRA. In that proceeding, the Commission approved the following metrics:

1. Answered Call Rate
2. Estimated Bill
3. Response Time to Odor Reports

Two additional metrics were included without required levels of performance. KGS was required to report the average age of leaks in inventory and average number of KCC referred complaints responded to within 24 hours. KGS proposes to provide these data for informational purposes concerning the level of service the Company provides. While not included in the performance metrics, KGS also agreed to track the time from receiving the notice of the unintentional release of gas until testing verifies that no immediate hazard to people exists ("Make Safe") and to provide an annual report to Staff listing all instances where the time to Make Safe exceeds 90 minutes. KGS currently provides this annual Make Safe report to the Commission and will continue to provide the report. With the exception of the penalty provisions, KGS proposes that the same definitions and conditions for the performance metrics used in the 14-100 Docket be applied within the APRA. Attached as Exhibit JLB-2 is the Commission's order from the 14-100 Docket, which contains the definitions of each metric and parameters for measurement of actual performance. As discussed above, the penalty is replaced with the loss of a portion (or all) of the Company's share of any earnings above the dead-band if performance targets are not met. This is appropriate because, if performance targets are not met, the earnings may have been achieved at the expense of service quality.

Q. What level of performance does KGS propose be required for each metric?

A. The table below sets out the earning sharing percentages for KGS and customers at various level of performance (performance targets).

Table 3: Performance Targets and Earnings Sharing

Customers' Share of Earnings above the Dead-band	KGS's Share of Earnings above the Dead-band		Answered Call Rate	Estimated Bills per 1,000 Customers	Response Time to Odor Reports
75%	25%		> 94.5%	≤ 224	< 28 minutes
80%	20%		> 93.5% and ≤ 94.5%	225 to 235	28 to 28.49 minutes
85%	15%		>92.5% and ≤ 93.5%	236 to 246	28.50 to 28.99 minutes
90%	10%		>91.5% and ≤ 92.5%	247 to 257	29 to 29.49 minutes
95%	5%		>90.5% and ≤91.5%	258 to 268	29.50 to 29.99 minutes
100%	0%		≤ 90.5%	≥ 269	≥ 30 minutes

To receive 25 percent of the earnings above the dead-band, KGS must meet the target level of performance indicated in the table for all three metrics. Otherwise, KGS's earnings share would be determined by the next highest level of performance for which the Company's performance meets or exceeds the target level for two metrics. For instance, assume the ER is above the dead-band, KGS's Answered Call Rate is 95 percent, the Estimated Bills per 1,000 Customers is 236 and the Response Time to Odor Reports is 27 minutes. In this instance, KGS would not qualify for 25 percent of the earnings above the dead-band because too many Estimated Bills were issued. Instead, KGS would receive 20 percent of the earnings because that is the next lowest level of sharing where two of the performance metrics are met or exceeded. If in this example KGS had an Answered Call Rate of 92.5 percent instead of 95 percent, then the Company would receive 15 percent of the earnings above the dead-band and customers would receive 85 percent.

Q. What schedules will KGS file to support its APRA filing?

A. KGS proposes that it provide information consistent with the requirements of sections of K.A.R. 82-1-231 listed below:

Section 1:	Application, Letter of Transmittal and Authorization
Section 3:	Summary of Rate Base, Operating Income and Rate of Return
Section 4:	Plant in Service
Section 5:	Accumulated Provision for Depreciation and Amortization
Section 6:	Working Capital
Section 7:	Capital Structure and Cost of Capital
Section 9:	Test Period and Pro-forma Income Statements
Section 10:	Depreciation and Amortization
Section 11:	Taxes
Section 12:	Allocation Rations
Section 17:	Allocation of Revenue Requirement, Rate Design, Proof of Revenues
Section 18:	Proposed Tariffs

Additionally, the filing will be accompanied by work papers supporting each of the pro-forma adjustments which will be provided to Staff and CURB.

Q, Will KGS provide testimony as part of the APRA application?

A. Yes. KGS will have the burden of proof to demonstrate the reasonableness of its APRA application and resulting rates. Therefore, KGS will file testimony explaining the increase, compliance with the tariff, Commission’s order from the most recent general rate case, and testimony supporting the adjustments included in the filing. Testimony will also address the Company’s performance with respect to the performance metrics and targets.

V. KGS Servicing and Administration Fee Revenue and Expenses

Q. Is KGS required to provide a comparison of revenues received to the expenses incurred for performing servicing and administrative services under the Servicing Agreement and the Administration Agreement with Kansas Gas Service Securitization I L.L.C. ("KGSSI")?

A. Yes. The Settlement Agreement approved by the Commission in Docket No. 22-KGSG-466-TAR requires that:

> [i]f the incremental cost to Kansas Gas Service to perform its servicing and administrative services under the Servicing Agreement and the Administration Agreement, respectively, is less than what the Company is paid for those services, then that difference in cost (the associated profit margin earned by the Company as servicer and administrator) shall be tracked by Kansas Gas Service and included in a regulatory liability account to be addressed in Kansas Gas Service's next general rate case.[21]

Q. Has KGS prepared a comparison of the expenses of performing its obligations under the Servicing and Administration Agreements and the revenues received under those Agreements?

A. Yes. Table 4 provides a comparison of the revenues received and expenses incurred during the test year. By the end of the test year used to determine the revenue requirement in this filing, KGS had been acting under the Servicing and Administration Agreements for 10 months, from December 2022 through September 2023. KGS had not reached the one-year anniversary of the issuance of the Securitized Utility Tariff Bonds.

[21] Exhibit A to Order Approving Unanimous Settlement Agreement, Docket No. 22-KGSG-466-TAR, ¶ 19 (Aug.18, 2022).

Table 4: Servicing and Administration Fee Comparison to Expenses
December 2022 through September 2023

Servicing And Administration Fee Revenue					Test Year Amount
Fee Revenue					$ 233,011.13
Servicing and Administration Expenses					
JPM Bank Account	$	19.54	per month		$ 195.40
ACH Fees	$	0.07	per item	206	$ 14.42
KGSSI Office Space	$	15,095.03	per month	1%	$ 1,509.50
2-Page Bill	$	0.02	per item	4,484,104	$ 89,682.08
Billing System Preparation	$	101,663.84		10%	$ 8,471.99
Labor					$ 87,569.00
Total Expenses					$ 187,442.39
Difference					$ 45,568.74

Q. How were the servicing and administration fees determined?

A. The servicing and administration fees are included in Servicing Agreement and Administration Agreement that were approved by the Commission. The servicing fee is 0.05% of the amount of the bonds or $168,000 per year. The administration fee is $100,000 per year.

Q. What expenses are associated with providing services to KGSSI?

A. KGS incurs expenses related to a bank account for transactions with KGSSI, fees for each fund transfer, office space for KGSSI, the cost of adding a second page to bills to accommodate the Winter Event Securitized Cost Recovery ("WESCR") charge and associated taxes, an amortization of the cost associated with modification of the billing system to accommodate the WESCR charge, and labor expense.

Q. What is the result of the comparison of revenues and expenses?

A. As demonstrated in Table 4, the revenues from the fees associated with providing services to KGSSI are $45,568.74 greater than the expenses. Therefore, the revenue requirement is $45,568.74 than it would otherwise be, and base rates will be lower than they otherwise would be.

Q. Does this conclude your testimony.

A. Yes, it does.

VERIFICATION

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

Janet L. Buchanan, being duly sworn upon her oath, deposes and states that she is the Director, Rates and Regulatory Reporting for Kansas Gas Service, a Division of 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.

Janet Buchanan

Janet L. Buchanan

Subscribed and sworn to before me this 20th day of February 2024.

NOTARY PUBLIC

STATE OF KANSAS NOTARY PUBLIC
STEPHANIE FLEMING
My Appointment Expires
June 5, 2026

My appointment Expires:

6/5/26

Annual Performance-based Rate Adjustment (APRA) Mechanism

Availability

This Schedule is applicable to every bill for service provided under each of the Company's sales and transportation rate schedules except where not permitted under a separately negotiated contract with a customer. Not applicable to bills for As-Available Gas Sales Service or Interruptible Gas Transportation Service.

Purpose

The purpose of this Annual Performance-based Rate Adjustment (APRA) mechanism is to provide for an annual review of the Company's earnings and operational performance in order to adjust rates to reflect the most recent historical 12-month costs necessary for the provision of natural gas utility service.

APRA General Terms

1. Each annual application submitted by the Company under this APRA Schedule shall be calculated following the provisions set forth below. No provision contained within this schedule will limit the Commission's authority to issue a show cause order or limit the Company's ability to file a general rate change application. The Company shall have the burden of proof to demonstrate the reasonableness of the APRA application and resulting rates.
2. The Company shall file an Application for a Commission determination pursuant to Schedule APRA for the calendar years 2024, 2025, 2026, 2027 and 2028. Each filing will be submitted by March 15^{th}.
3. The Company's Allowed Return on Equity (AROE) is set pursuant to order of the Commission in Docket No. 24-KGSG-____-RTS. The AROE shall be the effective AROE until modified by Commission order. Any such modification shall be applied prospectively.
4. The Company's Earned Return on Equity (ER) shall be recalculated annually under the APRA for use in determining any rate change adjustments that become effective in subsequent years. Except as otherwise provided in other sections of this Schedule APRA, the calculation shall be performed using the same methodology used to calculate the ER pursuant to KGS's 2024 base rate filing.
5. An AROE dead-band of 100 basis points is established for the APRA calculation procedure. The dead-band shall be from 50 basis points below the AROE to 50 basis points above the AROE established in Docket No. 24-KGSG-____-RTS. The Company may request a rate increase under this APRA Schedule only when the ER falls more than 50 basis points below the AROE. Similarly, any credit and sharing with the Company's customers shall occur when the ER is greater than 50 basis points above the AROE. However, giving consideration to practical constraints, no adjustments provided for under this Schedule will be made for amounts that are less than $200,000. Any revenue increase or customer credit will be allocated to customer classes based on each class's relative percentage of the total revenue established in the proof of revenues in the Company's most recent base rate case.
6. The Company will submit revised rate schedules to the Commission when a rate increase is required pursuant to this Schedule. Should this Schedule require a credit to the Company's

Annual Performance-based Rate Adjustment (APRA) Mechanism

customers, the credit shall be made to customer bills over a 12-month period. Any rate schedule changes or bill credits will be implemented with the first billing cycle in July.

Application

1. The Company shall, on or before March 15, file an application with the Commission and provide copies to the Staff of the Commission and the Citizens' Utility Ratepayer Board ("CURB"). Where applicable, the data provided shall include by FERC account: test period actual data, listing of individual adjustments to test period data and the adjusted balance. The filing shall include information consistent with the requirements of sections of K.A.R. 82-1-231 listed below:

   Section 1: Application, Letter of Transmittal and Authorization
   Section 3: Summary of Rate Base, Operating Income and Rate of Return
   Section 4: Plant in Service
   Section 5: Accumulated Provision for Depreciation and Amortization
   Section 6: Working Capital
   Section 7: Capital Structure and Cost of Capital
   Section 9: Test Period and Pro-forma Income Statements
   Section 10: Depreciation and Amortization
   Section 11: Taxes
   Section 12: Allocation Rations
   Section 17: Allocation of Revenue Requirement, Rate Design, Proof of Revenues
   Section 18: Proposed Tariffs

   The application shall also include pre-filed testimony in support of the test period financial information as well as each pro-forma test period adjustment.

2. The filing shall be accompanied by work papers supporting each pro forma adjustment and shall be provided to the Staff of the Commission and CURB.
3. An expedited processing schedule shall be established to provide notice to all interested parties, including customers. Any calculations disputed by the parties shall be identified to the Company prior to May 1. The parties will work in good faith to resolve all disputes prior to May 30.
4. Unless disputed by the parties, any rate changes will become effective with the first billing cycle of July. If the parties have not resolved disputed issues, the issues will be set for hearing before the Commission. If the Commission has not issued an order by June 1, then the rates may be placed into effect and collected on an interim basis subject to refund.

APRA Calculation

1. The calendar year shall be the Test Year.
2. Rate base and cost of service shall be computed in the same manner as approved in the Company's last base rate case and shall include Construction Work in Progress balance at December 31.

Issued:	March 1, 2024	
Effective:		
By:	/S/ Janet L. Buchanan Janet L. Buchanan, Director- Regulatory	

Annual Performance-based Rate Adjustment (APRA) Mechanism

3. Operating revenues shall be modified consistent with the Commission's findings in the base rate case. Additionally, operating revenues will be adjusted as follows:
   a. Include annualized revenue if necessary as discussed in (4) below; and,
   b. Test period weather normalization accruals based on the weather coefficients as determined in the base rate case.
4. If the ER falls below the dead-band, the calculated revenue requirement deficiency shall be offset by including an adjustment to annualize any base rate revenue increase authorized after the beginning of the test year. This annualization adjustment shall not be applied when the ER without such adjustment falls within or above the dead-band.
5. Operating expenses shall be modified consistent with the Commission's findings in the Company's base rate case and upon annualized December 31 balances for the following:
   a. Depreciation expense calculated based on December 31 balances multiplied by the Commission authorized depreciation rates; and,
   b. The level of salaries and wages, savings plans expenses, payroll taxes, and other payroll-related expenses will be based on compensation and employment levels at December 31.

APRA Rate Change

1. If, for the 12-month period ending December 31, it is determined that the jurisdictional non-fuel revenues should be increased or decreased, the Company's rate schedules will be adjusted in the manner set forth in this Rate Schedule. These adjustments will be added to or subtracted from the rate schedules previously in effect and the revised rate schedules will become effective by order of the Commission for the first billing cycle in July and remain in effect until changed under provisions set forth in this Schedule and by order of the Commission.
2. If, for the 12-month period ending December 31, the Company's ER is more than 50 basis points below the AROE, the base rates provided for under the Company's sales and transportation rate schedules (unless not permitted under a separately negotiated contract), shall be increased upon Commission approval for the amount necessary to restore the ER to the AROE.
3. If, for the 12-month period ending December 31, the Company's ER is more than 50 basis points above the AROE, the portion of the ER that is greater than the AROE will be shared between customers and the Company, with customers receiving the greater amount. The sharing percentages will be determined based upon the Company's performance as measured by the performance metrics defined and measured as agreed upon and approved by the Commission in Docket No. 14-KGSG-100-MIS. Those performance measures are the Answered Call Rate, the Estimated Bills per 1,000 Customers and the Response Time to Odor Reports. The Company will also provide data concerning the average age of leaks in inventory and average number of KCC referred complaints responded to within 24 hours; however, these metrics will not affect the percentage of ER shared between customers and the Company.
4. The sharing of ER that is more than 50 basis points above the AROE will be determined by the Table 1 below which sets out performance targets and earnings sharing percentages. To receive 25% of the earnings above the dead-band, the Company must meet the target level of

Annual Performance-based Rate Adjustment (APRA) Mechanism

performance indicated in the Table 1 for all three metrics. Otherwise, the Company's earnings share would be determined by the next highest level of performance for which the Company's performance meets or exceeds the target level for two metrics.

Table 1: Performance Metrics Targets and Earnings Sharing %

Customers' Share of Earnings	KGS's Share of Earnings		Answered Call Rate	Estimated Bills	Response Time to Odor Reports
75%	25%		> 94.5%	≤ 224	< 28 minutes
80%	20%		> 93.5% and ≤ 94.5%	225 to 235	28 to 28.49 minutes
85%	15%		>92.5% and ≤ 93.5%	236 to 246	28.50 to 28.99 minutes
90%	10%		>91.5% and ≤ 92.5%	247 to 257	29 to 29.49 minutes
95%	5%		>90.5% and ≤91.5%	258 to 268	29.50 to 29.99 minutes
100%	0%		≤ 90.5%	≥ 269	≥ 30 minutes

Force Majeure Provision

If any cause beyond the reasonable control of the Company, such as natural disaster, orders or acts of civil or military authority, terrorist attacks, or government mandates, which results in a deficiency in the revenues which are not readily capable of being addressed in a timely manner under this Schedule, the Company may file for expedited rate relief. This expedited or out of cycle rate relief will still be subject to the filing requirements of Section 7 but will not be bound by the timelines identified herein. Such expedited rate relief would result in a calendar year containing multiple filings.

Definitions and Conditions

1. All provisions of this schedule are subject to changes made by order of the Commission.

Issued: March 1, 2024	
Effective:	
By: /S/ Janet L. Buchanan	
Janet L. Buchanan, Director- Regulatory	

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

Before Commissioners: Mark Sievers, Chairman
Thomas E. Wright
Shari Feist Albrecht

In the Matter of the Application of ONEOK, Inc. for an Order Authorizing Its Plan of Reorganization.	)))	Docket No. 14-KGSG-100-MIS

ORDER APPROVING UNANIMOUS SETTLEMENT AGREEMENT

This matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having examined its files and records, and being fully advised in the premises, the Commission finds and concludes as follows:

I. INTRODUCTION

1. On August 16, 2013, pursuant to K.S.A. 66-131, 66-136, 66-1,201 and K.A.R. 82-1-214, ONEOK, Inc., (ONEOK) filed its Application to separate its natural gas utility distribution business into a stand-alone publicly traded company, ONE Gas, Inc. (ONE Gas).[1] Upon completion of the proposed reorganization plan, Kansas Gas Service will be a division of ONE Gas.[2] After the reorganization, ONE Gas will be the sole owner of the existing Kansas, Oklahoma, and Texas natural gas utility distribution business.[3] Both ONE Gas and its Kansas natural gas utility distribution business division, Kansas Gas Service, will continue to be subject to regulation by the Commission.[4]

2. In its Application, ONEOK is seeking approval to transfer its existing Kansas utility assets, certificates of convenience and necessity and franchises relating to its Kansas natural

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[1]Application, August 16, 2013, ¶ 5.
[2]*Id.*, ¶ 9.
[3]Direct Testimony of Derek S. Reiners (Reiners Direct), Aug. 16, 2013, p. 2.
[4]Application, ¶ 14.

gas utility business to Kansas Gas Service, a division of ONE Gas, and authorize Kansas Gas Service, a division of ONE Gas, to own and operate the Kansas natural gas utility business in the service territories covered by the certificates of convenience and necessity and franchises, in accordance with the rates, tariffs, and terms and conditions of service referenced therein.[5]

3. In support of its Application, ONEOK submitted the testimony of four witnesses: Derek S. Reiners; Caron A. Lawhorn; Ronald D. Bridgewater; and David N. Dittemore. The exhibits filed with the Application included ONEOK's 2012 Annual Report; a form of the Separation and Distribution Agreement; a form of the Master Transition Services Agreement; a form of the Tax Matters Agreement; a form of the Employee Matters Agreement; and illustrations showing the steps of the reorganization. The Application identified two late-filed exhibits: ONE Gas's SEC Form 10 General Form for Registration of Securities Filing; and forecasted financial information for ONE Gas and Kansas Gas Service. In its Application, ONEOK promised to file supplemental testimony on separation costs and on how the proposed reorganization plan will impact Kansas Gas Service's cost of service after the reorganization is completed.[6]

4. Reiners, ONEOK's chief financial officer, described the reorganization plan, ONEOK's current corporate structure, the corporate structure after the reorganization plan, and the intermediate steps under the reorganization plan. He provided a description of the agreements relating to the reorganization plan. Reiners discussed ONE Gas's operation of the Natural Gas Distribution Business, as that term is defined in the Application, after the reorganization. Included in that discussion was the process used to assign assets and liabilities to ONE Gas, the capitalization of ONE Gas's operation and the financial strength of ONE Gas, the relationship

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[5] *Id.*, ¶ 10.
[6] *Id.*, ¶ 20.

between ONE Gas and Kansas Gas Service with respect to shared services, allocation of corporate and shared costs from ONE Gas to Kansas Gas Service, and adoption of a cost allocation manual (CAM), virtually the same as the one currently on file with the Commission, and other matters relating to ONE Gas's operations.[7]

5. Reiners also discussed the reasons for and benefits of the reorganization as it relates to the Natural Gas Distribution Business and explained why approval of the reorganization plan is in the public interest. Specifically, he indicated the reorganization will allow the public utility the opportunity to capitalize its business with historically low debt cost. The proposed reorganization will insulate the public utility operations from the risks relating to the operations of ONEOK's non-utility businesses, and the public utility's exposure to legal liabilities arising from operations will be limited to those created by the utility operations. The reorganization will streamline regulatory oversight of the public utility operations. The reorganization separates businesses with markedly different business models and customers, allowing ONE Gas to focus solely on the Natural Gas Distribution Business. Finally, the reorganization will focus capital allocation decisions and resolves the potential for competition for capital between non-regulated and regulated businesses, thereby enhancing value for the public utility.[8]

6. Reiners testified the reorganization will be seamless to customers and regulators since the rates and services provided to the utility customers will remain the same. The reorganization will not negatively impact Kansas Gas Service's operations. It will have no impact on the existing rate tariffs terms and conditions of service of the Kansas gas utility. The Commission will retain jurisdiction over Kansas Gas Service's operations and ONE Gas. Reiners

[7] Reiners Direct, pp. 1-3, 4-13.
[8] *Id.*, pp. 13-19.

testified the reorganization will result in (1) streamlined and improved regulation of the gas utility; and (2) strengthened financial condition and operation of Kansas Gas Service. Reiners indicated the management and employees of ONE Gas are qualified to meet all demands associated with operating the Kansas natural gas public utility and will work to maintain the existing high quality of service provided to Kansas customers.[9]

7. Lawhorn, ONEOK's senior vice president, commercial, natural gas distribution, and who will have the same responsibilities with ONE Gas, provided testimony and exhibits on the selection process for management and employees assigned to ONE Gas and Kansas Gas Service, and how the proposed reorganization plan will promote the public interest, benefit the utility customers and the state and local economies and communities in the area served by the resulting public utility operations.[10] Specifically, Lawhorn testified the services currently provided by Kansas Gas Service employees will continue to be provided by the same employees. The reorganization will not impact the level of employment or scope of services provided by existing Kansas Gas Service employees. Lawhorn explained that employees currently working in ONEOK's natural gas distribution segment, including Corporate Service Employees providing services exclusively to the Natural Gas Distribution Business and employees providing service to customers of Kansas Gas Service, will be transferred to ONE Gas. Employees working in ONEOK's corporate services group who currently provide service to both ONEOK and ONE Gas will be assigned to either ONE Gas or ONEOK based upon their skills and the needs of the

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[9] *Id.*, pp. 19-20.
[10] Direct Testimony of Caron A. Lawhorn, Aug. 16, 2013, pp. 1-3.

respective organization. Lawhorn also testified the current management team responsible for ONEOK's distribution operations will be the same.[11]

8. Lawhorn explained the public interest will be promoted because the management and employees assigned to ONE Gas are qualified to meet all of the demands associated with operating Kansas Gas Service's gas properties; the management and employees will be substantially the same as those currently responsible for providing natural gas service to Kansas Gas Service customers and have a proven track record that demonstrate that they are well qualified to operate the gas properties in Kansas; ONE Gas is expected to be in a strong financial position after the completion of the reorganization; the reorganization will be seamless for Kansas Gas Service customers; there will be no changes to the rates and tariffs currently in place for the utility; and ONE Gas intends to carry over the ONEOK practice of supporting and being actively involved in the communities where the gas utility provides service, including contributing to non-profit organizations such as the United Way, higher education, hospitals and other charitable causes.[12]

9. Bridgewater, ONEOK's vice president of asset management and engineering, testified on Kansas Gas Service's plans to conduct its operations in Kansas following the reorganization and how Kansas Gas Service plans to continue its commitment to provide safe and reliable service.[13] Specifically, Bridgewater stated ONE Gas will conduct its operations in the same manner as it did prior to the reorganization. The employees who provide service to customers in Kansas today will be the same employees who provide service after the reorganization. Bridgewater testified that the same services will continue to be provided by the

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[11] *Id.*, pp. 3-5.
[12] *Id.*, pp. 5-8.
[13] Direct Testimony of Ronald D. Bridgewater, Aug. 16, 2013, pp. 1-2.

ONE Gas corporate office as were provided by ONEOK corporate offices before the reorganization. He also stated Kansas Gas Service is committed to continuing its various pipeline safety programs and the reorganization will not change Kansas Gas Service's commitment to provide safe, reliable and efficient natural gas service.[14]

10. Dittemore, manager of rates and regulatory affairs for Kansas Gas Service, testified the reorganization would not have any impact on the public utility's rate base or the tax revenues of any political subdivision where Kansas Gas Service's assets are located; explained how the liabilities related to employee and retiree benefit plans will be assigned to ONE Gas under the reorganization plan; confirmed Kansas Gas Service's ongoing compliance with existing regulatory requirements; and explained how the reorganization plan will result in stream-lining and improving regulatory oversight of the Kansas natural gas utility operations.[15] Specifically, Dittemore stated the primary benefit of the reorganization plan from a regulatory viewpoint is the separation of the local distribution company business (LDC Business) from the business conducted by ONEOK as the General Partner for ONEOK Partners (GP Business), creating more transparency for regulators, benefitting customers and regulators. He added the transparency created by the reorganization plan occurs because the separation of the LDC Business and the GP Business will allay concerns that excessive costs could be allocated to ONEOK's regulated operations to the benefit of its competitive business segments. Dittemore also testified that it will be easier and more efficient for the Commission and its Staff to determine the proper cost of capital for the LDC Business because the actual cost of and amount of debt of the LDC Business

[14] *Id.*, pp. 2-6.
[15] Direct Testimony of David N. Dittemore, Aug. 16, 2013, pp. 1-2.

and the actual amount of common equity to determine the cost of capital for the utility in a rate case will be readily identified.[16]

11. Dittemore explained ONEOK was requesting approval of the transfer of the existing Kansas utility assets, certificates of convenience and necessity, and franchises relating to the Kansas Natural Gas Utility Business to Kansas Gas Service, a division of ONE Gas. He also indicated the Commission will retain jurisdiction over ONE Gas and Kansas Gas Service.[17]

12. On October 2, 2013, ONEOK filed supplemental testimony and exhibits prepared by Reiners and Dittemore, and late-filed exhibits (Form 10 and Financial Forecasts for ONE Gas and Kansas Gas Service).[18] Reiners' supplemental testimony identified the separation and debt breakage costs being incurred by ONEOK relating to its reorganization plan.[19] He also testified ONEOK will not allocate the separation and debt breakage costs to ONE Gas or Kansas Gas Service.

13. Dittemore's supplemental testimony and Exhibit DND-1 set forth the estimated net impact of the reorganization plan on Kansas Gas Service's revenue requirement.[20] He testified the incremental increase in operations and maintenance expense will be largely offset by anticipated lower weighted average debt costs and when compared to Kansas Gas Service's overall annual revenue requirement based upon its last general rate case ($287 million) the net impact the reorganization plan would have on Kansas Gas Service's revenue requirement was not material.[21] Dittemore also sponsored late-filed Exhibit 8, which compared the post-reorganization forecasted

[16] *Id.*, pp. 3-7, 8-10.
[17] *Id.*, pp. 7-8.
[18] ONEOK's Supplemental Testimony and Late-Filed Exhibits 2 and 8, Oct. 2, 2013.
[19] Supplemental Testimony of Derek S. Reiners, Oct. 2, 2013, pp. 1-2.
[20] Supplemental Testimony of David N. Dittemore and Exhibit DND-1, Oct. 2, 2013, p. 1.
[21] *Id.*, pp. 3-4.

financial information for ONE Gas and Kansas Gas Service for the year ending December 31, 2014, with forecasted financial information for ONE Gas and Kansas Gas Service for the same period, but before giving effect to the reorganization.[22]

14. On September 24, 2013, the Citizens' Utility Ratepayer Board (CURB) was granted intervention.[23]

15. As a result of three separate technical conferences, the Parties entered into a Unanimous Settlement Agreement.[24]

16. On November 26, 2013, ONEOK filed Amended Exhibits.[25] On December 4, 2013, Staff filed the testimony and exhibits of Justin Grady, Bill Baldry and Adam Gatewood.

17. Grady's testimony included a description of the proposed reorganization; a discussion of the Commission's jurisdictional authority and the standards of review; an explanation of the benefits of the reorganization (prior to the settlement); an explanation of costs of the proposed reorganization (prior to the settlement); and an examination of the proposed reorganization in light of the Commission's merger standards. He explained the proposed reorganization requires Commission approval because ONEOK is seeking to transfer its existing certificate of convenience and necessity to ONE Gas, and K.S.A. 66-136 requires Commission approval for a transfer of an existing certificate of convenience and necessity. Additionally, K.S.A. 66-131 requires public utilities transacting business in Kansas to obtain a certificate of convenience from the Commission, which requires a showing that public convenience will be

[22] *Id.*, pp. 2-3.
[23] Order Granting CURB's Petition to Intervene, Sept. 24, 2013.
[24] Unanimous Settlement Agreement, Dec. 4, 2013, ¶ 7.
[25] ONEOK's Amended Exhibits 2, 4, 5 and 6 to Application, Nov. 26, 2013.

promoted, and K.S.A. 66-1,201 grants the Commission "full power, authority and jurisdiction to supervise and control" natural gas public utilities.[26]

18. Grady also provides an overview of the Commission's merger standards, explaining that Staff agrees with the modified merger standards contained in ONEOK's application, discusses how Staff's view of the proposed reorganization meets the public interest tests for five of the seven standards, reserving the two remaining standards for Gatewood's testimony. Grady identified the following benefits of the proposed transaction: (1) ONE Gas will have the opportunity to capitalize its business at a historically low cost of debt, (2) ONE Gas will likely have significantly higher expected bond ratings than existing ONEOK debt, and (3) ONE Gas's annual interest expense will be lower than ONEOK, savings which will be passed along to ratepayers. In addition to these benefits, Grady also explained the qualitative benefits of the transaction, to include elimination of the risk of cross-subsidization between ONEOK's regulated and deregulated businesses, a more simple capital structure, and eliminating the competition for capital within ONEOK. Grady offered Staff's view of the costs of the proposed reorganization, including increases in corporate overhead costs and increases associated with the capital structure.[27]

19. Grady's testimony also summarizes the terms of the settlement, and explains the resulting quantifiable benefits to ratepayers. As part of the settlement, the parties agree to a rate moratorium, where Kansas Gas Service will not change its base rates until January 1, 2017; ONEOK agrees to eliminate the existing regulatory asset relating to transaction cost recovery from Commission Docket No. 97-WSRG-486-MER; Kansas Gas Service agrees to provide a one-time rebate of $3,423,000 in each of the years 2014, 2015, and 2016 associated with the write-off of the

[26]Staff Direct Testimony and Testimony in Support of Settlement Prepared by Justin T. Grady (Grady Direct), Dec. 4, 2013.
[27]*Id.*

regulatory asset and lower forecasted costs for pension and other post-employment benefit (OPEB) expenses; Kansas Gas Service agrees not to seek an increase in Gas System Reliability Surcharge (GSRS) rates larger than $0.40 per month, per year, during the rate moratorium period; ONEOK agrees to make a one-time contribution to a 501(c)(3) organization in the amount of $1.2 million to provide financial assistance for low-income natural gas customers for the weatherization of housing; and Kansas Gas Service's capital structure cannot exceed 55% equity for its next base rate case filing. Grady also addressed conditions related to Pipeline Safety, and why Staff recommends those conditions as appropriate for the proposed reorganization to be in the public interest. Finally, Grady explains the five factors by which the Commission evaluates settlements, and discusses how the settlement agreement meets those standards.[28]

20. Baldry's testimony addresses Staff's review of the accounting and allocation of ONEOK's pension obligation and assets and the postretirement benefit plan's obligation and assets between ONEOK and ONE Gas. This review was important because the two plans' assets and liabilities represent a material percentage of ONEOK's total assets, and the expense associated with funding these plans has a material impact on Kansas Gas Service's regulated cost of service. After explaining Staff's audit procedures, Baldry concluded ONEOK's pension obligation was correctly calculated, ONEOK is properly funding its pension obligation, and Staff is satisfied that ONEOK correctly calculated its postretirement benefit obligation.[29]

21. Gatewood's testimony discusses Staff's review of the financial aspects of the reorganization, including whether ONE Gas will be financially sound and in at least as solid a financial position as it is prior to the reorganization. He also analyzes the proposed reorganization

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[28] *Id.*

[29] Staff Direct Testimony Prepared by William E. Baldry, Dec. 4, 2013.

under two of the seven merger standards -- comparing the financial condition of ONE Gas to the financial condition of ONEOK and the effect of the proposed reorganization on shareholders. The primary change in the financial condition of ONE Gas compared to ONEOK is more equity in the capital structure. This change could happen absent undertaking the proposed reorganization, and there remain qualitative benefits of separating the natural gas local distribution company from ONEOK. Finally, Gatewood's analysis finds this proposed reorganization beneficial to shareholders.[30]

22. On December 4, 2013, CURB filed Andrea Crane's testimony, which discusses the issues of concern identified by CURB in its review of the filing, a description of the main provisions of proposed settlement agreement including how those provisions addressed CURB's concerns with the reorganization, and finally a discussion of the settlement agreement in light of the Commission's standard of review for settlement agreements.

23. Crane's testimony identifies potential benefits to ratepayers of the reorganization plan including a lower embedded cost of debt in rates and a greater transparency in capital structure, reduced exposure to liability created by non-regulated affiliates, enhanced management focus on regulated operations and elimination of competition for capital expenditures from non-regulated operations. Crane concludes that with the exception of the potential debt reduction, many of these changes are difficult to quantify but nevertheless will provide a benefit to ratepayers.[31]

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[30]Direct Testimony Prepared by Adam H. Gatewood, Dec. 4, 2013.

[31]Direct Testimony of Andrea C. Crane in Support of Settlement and Agreement (Crane Direct), Dec. 4, 2013, pp. 10-12.

24. Crane's testimony also identifies potential detriments to ratepayers of the reorganization plan including the potential for increased rates due to One Gas having a higher level of equity than is currently represented in Kansas Gas Service's base rates. CURB is concerned the increased level of equity may increase future rates and offset any potential rate reductions from lower debt cost after the reorganization. Additionally, Kansas Gas Service projects certain administrative costs (insurance, information technology and human resource costs) may increase since these costs will no longer be consolidated with the larger ONEOK entity. These increases may also result in increases to consumer rates. Crane concludes there are too many variables to know with certainty the financial impact the proposed reorganization will be on ratepayers and that given the uncertainty, Crane does not believe the Commission can conclude with certainty that the reorganization plan, as filed, is in the public interest.[32]

25. Finally, Crane's testimony discusses how the main provisions of the settlement agreement address some of the uncertainty inherent in the reorganization plan and provide ratepayers a level of immediate financial benefit. Crane identifies the rate moratorium and the cap on GSRS rate changes for residential customers as providing stability in consumer rates until January 2017, a full four years since Kansas Gas Service's last base rate increase. Crane testifies that eliminating the regulatory asset from the prior ONEOK merger is a meaningful rate reduction for consumers into the future, and provides the basis for $423,000 of the immediate annual rebate to customers contained in the agreement. Crane explains accelerating the return of over-collections in the pension and OPEB tracker has a meaningful time-value of money impact on customers into the future and provides the basis for $3 million of the immediate annual rebate

[32] *Id.*, pp. 13-17.

to customers contained in the agreement. She testifies One Gas's agreement to cap the equity level used in its first base rate case at 55% will cap the near-term potential rate increase customers may see due to higher One Gas equity levels. Crane states low income customer will benefit from a onetime $1 million donation from ONEOK for weatherization. Finally, Crane testifies pipeline safety programs will be maintained and new quality-of-service standards and penalties will reduce the uncertainty of potential negative ratepayer impacts from the reorganization. Accordingly, she concludes with the additional provisions in the stipulation and agreement, the Commission can find the reorganization plan is in the public interest.[33]

26. On December 4, 2013, the Parties filed their Unanimous Settlement Agreement (Agreement).[34]

27. On December 5, 2013, Lawhorn filed supplemental testimony on behalf of ONEOK in support of the Agreement.[35]

28. On December 12, 2013, the Commission held a hearing on the Agreement. All parties were represented by counsel. At the hearing, Bridgewater and Lawhorn testified on behalf of ONEOK; Crane appeared on behalf of CURB; and Leo Haynos, Gatewood, and Jeff McClanahan testified on behalf of Staff. All of the witnesses testified in support of the Agreement. In addition, all of the pre-filed testimony and exhibits were admitted into the record.

II. JURISDICTION AND STANDARD OF REVIEW

29. The Commission has full power, authority and jurisdiction to supervise and control the natural gas public utilities doing business in Kansas and is empowered to do all things

[33] *Id.*, pp. 18-23.
[34] Unanimous Settlement Agreement.
[35] Supplemental Direct Testimony of Caron A. Lawhorn in Support of Unanimous Settlement Agreement (Lawhorn Supplemental), Dec. 5, 2013.

necessary and convenient for the exercise of such power, authority and jurisdiction.[36] All "incidental powers necessary to carry into effect" the provisions of the Kansas Public Utilities Act "are expressly granted to and conferred upon the commission."[37] Accordingly, the Commission applies a liberal construction to its grant of power, authority and jurisdiction.

30. No public utility shall transact business in the state of Kansas until it obtains a certificate from the corporation commission that public convenience will be promoted by the transaction of said business.[38] Furthermore, no franchise or certificate of convenience and necessity granted to a public utility shall be assigned, transferred, or leased, nor shall any contract or agreement with reference to or affecting such certificate of convenience and necessity or right thereunder be valid or of any force or effect whatsoever, unless the assignment, transfer, lease, contract, or agreement shall have been approved by the Commission.[39] Therefore, the Commission has jurisdiction and authority to consider ONEOK's Application and to determine whether the requested transfer of ONEOK's Kansas natural gas public utility business to ONE Gas will promote the public convenience or public interest.

31. The Commission must separately state findings of fact, conclusions of law, and policy reasons for its decision if it is an exercise of its discretion.[40] Any findings of fact must be based exclusively upon the evidence or record in the adjudicative proceeding and on matters

[36] K.S.A. 66-1,201; K.S.A. 66-104.
[37] K.S.A. 66-1,207.
[38] K.S.A. 66-131.
[39] K.S.A. 66-136.
[40] K.S.A. 77-526(c).

officially noticed at the proceeding.[41] Agency action must be based upon evidence that is substantial when viewed in light of the record as a whole.[42]

32. The Agreement was presented to the Commission as a comprehensive settlement for ONEOK's Application requesting approval of its reorganization plan and the transfer of its natural gas utility business in Kansas to ONE Gas. The attached Agreement is considered a unanimous settlement agreement under K.A.R. 82-1-230a(a)(2). Pursuant to K.A.R. 82-1-230a(b), the Commission may approve, reject or modify a settlement agreement.

33. Kansas law favors compromising and settling disputes when the agreement is entered into intelligently, and in good faith.[43]

34. The Commission evaluates the evidence in the record as a whole regarding the proposed Agreement under the following standards of review. The Commission has recognized its authority to approve settlements agreed to by the parties but which do not discuss how terms were reached.[44] When adopting a settlement, the Commission must make an independent finding that the settlement is supported by substantial competent evidence in the record as a whole.[45] To meet this requirement, the Commission utilizes a five factor test to evaluate a settlement:

(1) Has each party had an opportunity to be heard on its reasons for opposing the settlement?

(2) Is the agreement supported by substantial competent evidence in the record as a whole?

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[41] K.S.A. 77-526(d).
[42] K.S.A. 77-621(c)(7), (d).
[43] *See* Order Approving Contested Settlement Agreement (Atmos Settlement Order), Docket No. 08-ATMG-280-RTS May 12, 2008, ¶10; *Bright v. LSI Corp.*, 254 Kan. 853, 858 (1994).
[44] Atmos Settlement Order, ¶¶ 9-10.
[45] *Id.*, ¶ 11; *Citizens' Utility Ratepayer Bd. v. Kansas Corp. Comm'n*, 28 Kan. App. 2d 313, 316 (2000).

(3) Does the agreement conform to applicable law?

(4) Will the agreement result in just and reasonable rates?

(5) Are the results of the agreement in the public interest, including the interests of customers represented by any party not consenting to the agreement?

35. In deciding whether to grant the Parties' Joint Motion and approve the Agreement, the Commission reviewed and considered the entire record, including all pre-filed testimony and exhibits of the witnesses. The Commission's decision is based upon a review of all issues raised in this proceeding, taking into account the agreement of the Parties.

36. K.S.A. 66-1,201 gives the Commission full power, authority and jurisdiction to supervise and control natural gas public utilities, as defined in K.S.A. 66-1,200. ONEOK is a natural gas public utility as defined in K.S.A. 66-1,200 because it is a public utility as defined in K.S.A. 66-104, which supplies natural gas.

37. Pursuant to K.S.A. 66-1,201, 66-1,204 through 66-1,206, and K.S.A. 66-1,207, the Commission has authority to impose conditions on ONEOK's proposed reorganization. This authority is similar to the authority to impose conditions on certificate issuances, which must meet the following standards:

- Any such conditions must be both lawful and reasonable;[46]
- To be lawful, the condition must be within the statutory authority of the Commission and all statutory and procedural rules must be followed;[47]
- To be reasonable, the condition must be based upon substantial competent evidence;[48]

[46] *Kansas Electric Power Coop., Inc. v. Kan. Corp. Comm'n*, 235 Kan. 661, 665 (1984).
[47] *Central Kansas Power Co. v. Kan. Corp. Comm'n*, 206 Kan. 670, 675 (1971).

- The Commission has authority to require a utility to take action necessary to forestall a future problem that will ultimately affect the utility's consumers in Kansas.[49]

III. TERMS OF THE AGREEMENT

A. OVERVIEW OF THE AGREEMENT

38. As reflected by the terms of the Agreement and the testimony presented at the hearing, the Parties agreed that subject to the conditions in the Agreement, the Commission could find based upon the record it is in the public interest to approve ONEOK's Application.[50] Such approval would include the following:

(a) authorize, consent to and approve ONEOK's reorganization plan as described in its Application, Testimony and Exhibits;

(b) authorize, consent to and approve the transfer of public utility assets, certificates of convenience and necessity, franchises, permits, rate tariffs and terms and conditions of service relating to ONEOK's natural gas utility plant and facilities from Kansas Gas Service, a Division of ONEOK, Inc. to Kansas Gas Service, a Division of ONE Gas, Inc., and, effective upon the completion of the reorganization, authorize ONEOK to discontinue all natural gas service now furnished by it through its division Kansas Gas Service;

(c) authorize Kansas Gas Service, a Division of ONE Gas, Inc., using the procedure set forth in ONEOK's Application and Testimony, to adopt as its rate tariffs,

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[48] *Jones v. Kansas Gas & Elec. Co.*, 222 Kan. 390, 397 (1977).
[49] *Kansas Electric Power Coop., Inc.*, 235 Kan. at 671-72.
[50] Lawhorn Supplemental, p. 2.

terms and conditions of service for natural gas service in the areas now served by Kansas Gas Service, a Division of ONEOK, the rates, terms and conditions of service of Kansas Gas Service, a Division of ONEOK, which may be changed from time to time with the approval of the Commission, including but not limited to the existing Cost of Gas Rider (COGR) tariff, Weather Normalization Adjustment (WNA) tariff, Ad Valorem Tax Surcharge (AVTS) tariff, Gas System Reliability Surcharge (GSRS) tariff, and the remaining under- recovered or over- recovered balances relating to those tariffs, if any, and to adopt all existing accounting orders and depreciation rates for all accounts; and

(d) grant such other relief deemed by the Commission to be just and proper to accomplish the purpose of ONEOK's Application and to complete the reorganization described in ONEOK's Application. These provisions were set forth in Section VI of the Agreement by the Parties.[51]

39. The Agreement divided the conditions agreed to by the Parties into five categories: (1) Financial Conditions; (2) Conditions Agreed to by ONEOK in its Application; (3) Conditions Relating to Pipeline Safety; (4) Quality of Service Standards and Penalties; and (5) Miscellaneous Conditions. The conditions are set forth in Section VII of the Agreement.[52]

B. FINANCIAL CONDITIONS SET FORTH IN THE AGREEMENT

40. The Financial Conditions section of the Agreement include:

(1) an agreement by the utility to maintain existing base rates through December 31, 2016, equating to a three-year base rate moratorium;

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[51] *Id.*, pp. 2-3.
[52] *Id.*, pp. 3-4.

(2) the elimination of the existing regulatory asset relating to transaction cost recovery (TCR) from the 1997 acquisition between ONEOK and Western Resources, Inc.;

(3) a rebate by Kansas Gas Service of $3.423 million in each of the years 2014, 2015 and 2016 relating to the TCR and a re-basing of the pension/OPEB tracker;

(4) a provision relating to Kansas Gas Service's GSRS should the per month per year per residential customer limit be changed by the legislature during the rate moratorium period;

(5) a contribution by ONEOK to 501(c)(3) organizations of $1.2 million to provide financial assistance for weatherization of housing for low income natural gas customers of Kansas Gas Service; and

(6) a provision relating to the capital structure and review of any cost increases to Kansas Gas Service caused by the reorganization plan in Kansas Gas Service's next general rate case.[53]

C. <u>CONDITIONS WHICH HAD BEEN AGREED TO BY ONEOK IN ITS APPLICATION INCLUDED IN THE AGREEMENT</u>

41. The conditions agreed to by ONEOK in its Application section of the Agreement include:

(1) no acquisition premium and no write-up of the utility rate base will occur as a result of the reorganization, and the plant and equipment of the utility will be transferred to ONE Gas at net book value;

(2) the carrying values for all Kansas Gas Service's accounts will not change as a result of the reorganization, Kansas Gas Service will continue to follow all accounting

[53] *Id.*, p. 4.

orders and Kansas Gas Service's regulatory assets/liabilities balances will continue to be accounted for under the same methodology prior to the reorganization;

(3) Kansas Gas Service will provide the weighted average cost of debt calculation associated with the debt to be issued in connection with the reorganization within 90 days of closing of the reorganization;

(4) ONE Gas will provide Staff and CURB confidential copies of any initial credit rating agency reports within 90 days of issuance subject to any confidentiality requirements imposed by the agencies;

(5) ONE Gas will provide Staff and CURB a confidential copy of the IRS private letter ruling as soon as it becomes available;

(6) ONEOK will not allocate separation and debt breakage costs as those terms are defined in the Agreement to ONE Gas or Kansas Gas Service;

(7) liabilities associated with all ONEOK businesses other than the Natural Gas Distribution Business as that term is defined in the Application, whether known or unknown, contingent or non-contingent, shall be retained by ONEOK and not assigned to ONE Gas;

(8) a provision that addresses the assignment of liabilities related to employee and retiree benefit plans post-reorganization;

(9) ONE Gas shall continue to allocate corporate costs to Kansas Gas Service using the Modified Distrigas methodology consistent with the current cost allocation manual (CAM) used by Kansas Gas Service and to submit a new CAM within 90 days after the completion of the reorganization; and

(10) ONE Gas shall make its books and records available for examination by the Commission to allow verification of the cost of services provided by ONE Gas to Kansas Gas Service.[54]

D. CONDITIONS RELATING TO PIPELINE SAFETY INCLUDED IN THE AGREEMENT

42. The conditions relating to pipeline safety include:

(1) Kansas Gas Service will continue its program to replace 10,000 bare steel service lines per year as addressed in Docket No. 11-KGSG-177-TAR. The program requires the replacement of all buried bare or unprotected steel residential service lines and bare or unprotected steel residential yard lines at a rate so the cumulative average replacements of service lines or yard lines per year is equal to or greater than 10,000;

(2) Kansas Gas Service will continue its program to replace cast iron pipe such that all identified cast iron piping is removed from the distribution system by December 31, 2024;

(3) Kansas Gas Service will replace any protected bare steel mains segments which have experienced three or more main leaks within a block (approximately 500 feet) over the past three years; and

(4) For any unintentional release of gas, Kansas Gas Service will track the time from receiving the notice of the release until testing verifies that no immediate hazard to people exists. Kansas Gas Service will provide an annual report to Staff listing all instances where the time to Make Safe exceeds 90 minutes.[55]

[54] *Id.*, pp. 4-6.
[55] *Id.*, p. 6.

E. THE CONDITIONS RELATING TO QUALITY OF SERVICE STANDARDS AND PENALTIES

43. The quality of service standards and penalties agreed to by the Parties are included in Schedule 1 to the Agreement and are similar to the quality of service standards imposed on Kansas Gas Service when ONEOK acquired the natural gas distribution business from Western Resources, Inc. in 1997. The quality of service standards subject to penalty provisions include: (1) answered call rate standards; (2) estimated bill standards; and (3) response time to odor reports. The penalty amounts range on a scale from $120,000 per year to $600,000 per year for each standard. Kansas Gas Service will also provide information to Staff relating to: (1) average age of leaks in inventory and (2) percentage of complaints submitted to the Commission and forwarded to Kansas Gas Service responded to within 24 hours. All reporting is on an annual basis.[56]

44. The quality of service standards and penalty provisions will remain in effect for a minimum of three annual reporting periods. If Kansas Gas Service provides service sufficient to avoid paying performance penalties for any two consecutive annual reporting periods, the penalty provisions will be eliminated. Kansas Gas Service will continue to report the information for the answered call metric, estimated bill standards, and response time to odor reports for a period of one year after the penalties have ceased.[57]

F. THE MISCELLANEOUS CONDITIONS INCLUDED IN THE AGREEMENT

45. The Miscellaneous Conditions in the Agreement include:

(1) The existing Kansas Gas Service tariffs, rates and terms and conditions of service will not change as a result of the transaction. Upon approval of this Agreement by

[56] *Id.*, pp. 6-7.
[57] *Id.*, p. 7.

the Commission and the closing of the reorganization, Kansas Gas Service will file a document with the Utilities Division of the Commission to be placed with the existing Kansas Gas Service tariff rates and terms and conditions of service on file with the Commission, which states Kansas Gas Service, A Division of ONE Gas, Inc., adopts those tariffs, rates and terms and conditions of service. ONE Gas, Inc. and Kansas Gas Service in its next general rate case filing with the Commission will submit a complete set of the tariffs, rates and terms and conditions of service with ONE Gas, Inc.'s name instead of ONEOK's name on each tariff page;

(2) Except as specifically set forth in the Agreement, nothing in the reorganization will alter the applicability of previous Commission orders in other dockets, policies, rules and applicable statutes;

(3) To the extent not already provided through discovery, executed copies of all agreements identified in the Application, including confidential copies of all schedules to those agreements, will be provided to the Commission within thirty (30) days following the completion of the reorganization;

(4) Nothing in the Agreement will preclude Staff, CURB or the Commission from reviewing the appropriateness of any cost of service item in any future rate case filed by Kansas Gas Service;

(5) ONE Gas will provide upon request and with appropriate notice, all information needed to verify compliance with these conditions and any other information relevant to the Commission's ratemaking, financing, safety, quality of service and other regulatory authority over Kansas Gas Service; and

(6) The terms and conditions of the agreements reached in the Agreement will only go into effect upon the closing of the reorganization. In the event the reorganization does not close, the terms of this Agreement are automatically void.[58]

IV. EVALUATION OF THE AGREEMENT

46. The Commission reviews the Agreement under the five criteria identified for evaluating a specific settlement. Each criterion will be considered separately.

A. HAS EACH PARTY HAD AN OPPORTUNITY TO BE HEARD ON ITS REASONS FOR OPPOSING THE SETTLEMENT

47. Since the Agreement is supported by all of the Parties, there are no parties opposing the settlement. Therefore, the first factor is not applicable to this proceeding. Nevertheless, the record indicates all of the Parties actively participated in all aspects of the docket, including participating in discovery, participating in the Technical Conferences, pre-filing testimony relating to the issues in this matter and the settlement reached by the Parties as a result of the Technical Conference. Finally, all parties participated in the December 12, 2013 hearing on the proposed Agreement.

48. Because there are no parties in opposition to the Agreement, this factor is not applicable.

B. IS THE AGREEMENT SUPPORTED BY SUBSTANTIAL EVIDENCE IN THE RECORD AS A WHOLE

49. Substantial competent evidence possesses something of substance and relevant consequence, and furnishes a substantial basis of fact from which the issues tendered can

[58] *Id.*, pp. 7-8.

reasonably be resolved.[59] Whether another trier of fact or another party could have reached a different conclusion given the same facts is irrelevant; a court can only find that a Commission order is not supported by substantial competent evidence when the evidence shows, "the [Commission's] determination 'is so wide of the mark as to be outside the realm of fair debate.'"[60] The Agreement is supported by substantial competent evidence and supports the transfer of Kansas Gas Service's utility business from ONEOK to ONE Gas as being in the public interest, subject to the conditions set forth in the Agreement.

50. The record includes ONEOK's Application, Testimony and Exhibits, its Supplemental Testimony and Exhibits (ONEOK's Application and Testimony). ONEOK's Application and Testimony provide (1) a detailed summary of the reorganization plan; (2) an identification and summary of the reorganization plan agreements and documents, including the separation agreement, the transition services agreement, the tax matters agreement, the employee matters agreement and the Form 10 general form for registration of securities; (3) a view of the public utility operations after the completion of the reorganization plan; (4) the impact of the reorganization plan on Kansas Gas Service's existing rates; (5) the conditions to the transfer agreeable to ONEOK as set forth in its Application and Testimony, including ONEOK's agreement not to allocate separation costs incurred prior to the separation (costs for professional services, including financial advisors, legal, accounting, information technology, human resources and other business consultants) and debt breakage costs (cost incurred on the early retirement of ONEOK's existing debt) to ONE Gas or Kansas Gas Service, and (6) the reasons for and benefits of the reorganization plan as it relates to the Natural Gas Distribution Business as that term is

[59] *Kan. Gas & Elec. v. Kansas Corp. Comm'n*, 14 Kan. App. 2d 527, 531-532 (1990), *quoting SW Bell Tel. Co. v. Kansas Corp. Comm'n*, 4 Kan. App. 2d 44, 46 (1979), *rev. denied* 227 Kan. 927 (1980).
[60] *Zinke & Trumbo, Ltd. v. Kansas Corp. Comm'n*, 242 Kan. 470, 474 (1988).

defined in the Application and why approval of the reorganization plan and the transfer of the Natural Gas Distribution Business from ONEOK to ONE Gas is in the public interest, including the quantitative benefit relating to reducing the utility's cost of debt and the qualitative benefits relating to ONE Gas being a local natural gas distribution company with no other lines of business.[61]

51. The record also includes the testimony and exhibits filed by the Staff and CURB. Their testimony and exhibits set forth the review they conducted with respect to ONEOK's reorganization plan and the requests set forth in ONEOK's Application. Their testimony and exhibits also identify issues relating to the reorganization plan and how those issues have been addressed by the conditions that were agreed to by the Parties as a result of the Technical Conferences.

52. In his testimony, Grady identified costs associated with the proposed transaction. ONEOK forecasts increased corporate overhead expense that will be allocated to Kansas Gas Service as a result of this reorganization. In addition, Staff asserted additional costs would be incurred, attributable to the increased amount of equity capital in the expected ONE Gas capital structure as compared to the capital structure of ONEOK.[62]

53. Grady explains the six financial conditions included within the settlement are necessary to promote the public interest. The rate moratorium gives Kansas Gas Service ratepayers the benefit of stability and certainty in the level of base rates they will pay for the next three years. Additionally, there is significant financial benefit expressed in present value dollars associated with the rate moratorium. Writing off the regulatory asset associated with Commission

[61]Lawhorn Supplemental, pp. 9-10.
[62]Grady Direct, pp. 9-10.

Docket No. 97-WSRG-486-MER captures a significant quantifiable benefit for ratepayers with a present value of over $10.5 million calculated at an 8% discount rate. The customer refund associated with writing off this regulatory asset has a financial benefit to ratepayers of over $2 million in today's dollars when calculated at an 8% discount rate. Restricting the increase in GSRS rates allows parties to make conclusions about the value of the base rate moratorium. ONEOK's contribution to a 501(c)(3) organization is another quantifiable benefit which will help Kansas Gas Service ratepayers in need. The restriction on the equity percentage in the capital structure allows the parties to place a value on the level of anticipated debt cost savings, and mitigates Staff's concerns that the higher equity weighting of ONE Gas's capital structure will result in higher costs for ratepayers.[63]

54. Crane noted while the procedural schedule in this case is unusual, CURB had access to extensive documentation provided by the Company and she was able to evaluate the potential benefits and potential harms to ratepayers if the reorganization is approved. Crane's testimony supports her conclusion that ratepayers will likely see quantifiable benefits in terms of debt cost reduction and non-quantifiable benefits in terms of management focus and access to capital. Crane also supports her conclusion that ratepayers may be harmed by increased rates due to higher administrative costs and higher equity levels when setting rates in the future. Finally, Crane provides testimony in support of her conclusion that the financial and non-financial provisions of the stipulation and agreement provide an immediate financial benefit to ratepayer and reduce the uncertainty of potential harms to ratepayers in the future that may result from the reorganization. Crane concludes all of the provisions of the stipulation and agreement will help

[63] *Id.*, p. 17.

ensure that rates to Kansas Gas Service customers will continue to be just and reasonable if the transaction if approved.[64] Regarding the stipulation and agreement, Crane testifies she "is not aware of any documentation reviewed in discovery that conflicts with CURB's conclusion that there is substantial evidence to support a Commission finding that the transaction is in the public interest."[65]

55. In her testimony in support of the Agreement, Lawhorn testified ONEOK did not necessarily agree with some of the conclusions reached by the Staff and CURB regarding the value of the benefits to customers resulting from ONEOK's reorganization plan and whether the reorganization plan and transfer from ONEOK to ONE Gas standing on its own and without the financial and other conditions meet the public interest standard.[66] However, Lawhorn testified that ONEOK agrees to the conditions set forth in the Agreement, and given the value of the benefits to customers resulting from the transfer, the reorganization plan and the transfer from ONEOK to ONE Gas is beneficial to the customers and is in the public interest.[67]

56. Having reviewed evidence in the record, the Commission concludes there is substantial competent evidence to support the approval of the Agreement without modification and to find ONEOK's reorganization plan and the transfer of its Kansas natural gas utility business to ONE Gas, subject to the conditions set forth in the Agreement, is in the public interest. The Commission finds the evidence in the record as a whole establishes the Agreement is reasonable and should be approved.

[64]Crane Direct, p. 26.
[65]*Id.*, p. 25.
[66]Lawhorn Supplemental, p. 11.
[67]*Id.*

C. DOES THE AGREEMENT CONFORM TO APPLICABLE LAW

57. "An Order is 'lawful' if it is within the statutory authority of the commission and if prescribed statutory and procedural rules are followed in making the Order."[68] The Agreement meets this test.

58. Under K.S.A. 66-131, no public utility shall transact business in the state of Kansas until it obtains a certificate from the Commission that it will promote public convenience. Furthermore, under K.S.A. 66-136, no franchise or certificate of convenience and necessity granted to a public utility shall be assigned, transferred, or leased, nor shall any contract or agreement with reference to or affecting such certificate of convenience and necessity or right thereunder be valid or of any force or effect whatsoever, unless the assignment, transfer, lease, contract, or agreement was approved by the Commission. Thus, the subject matter of the Agreement is within the Commission's authority.

59. The Agreement is the result of negotiations among and is supported by all of the Parties. All of the Parties have had an opportunity to engage in discovery and to present evidence both as to ONEOK's original filing and the Agreement.

60. After reviewing the Agreement, considering the pre-filed testimony and exhibits and the testimony presented at the hearing, the Commission finds the Agreement conforms to applicable law.

D. WILL THE AGREEMENT RESULT IN JUST AND REASONABLE RATES

61. Rates are "just and reasonable" when they reflect a reasonable balance between the consumer and investor interests and provide the utility an opportunity to earn a reasonable return

[68] *Central Kansas Power Co. v. Kansas Corp. Comm'n*, 221 Kan. 505, 511 (1977).

on its property dedicated to the public service.[69] In evaluating whether rates are just and reasonable, the Commission takes into account the various interests of the parties to determine whether the proposed rates are within a "zone of reasonableness."[70] The "zone of reasonableness" is an elusive range where rates are not so high or so low to be unlawful, and is a matter for Commission determination.[71]

62. Under the terms of the Agreement, Kansas Gas Service is required to maintain all existing rate tariffs. Those rates are considered to be just and reasonable since they have recently been approved by the Commission in Kansas Gas Service's 2012 general rate case (Docket No. 12-KGSG-835-RTS). Therefore, the Agreement results in just and reasonable rates.[72]

63. As there is no acquisition premium associated with this reorganization, no write-up of the utility rate base, there is no negative impact on rates. There is no change in rate base as a result of any change in accumulated deferred income tax (ADIT) due to the reorganization, and therefore, no negative impact on rates. Also, none of the separation and debt breakage costs incurred prior to and associated with the reorganization are being allocated to ONE Gas or Kansas Gas Service, and therefore do not impact rates. Liabilities related to employee and retiree benefit plans set forth in the Agreement are limited to those employees who are or who have or who will be working the gas utility. The methodology used to allocate corporate costs will not change as a result of the reorganization. Finally, in future rate cases, the Agreement allows Staff and CURB to

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[69] *See, e.g. Kansas Gas & Electric Co. v. Kansas Corp. Comm'n*, 239 Kan. 483, 489-490 (1986).
[70] *Farmland Indus., Inc. v. Kansas Corp. Comm'n*, 24 Kan. App. 2d 172, 195 (1997).
[71] *Id.*
[72] Lawhorn Supplemental, p. 11.

review and make recommendations with respect to cost increases to Kansas Gas Service caused by the reorganization.[73]

64. Having reviewed the record, and balanced the competing interests it must take into account in determining whether the Agreement will result in just and reasonable rates, the Commission finds the Agreement will result in just and reasonable rates for Kansas Gas Service and its customers.

E. ARE THE RESULTS OF THE AGREEMENT IN THE PUBLIC INTEREST, INCLUDING THE INTERESTS OF CUSTOMERS REPRESENTED BY ANY PARTY NOT CONSENTING TO THE AGREEMENT

65. The current proceeding involves the proposed transfer of ONEOK's Kansas natural gas utility business to ONE Gas. While Kansas statutes do not address the specific standards the Commission should utilize in these types of transfer proceedings, the Commission is empowered to do all things necessary and convenient to supervise and control natural gas public utilities in the State.[74] Therefore, upon finding the public interest will be promoted, the Commission should grant a public utility the authority to transact business in the state of Kansas.[75]

66. The Commission is statutorily bound to consider public convenience and necessity, often referred to as the "public interest." However, the Commission is not required to follow any statutory standards in determining whether an application is in the public interest. Therefore in 1991, the Commission adopted specific standards to apply in merger and acquisition proceedings.[76] Those standards which the Commission continues to utilize are:

(1) The effect of the transaction on consumers including:

[73] *Id.*, pp. 11-12.
[74] *See* Order Approving Joint Application, Docket No. 13-BHCG-509-ACQ, Oct. 3, 2013, p. 12, ¶ 35.
[75] K.S.A. 66-131.
[76] *See* Order, Consolidated Docket Nos. 172,745-U & 174,155-U, Nov. 15, 1991, pp. 34-36 (Standards Order, pp. 34-36).

a. The effect of the proposed transaction on the financial condition of the newly created entity as compared to the financial condition of the standalone entities if the transaction did not occur;

b. Reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger and whether the purchase price is within a reasonable range;

c. Whether ratepayer benefits resulting from the transaction can be quantified;

d. Whether there are operational synergies that justify payment of a premium in excess of book value; and

e. The effect of the proposed transaction on the existing competition.

(2) The effect of the transaction on the environment.

(3) Whether the proposed transaction will be beneficial on an overall basis to state and local economies and to communities in the area served by the resulting public utility operations in the state.

(4) Whether the proposed transaction will preserve the jurisdiction of the KCC and the capacity of the KCC to effectively regulate and audit public utility operations in the state.

(5) The effect of the transaction on affected public utility shareholders.

(6) Whether the transaction maximizes the use of Kansas energy resources.

(7) Whether the transaction will reduce the possibility of economic waste.

(8) What impact, if any, the transaction has on the public safety.[77]

67. Regarding the standards, the Commission stated,

> The Commission believes these factors will allow the Commission to uniformly review mergers and acquisitions that may be presented to the Commission in the future while maintaining some flexibility to deal with the particular circumstances of each transaction. Additionally, these factors will provide utilities contemplating a merger or acquisition with a standard that will be utilized to review any contemplated transaction.[78]

While these established standards provide a helpful framework for Commission analysis of the public interest, many of the factors are not relevant and others less relevant to the present proceeding dealing with a spin-down of the public utility business into a separate stand-alone entity. In reaching its decision, the Commission considered the following factors: (1) the financial condition of the spin-down entity; (2) the benefits to customers resulting from the reorganization; (3) the benefits to communities served by the utility; (4) the preservation of the Commission's jurisdiction over the utility; and (4) the benefits to the utility shareholders.

68. The Commission finds the results of the Agreement, which are the approval of the reorganization plan and the transfer of the utility business from ONEOK to ONE Gas, subject to the conditions contained in the Agreement, are in the public interest because all stakeholders: the customers, the shareholders, the employees, and the regulators, will benefit. The reorganization allows the public utility the opportunity to capitalize its business with historically low debt cost and insulates the public utility operations from the risks relating to the operations of ONEOK's non-utility business and, following the reorganization, the public utility's exposure to legal liabilities arising from operations will be limited to those created by the utility operations. The

[77] Standards Order, pp. 35-36.
[78] *Id.*, p. 36.

reorganization streamlines regulatory oversight of the public utility operations by the public utility commissions, including this Commission. The reorganization separates businesses with markedly different business models and customers, thus allowing ONE Gas to focus solely on the natural gas local distribution business. The reorganization enables a more focused investor base for the public utility and focuses capital allocation decisions and resolves the potential for competition for capital between non-regulated and regulated businesses.[79]

69. Customers will clearly benefit from the three-year rate moratorium. The current base rates, which went into effect on January 1, 2013, will not change for a period of four (4) years as a result of rate moratorium (2013, 2014, 2015 and 2016). Customers also will benefit from the elimination of the existing regulatory asset relating to the transaction cost recovery (TCR) from the 1997 acquisition of the gas utility by ONEOK from Western Resources, Inc. The balance remaining on that regulatory asset is in excess of $10 million. The customers also will benefit from the $3.423 million rebate for each of the years 2014, 2015, and 2016, relating to the elimination of the annual amortization of the TCR and the re-basing of the pension/OPEB tracker. Low income customers of Kansas Gas Service will benefit from ONEOK's $1.2 million contribution to provide financial assistance for weatherization of their housing.[80]

70. The conditions relating to pipeline safety and quality of service standards and penalties will allow the Commission to track the utility's continued commitment to providing customers safe and reliable natural gas service, and if necessary, penalize the utility if it fails to live up to that commitment following the transfer.[81]

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[79] Lawhorn Supplemental, pp. 12-13.
[80] *Id.*, p. 13.
[81] *Id.*

71. Based upon the relevant standards and the Commission's evaluation of public convenience and necessity, and the record as a whole, the Commission finds the Agreement is in the public interest.

V. CONCLUSION

72. The Commission approves the Agreement in its entirety. The Commission finds all of the Parties have had an opportunity to be heard in this proceeding and in the Agreement; the Agreement is supported by substantial competent evidence when viewed in light of the record as a whole; the Agreement conforms to applicable law; the Agreement will result in just and reasonable rates; and the results of the Agreement are in the public interest.

73. The Commission has reviewed the attached Agreement and concludes its terms and provisions appropriately and reasonably dispose of this matter. Therefore, the Commission adopts and incorporates by reference the terms of the Agreement.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. The Joint Motion to Approve the Agreement is granted. The terms of the Agreement and the schedule, attached as Exhibit A, are incorporated into this Order.

B. Parties have fifteen days from the date of electronic service of this Order to petition for reconsideration.[82]

C. The Commission retains jurisdiction over the subject matter and parties for the purpose of entering such further orders as it deems necessary.

[82] K.S.A. 66-118b; K.S.A. 77-529(a)(1).

BY THE COMMISSION IT IS SO ORDERED.

Sievers, Chmn; Wright, Com.; Albrecht, Com.

Dated: DEC 1 9 2013

ORDER MAILED DEC 1 9 2013

Kim Christiansen
Executive Director

EXHIBIT A

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of ONEOK, Inc. for an Order Authorizing its Plan of Reorganization	))	Docket No. 14-KGSG-100-MIS

UNANIMOUS SETTLEMENT AGREEMENT

THIS UNANIMOUS SETTLEMENT AGREEMENT, as that term is defined by K.A.R. 82-1-230a(a)(2), is entered into between ONEOK, Inc. ("ONEOK"), the Staff of the State Corporation Commission of the State of Kansas ("Staff"), and the Citizens' Utility Ratepayer Board ("CURB"), individually "Party," or collectively the "Parties," ("Agreement").

I. INTRODUCTION

1. On August 16, 2013, pursuant to K.S.A. 66-131, 66-136, 66-1,201, and K.A.R. 82-1-214, ONEOK filed its Application to separate its natural gas utility distribution business from ONEOK into a stand-alone publicly traded company, ONE Gas, Inc. ("ONE Gas").[1] Upon completion of the proposed reorganization plan, Kansas Gas Service will be a division of ONE Gas.[2] After the reorganization, ONE Gas will be the sole owner of the existing Kansas, Oklahoma, and Texas natural gas utility distribution business.[3] Both ONE Gas and its Kansas natural gas utility distribution business division, Kansas Gas Service, will continue to be subject to regulation by the Commission.[4]

[1] Application, August 16, 2013, ¶5.

[2] *Id.* at ¶9.

[3] *Id.*

[4] *Id.*

2. In its Application, ONEOK is seeking approval to transfer its existing Kansas utility assets, certificates of convenience and necessity and franchises relating to its Kansas natural gas utility business to Kansas Gas Service, a division of ONE Gas, and authorize Kansas Gas Service, a division of ONE Gas, to own and operate the Kansas natural gas utility business in the service territories covered by the certificates of convenience and necessity and franchises, in accordance with the rates, tariffs, and terms and conditions of service referenced therein.[5]

3. On September 24, 2013, CURB was granted intervention.

4. On October 18, 2013, the Parties met and agreed to a procedural schedule to submit to the Commission. The Parties advised the Prehearing Officer of the proposed procedural schedule.

5. On October 23, 2013, the Parties filed their Joint Motion for Procedural Schedule. The Parties' proposed schedule contemplated two possible tracks. The first track (Track I) was designed to present a settlement agreement to the Commission for approval before the end of the 2013 calendar year. If the Parties were unable to reach an agreement, they proposed an alternate procedural schedule (Track II).

6. On October 29, 2013, the Commission issued an Order adopting the procedural schedule proposed by the Parties.[6]

7. On November 8, 2013, the Parties conducted the Technical Conference scheduled by the Commission. The Parties also held the Technical Conference on November 12 and November 15, 2013.

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[5] *Id.* at ¶10.

[6] Order dated October 29, 2013.

8. As a result of the Technical Conference, the Parties reached a Unanimous Settlement Agreement as that term is defined by K.A.R. 82-1-230a(a)(2). The Parties are submitting this Agreement for approval by the Commission pursuant to K.A.R. 82-1-230a(b).

9. The Parties believe that the Commission can find, based upon the record, that subject to the conditions set forth in this Agreement, the proposed Reorganization and the requests contained in ONEOK's Application are in the public interest.

II. PURPOSE

10. This Agreement has been prepared and executed by the Parties for the sole purpose of resolving all of the issues in this docket. The Parties understand and agree that the proposals, positions, modifications and adjustments made or reflected in this Agreement, whether express or implied, are made or obtained only through the spirit of compromise and are made subject to Article V below.

III. JOINT MOTION

11. The Parties hereby jointly move the Commission, pursuant to K.A.R. 82-1-230a, to issue an order finding that this Agreement is reasonable in light of the record as a whole, consistent with law, and in the public interest; and accordingly, approve the Agreement.

IV. CONDITION PRECEDENT

12. This Agreement shall not become effective unless and until the Commission enters an order approving the Agreement in its entirety, without modification. Further, this Agreement shall also not become effective unless and until ONEOK completes the closing related to its Reorganization.

V. PRIVILEGE AND LIMITATION

13. This Agreement is made pursuant to K.A.R. 82-1-230a, and shall become binding upon the Parties upon its execution; provided, however, that if this Agreement does not become effective in accordance with Article IV above, it shall be null, void, and privileged. This Agreement is intended to relate only to the specific matters referred to herein. No Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein. No Party shall be deemed to have approved, accepted, agreed, or consented to any principle or precedential determination, or be prejudiced or bound thereby in any other current or future proceeding before the Commission except as provided for herein. The Parties may utilize this Agreement, or any portion thereof, in any Kansas proceeding wherein the subject matter of the proceeding involves any subject matter contained in the Agreement.

14. Failure to enter the Order approving this Agreement voids this Agreement. Should the Commission not approve this Agreement in its entirety, the Parties reserve all of their respective litigation rights, including, but not limited to: cross examining all witnesses in a subsequent hearing on the merits of this matter, presenting arguments and briefs in support of their respective positions, requesting reconsideration of any Commission Orders and appealing any Commission Order to the Courts.

15. The Parties shall have the right to present witnesses to the Commission in support of this Agreement and provide to the Commission whatever further explanation the Commission requests. Any rationales for settlement advanced by the Parties are independent of each other and not acquiesced in or otherwise adopted by the Parties.

16. The Parties agree that ONEOK's Application, Testimony and Exhibits filed in this matter, along with ONEOK's Supplemental Testimony and Exhibits, ONEOK's Testimony in Support of this Settlement, and the prefiled testimony filed by Staff and CURB shall be entered into the record and the Parties agree to waive cross examination of the witnesses.

17. If the Commission accepts this Agreement in its entirety and incorporates the same into its final Order in this docket, the signatory Parties intend to be bound by its terms and the Commission's Order incorporating its terms as to all issues addressed herein, and will not appeal the Commission's Order on those issues.

VI. ONEOK'S REORGANIZATION

18. Subject to the conditions set forth in Article VII of the Agreement, the Parties agree it is in the public interest to:

(a) authorize, consent to and approve ONEOK's reorganization plan as described in its Application, Testimony and Exhibits;

(b) authorize, consent to and approve the transfer of public utility assets, certificates of convenience and necessity, franchises, permits, rate tariffs and terms and conditions of service relating to ONEOK's natural gas utility plant and facilities from Kansas Gas Service, a Division of ONEOK, Inc. to Kansas Gas Service, a Division of ONE Gas, Inc., and, effective upon the completion of the reorganization, authorize ONEOK to discontinue all natural gas service now furnished by it through its division Kansas Gas Service;

(c) authorize Kansas Gas Service, a Division of ONE Gas, Inc., using the procedure set forth in ONEOK's Application and Testimony, to adopt as its rate tariffs, terms and conditions of service for natural gas service in the areas now served by Kansas Gas Service, a Division of ONEOK, the rates, terms and conditions of service of Kansas Gas Service, a Division of ONEOK, which may be changed from time to time with the approval of the Commission, including but not limited to the existing Cost of Gas Rider ("COGR") tariff, Weather Normalization Adjustment ("WNA") tariff, ad valorem tax surcharge ("AVTS") tariff, Gas System Reliability Surcharge ("GSRS") tariff, and remaining under recovered or over recovered balances relating to those tariffs, if any, and to adopt all existing accounting orders and depreciation rates for all accounts; and

(d) grant such other relief deemed by the Commission to be just and proper to accomplish the purpose of ONEOK's Application and to complete the reorganization described in ONEOK's Application.

VII. CONDITIONS TO REORGANIZATION AND APPROVAL OF ONEOK'S APPLICATION

19. At the Technical Conference held by the Parties in this docket, the Parties agreed that subject to the conditions set forth in this Article VII, the Commission could find based upon the record that ONEOK's reorganization and its requests that were set forth in Article VI hereto, are in the public interest and should be approved.

A. FINANCIAL CONDITIONS

1. RATE MORATORIUM

20. The Parties agree that Kansas Gas Service shall not change its base rates prior to January 1, 2017. This means the current base rates, which went into effect on January 1, 2013, will

not change for a period of four (4) years as a result of this settlement (2013, 2014, 2015 and 2016). Kansas Gas Service may file an application in 2016 to change base rates, but the effective date of said change shall not be prior to January 1, 2017.

21. The time limitation on filing a general rate case to change base rates does not preclude Kansas Gas Service from changing rates or tariffs to recover appropriate costs under its Commission approved Cost of Gas Rider ("COGR"), Annual Cost Adjustment ("ACA"), WNA, AVTS and GSRS tariffs. Annual rate changes in the GSRS are to be limited as set forth in paragraph 25 of this Agreement. Kansas Gas Service will propose no changes to base rates that conflict with the intent and term of the base rate moratorium contained in this Agreement. Subject to the provision that base rates should remain fixed for the term of the moratorium set forth in paragraph 20 of this Agreement, Kansas Gas Service may make tariff filings to comply with new Commission rules or policies, including revenue neutral changes to rate design and Kansas Gas Service may propose methods to recover the cost of furnishing new voluntary services such as providing energy efficiency measures to customers. Notwithstanding the above, in the event of changes in law or regulations, or the occurrence of events outside the control of Kansas Gas Service that result in a material adverse impact to Kansas Gas Service, Kansas Gas Service may file an application with the Commission proposing methods to address the impact of the events, including the possibility of changes in base rates. Staff and CURB shall have the right to contest the application, including whether the impact of the change or event is material to Kansas Gas Service, and whether Kansas Gas Service's proposed remedy in the application is reasonable.

2. <u>ELIMINATION OF EXISTING REGULATORY ASSET RELATING TO TRANSACTION</u>

COST RECOVERY FROM DOCKET NO. 97-KGSG-486-MER

22. ONEOK agrees to eliminate the existing regulatory asset relating to transaction cost recovery from Docket No. 97-KGSG-486-MER ("TCR"). Kansas Gas Service shall not seek to recover funds associated with such regulatory asset in any future rate case filing.

3. REBATE RELATING TO TCR AND PENSION/OPEB EXPENSE

23. Kansas Gas Service shall provide a one-time rebate of $3,423,000 in each of the years 2014, 2015 and 2016. The rebate will be provided to customers in the month of April. The rebate shall take the form of a fixed bill credit in the amount of $5.34 applied to all Kansas Gas Service customers, whether sales or transportation customers.

24. In conjunction with this rebate, paragraph 18 of the Stipulation and Agreement in Docket No. 12-KGSG-835-RTS (the "2012 Stipulation") shall be modified effective January 1, 2014, to be as follows:

(a) For purposes of calculating Kansas Gas Service's pension tracker, the Parties agree that the base rates agreed to in the 2012 Stipulation include the following expenses:

(i) Kansas Gas Service Pension Expense
Net $5,702,738

(ii) Kansas Gas Service OPEB Expense
Net $7,902,297

(b) All other provisions of paragraph 18 of the 2012 Stipulation, as well as all other aspects of the 2012 Stipulation, shall remain intact. Thus, the sum of the total Pension and OPEB tracker approved in the 2012 Stipulation totaling $16,605,035 has been modified to total $13,605,035. The accounting adjustments to the 2012 Stipulation will be made after closing to be effective January 1, 2014.

4. GSRS RATE FILINGS

25. Kansas Gas Service agrees that in its annual GSRS rate filings made in 2014, 2015 and 2016, it shall not seek an increase in the GSRS limit of $0.40 per month per year per residential customer, notwithstanding any potential changes in the law that may authorize a higher monthly increase. Thus, for example, if the increase in the GSRS charge for 2014 for residential customers is $0.15 per month, the overall charge for GSRS for residential customers could not exceed $0.55 per month in 2015, as Kansas Gas Service would be limited to an increase of $0.40 per month in 2015. Similarly, the overall charge for GSRS for residential customers could not exceed $0.95 per month in 2016. The $0.40 per month per year per residential customer limit, as referenced within this Agreement, shall not apply to GSRS filings made after January 1, 2017, and any increase will be in accordance with existing law on or after January 1, 2017.

5. WEATHERIZATION CONTRIBUTION

26. ONEOK agrees to make a one-time contribution to 501(c)(3) organizations of a total of $1.2 million ($1 million plus 20% to be retained by the organizations to cover its administrative cost) to provide financial assistance for weatherization of housing for low income natural gas customers of Kansas Gas Service.

6. FUTURE RATE CASES/CAPITAL STRUCTURE

27. In its next base rate filing, Kansas Gas Service shall base its request upon ONE Gas' capital structure, the equity component adjusted for the effects of SFAS 158 as approved in Docket No. 07-ATMG-387-ACT dated January 24, 2007, not to exceed 55% equity. Staff and CURB

retain the right to advocate a different capital structure than what is filed by Kansas Gas Service. The 55% equity capital limitation agreed to herein shall not apply to the base rate case following the next base rate case filed by Kansas Gas Service.

28. Staff and CURB are unrestricted to review and make recommendations in Kansas Gas Service's future rate cases with respect to cost increases to Kansas Gas Service caused by the subject reorganization.

B. CONDITIONS AGREED TO BY ONEOK IN ITS APPLICATION

29. The plant and equipment of the Natural Gas Distribution Business, as that term is defined in the Application, shall be transferred to ONE Gas at net book value; there is no acquisition premium associated with this reorganization. Accordingly, there shall be no write-up of the utility rate base as a result of the reorganization.

30. Except as provided in paragraph 24 herein, (a) the carrying values for all Kansas Gas Service's accounts shall not change as a result of the reorganization, including the accumulated deferred income tax ("ADIT") balance applicable to the Natural Gas Distribution Business, and therefore, there shall be no change in rate base as a result of any change in ADIT due to the reorganization; (b) Kansas Gas Service shall continue to follow all accounting orders issued by the Commission that are applicable to Kansas Gas Service operations; (c) Kansas Gas Service's regulatory assets/liabilities balances will continue to be accounted for under the same accounting methodology as they were prior to the reorganization including, but not limited to, WNA balances, gas purchase over and under recovery, GSRS, AVTS and pension/OPEB tracker.

31. Kansas Gas Service shall provide the weighted average cost of debt calculation

associated with the newly issued debt within 90 days of closing the reorganization.

32. ONE Gas shall provide to the Commission Staff and CURB confidential copies of any initial credit rating agency reports within 90 days of issuance, subject to any confidentiality requirements imposed by the agencies.

33. ONE Gas shall provide to the Commission Staff and CURB a confidential copy of the IRS private letter ruling as soon as it becomes available.

34. Prior to the separation, ONEOK expects to incur separation costs for professional services, including financial advisors, legal, accounting, information technology, human resources and other business consultants. In addition, ONEOK expects to incur costs on the early retirement of its existing debt, which are referred to as debt breakage costs. ONEOK will not allocate these separation and debt breakage costs to ONE Gas or Kansas Gas Service.

35. Liabilities associated with all ONEOK businesses other than the Natural Gas Distribution Business, whether known or unknown, contingent or non-contingent, shall be retained by ONEOK and not be assigned to ONE Gas.

36. Liabilities related to employee and retiree benefit plans shall be assigned based on the individual's last employment, so each individual who (i) was retired from ONEOK while working in the natural gas distribution segment, (ii) is currently associated with the Natural Gas Distribution Business, or (iii) will be assigned to ONE Gas following the reorganization, shall have his or her benefit plan liabilities assigned to ONE Gas. All other liabilities related to employee and retiree benefit plans not meeting one of the three criteria above shall remain the liability of ONEOK. ONE Gas shall provide the final assignment of employee and retiree benefit plan assets and

liabilities to the Staff within ninety (90) days of closing the transaction.

37. The methodology used to allocate ONE Gas corporate costs to Kansas Gas Service shall not change as a result of this transaction. ONE Gas shall continue to allocate costs 1) directly, when possible, and if not, 2) indirectly either a) on a causal basis, or b) through a Modified Distrigas methodology consistent with the current cost allocation manual used by Kansas Gas Service. ONE Gas shall submit its Cost Allocation Manual ("CAM") within ninety (90) days after the completion of the reorganization.

38. ONE Gas shall make its books and records available for examination by the Commission to allow verification of the cost of services provided by ONE Gas to Kansas Gas Service.

C. CONDITIONS RELATING TO PIPELINE SAFETY

39. Kansas Gas Service shall continue its program to replace 10,000 bare steel service lines per year as addressed in Docket No. 11-KGSG-177-TAR. The program requires the replacement of all buried bare or unprotected steel residential service lines and bare or unprotected steel residential yard lines at a rate so the cumulative average replacements of service lines or yard lines per year is equal to or greater than 10,000.

40. Kansas Gas Service shall continue its program to replace cast iron pipe such that all identified cast iron piping is removed from the distribution system by December 31, 2024.

41. Kansas Gas Service shall institute a replacement program for protected bare steel mains segments, which have experienced three or more main leaks within a block (approximately 500 feet) over the past three years.

42. For any unintentional release of gas, Kansas Gas Service shall track the time from receiving the notice of the release until testing verifies that no immediate hazard to people exists. Kansas Gas Service shall provide an annual report to Staff listing all instances where the time to Make Safe exceeds 90 minutes.

D. QUALITY OF SERVICE

43. Kansas Gas Service agrees to the quality of service standards and penalty provisions set forth in Schedule 1 to this Agreement, which is incorporated herein by reference.

E. MISCELLANEOUS

44. The existing Kansas Gas Service tariffs, rates and terms and conditions of service shall not change as a result of the transaction. Upon approval of this Agreement by the Commission and the closing of the reorganization, Kansas Gas Service shall file a document with the Utilities Division of the Commission to be placed with the existing Kansas Gas Service tariff rates and terms and conditions of service on file with the Commission, which states Kansas Gas Service, A Division of ONE Gas, Inc., adopts those tariffs, rates and terms and conditions of service. ONE Gas, Inc. and Kansas Gas Service in its next general rate case filing with the Commission shall submit a complete set of the tariffs, rates and terms and conditions of service within ONE Gas, Inc.'s name instead of ONEOK's name on each tariff page.

45. Except as specifically set forth herein, there shall be nothing about the reorganization that alters the applicability of previous Commission orders in other dockets, policies, rules and applicable statutes.

46. To the extent not already provided through discovery, executed copies of all

agreements identified in the Application, including confidential copies of all schedules to those agreements, shall be provided to the Commission within thirty (30) days following the completion of the reorganization.

47. Nothing in this agreement shall preclude Staff, CURB or the Commission from reviewing the appropriateness of any cost of service item in any future rate case filed by Kansas Gas Service.

48. ONE Gas shall provide upon request and with appropriate notice, all information needed to verify compliance with these conditions and any other information relevant to the Commission's ratemaking, financing, safety, quality of service and other regulatory authority over Kansas Gas Service.

49. The terms and conditions of the agreements reached herein shall only go into effect upon the closing of the reorganization, which is the subject of this Application. In the event that the reorganization does not close, then the terms of this Agreement among the Parties are void ab initio.

DATED this 4th day of December, 2013.

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Subject to the provisions contained in this Schedule 1, Kansas Gas Service agrees to the following quality of service standards and penalty provisions:

A. ANSWERED CALL RATE STANDARDS

1. The Parties agree that Kansas Gas Service shall be subject to answered call rate standards and penalties as set forth below. The answered call rates shall be calculated as follows:

$$ACR = \frac{\text{Total Answered Calls}}{\text{Total Incoming Calls}}$$

In making such calculations, a call is considered answered for purposes of determining the ACR if an operator or representative or IVR system is ready to render assistance or accept information needed to handle the call. Kansas Gas Service's inability to complete a call back to a message left on its Virtual Hold system, after at least three attempts to return the call, should be treated as a neutral call; thus, such calls should not be counted as answered or as unanswered in calculating the ACR. The Parties further agree that for purposes of calculating the ACR, a call shall not be considered an incoming call and/or unanswered call if the caller hangs up on the call within ten seconds after being entered into the Symposium queue for handling by an operator or representative or automated system. For purposes of calculating the ACR, the calls to be included in the calculation shall be all calls made by Kansas retail customers to the Kansas Gas Service 1 800 numbers, regardless of whether such calls are handled by the Topeka call center or any third party independent contractor for Kansas Gas Service or by any other division of ONE Gas.

2. On an annual basis, Kansas Gas Service will report monthly performance relative to the answered call rate. Kansas Gas Service will report the total incoming calls, total answered calls and answered call rate in the aggregate. The annual calculations shall be a 12-month period beginning with the first calendar quarter after the closing of the transaction. The annual report shall be provided 90 days following the end of the calculation year. Thus, if the transaction closes on January 20, 2014, the first annual reporting period shall begin on April 1, 2014, and shall last through March 31, 2015. The report shall be provided on or before June 29, 2015.

3. Only upon application of Staff for the assessment of penalty, and after a full opportunity for Kansas Gas Service to present evidence in opposition to the assessment of penalty, including evidence of extraordinary events as defined in paragraphs D.1. and D.2. below, shall the commission assess any penalty. Kansas Gas Service will be responsible for any refund and administration costs if a penalty is imposed. Such costs will not be recoverable from the Company's retail gas customers. Penalties shall be calculated as follows:

Answered call rate above 94.5%	No Penalty
Answered call rate > 93.50% and up to and including 94.50%	$120,000

Answered call rate > 92.50% and up to and including 93.50%	$240,000
Answered call rate > 91.50% and up to and including 92.50%	$360,000
Answered call rate > 90.50% and up to and including 91.50%	$480,000
Answered call rate of 90.50% or below	$600,000

4. The amount of any penalty assessed against Kansas Gas Service shall be allocated equally as a bill refund to each retail customer.

5. Kansas Gas Service shall provide the answered call rate information and be subject to penalties as provided above for a minimum period of three annual reporting periods. If Kansas Gas Service provides service sufficient to avoid having to pay performance penalties for any two consecutive annual reporting periods as provided for in paragraph A.2. above, the Parties agree that the penalty provisions established in this agreement for this standard will be eliminated. Thus, if Kansas Gas Service meets the answered call rate standard in the first three reporting years, the performance standard penalties will be eliminated at the end of the third year. If Kansas Gas Service is subject to a penalty in the first year, but is not subject to a penalty in the second and third year, the performance standard penalties will be eliminated at the end of the third year. If Kansas Gas Service is subject to a penalty in either the second year or third year, it will be subject to the reporting requirements and penalty provisions set forth above until it has achieved two consecutive years where no penalty is assessed. Once the two year period of no penalty is satisfied, the penalty provisions will be eliminated. Kansas Gas Service will continue to report the information for the answered call metric for a period of one year after the penalties have ceased and shall not be required to report such information thereafter. If Staff believes that Kansas Gas Service's performance regarding the answered call metric is insufficient relative to its performance before the penalty was eliminated, then Staff may petition the Commission for prospective re-establishment of the standards and penalties set out above. Kansas Gas Service reserves the right to oppose such petition.

6. Thirty (30) days prior to the implementation or use of any significant new technology impacting the handling of incoming calls for retail customers of Kansas Gas Service, Kansas Gas Service agrees to notify Staff in writing of such implementation or use. The purpose of this notification is to describe the technology and its application, and to allow Staff the opportunity to meet with Kansas Gas Service to address potential impacts of the new technology on the ACR.

B. <u>ESTIMATED BILL STANDARDS</u>

1. The Parties agree that Kansas Gas Service shall be subject to estimated bill rate standards and penalties as set forth below. Kansas Gas Service will report its performance relative to estimated bills on an annual basis. The annual calculation periods and reporting time for each year shall be the same as provided for in paragraph A.2. above. Only upon application of Staff for the assessment of penalty, and after a full opportunity for Kansas Gas Service to present evidence in opposition to the assessment of penalty, including evidence of extraordinary events as defined in paragraphs D.1. and D.2. below, shall the Commission assess any penalty. Kansas Gas Service will be responsible for any refund and administration costs if a penalty is imposed. Such costs will not be recoverable from the Company's retail gas customers. Penalties shall be calculated as follows:

224 estimated bills per 1000 customers or less	No penalty
225 to 235 estimated bills per 1000 customers	$120,000
236 to 246 estimated bills per 1000 customers	$240,000
247 to 257 estimated bills per 1000 customers	$360,000
258 to 268 estimated bills per 1000 customers	$480,000
269 or higher estimated bills per 1000 customers	$600,000

2. The amount of any penalty assessed against Kansas Gas Service shall be allocated equally as a bill refund to each retail customer.

3. For the billing standard metrics and penalty provisions set out above, Kansas Gas Service will be subject to the three year reporting requirements and two consecutive years of no penalties provisions as set out in paragraph A.5. above in order to have the penalty provisions eliminated for the billing standards metrics. After the penalty provisions have been eliminated, Kansas Gas Service shall report information for the billing standard metric for one year after the penalties have ceased with no requirement to report the information thereafter, subject to potential for reinstatement of the standards and penalties in the same manner as set out in paragraph A.5. above.

C. RESPONSE TIME TO ODOR REPORTS

1. The Parties agree that Kansas Gas Service shall be subject to odor response time standards and penalties as set forth below. Kansas Gas Service will report monthly performance relative to the odor response standard on an annual basis. The annual calculation periods and reporting time for each year shall be the same as provided for in paragraph A.2. above. Responses to odor leaks of third party pipelines, manufacturing facilities, or third party chemical releases, shall not be included in such calculations. Only upon application of Staff for the assessment of penalty, and after a full opportunity for Kansas Gas Service to present evidence in opposition to the assessment of penalty, including evidence of extraordinary events as defined in paragraphs D.1. and D.2. below shall the Commission assess any penalty. Kansas Gas Service will be responsible for any refund and administration costs if a penalty is imposed. Such costs will not be recoverable from the company's retail gas customers. Penalties shall be calculated as follows:

FOR THE FIRST ANNUAL CALCULATION PERIOD

Response Time of Less than 29 minutes	No Penalty
Response Time of 29.00 minutes to 29.49 minutes	$120,000
Response Time of 29.50 minutes to 29.99 minutes	$240,000
Response Time of 30.00 minutes to 30.49 minutes	$360,000
Response Time of 30.50 minutes to 30.99 minutes	$480,000
Response Time of 31 minutes and above	$600,000

FOR THE SECOND ANNUAL CALCULATION PERIOD

Response Time of Less than 28.50 minutes	No Penalty

Response Time of 28.50 minutes to 28.99 minutes	$120,000
Response Time of 29.00 minutes to 29.49 minutes	$240,000
Response Time of 29.50 minutes to 29.99 minutes	$360,000
Response Time of 30.00 minutes to 30.49 minutes	$480,000
Response Time of 30.50 minutes and above	$600,000

FOR THE THIRD ANNUAL CALCULATION PERIOD AND THEREAFTER (TO THE EXTENT APPLICABLE)

Response Time of Less than 28.00 minutes	No Penalty
Response Time of 28.00 minutes to 28.49 minutes	$120,000
Response Time of 28.50 minutes to 28.99 minutes	$240,000
Response Time of 29.00 minutes to 29.49 minutes	$360,000
Response Time of 29.50 minutes to 29.99 minutes	$480,000
Response Time of 30.00 minutes and above	$600,000

2. The amount of any penalty assessed against Kansas Gas Service shall be allocated equally as a bill refund to each retail customer.

3. For the odor response metrics and penalty provisions set out above, Kansas Gas Service will be subject to the three year reporting requirements and two consecutive years of no penalties provisions as set out in paragraph A.5. above in order to have the penalty provisions eliminated for the odor response metrics. After the penalty provisions have been eliminated, Kansas Gas Service shall report information for the odor response metric for one year after the penalties have ceased with no requirement to report the information thereafter, subject to the potential for reinstatement of the standards and penalties in the same manner as set out in paragraph A.5. above.

4. The penalty provisions for answered call rate and billing standards and response to odor reports will be treated independently as one standard may still be subject to reporting and penalty assessment while the other standard(s) have their reporting and penalty provisions eliminated.

D. <u>OTHER PROVISIONS</u>

1. The Parties recognize that there may be certain extraordinary events that occur from time to time, which: (1) are beyond the control of the utility, such as an act of nature, and (2) may affect the utility's ability to meet the standards agreed to in this agreement. Upon the occurrence of an extraordinary event as that term is further defined below, Kansas Gas Service shall document the event and its impact on Kansas Gas Service's performance. Before assessing a penalty in a quality of service docket, the Commission will give Kansas Gas Service the opportunity to present evidence of an extraordinary event. The Commission Staff will have the opportunity to respond to Kansas Gas Service's claims. After considering the information provided by the Parties, the Commission will determine whether it is appropriate to deviate from the penalty schedule.

2. For purposes of this Agreement, the term "extraordinary event" which is beyond the control of the utility shall include acts of God, strikes, lockouts or other industrial disturbances,

labor rules or practices limiting or restricting job performance due to weather, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints of governments and people, interruption of power supply or telecommunication capability, information technology disruptions, acts, orders, laws or regulations of government authority, civil disturbances, explosions, breakage or accident to machinery or lines of pipe other than those caused by the utility's negligence, the necessity for making repairs or alterations to machinery, equipment or lines of pipe, freezing of lines of pipe, which could not have been prevented by the utility's use of standard and customary industry practice, partial or entire failure of supply of natural gas which could not have been prevented by the utility's use of standard and customary industry practice, acts of independent and unaffiliated third parties which damage or interfere with the kind herein enumerated or otherwise beyond the control of the utility. If, using standard and customary industry practice, the utility could have avoided the extraordinary event, then the impact of such event shall not be removed from the measurement of the performance of the utility.

E. OTHER REPORTS

1. To provide further assurances that Kansas Gas Service will maintain an acceptable level of service following the transition to ONE Gas, the Parties agree that Kansas Gas Service shall also provide information to Staff regarding the following quality of service metrics: average age of leaks in inventory and percentage of complaints submitted to the Kansas Corporation Commission's Public Affairs Department and forwarded to Kansas Gas Service responded to within 24 hours. On an annual basis consistent with the annual calculation periods and reporting time set forth in paragraph A.2. above, Kansas Gas Service will report monthly performance relative to these metrics for three annual calculation periods and shall not be required to report such information thereafter. If Staff believes that Kansas Gas Service's performance regarding these metrics is insufficient relative to prior performance levels before the closing, then Staff may petition the Commission for prospective establishment of standards and/or penalty provisions for these two metrics. Kansas Gas Service reserves the right to oppose such petition.

DEC 1 9 2013

CERTIFICATE OF SERVICE

14-KGSG-100-MIS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Order Approving Unanimous Settlement Agreement was served by electronic mail this 19th day of December, 2013, to the following parties who have waived receipt of follow-up hard copies:

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ORDER MAILED DEC 1 9 2013

Exhibit JLB-2

DEC 1 9 2013

CERTIFICATE OF SERVICE

14-KGSG-100-MIS

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