BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Atmos Energy for Approval of the Commission for Gas System Reliability Surcharge per K.S.A. 66-2201 through 66-2204.	))))	Docket No. 26-ATMG-064-TAR

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas ("Staff" and "Commission", respectively), and files its Report and Recommendation ("R&R") regarding Atmos Energy ("Atmos")'s application to submit a new tariff sheet reflecting updated surcharge rates in the Gas System Reliability Surcharge Rider ("GSRS") in accordance with the requirements set forth in the Gas Safety and Reliability Policy Act, K.S.A. 66-2201 *et seq*.

Staff has analyzed Atmos' application, testimony, exhibits, and discovery responses submitted in this docket and recommends that the Commission find that the proposed infrastructure system investments satisfy both the eligibility and financial criteria set forth in the Gas Safety and Reliability Policy Act. Therefore, Staff recommends that the Commission approve Atmos' application for an incremental increase of its GSRS revenue requirement of $1,948,875 designed to recover $16,770,194 of additional capital costs for eligible infrastructure system investments. If approved, Atmos' GSRS rate will increase residential customer bills by $0.80 per month, from the current rate of $1.60 per month to a rate of $2.40 per month.

WHEREFORE, Staff submits its Report and Recommendation for Commission review and consideration and or such other relief as the Commission deems just and reasonable.

Respectfully submitted,

/s/ Madisen K. Hane

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REPORT AND RECOMMENDATION
UTILITIES DIVISION

TO: Andrew J. French, Chairperson
Dwight D. Keen, Commissioner
Annie Kuether, Commissioner

FROM: Ashlyn Hefley, Utilities Engineer
Jaren Dolsky, Rate Analyst
Paul Owings, Chief Engineer
Chad Unrein, Chief of Accounting and Financial Analysis
Justin Grady, Director of Utilities

DATE: October 17, 2025

SUBJECT: Docket No. 26-ATMG-064-TAR – In the Matter of the Application of Atmos Energy for Approval of the Commission for Gas System Reliability Surcharge per K.S.A. 66-2201 through 66-2204.

EXECUTIVE SUMMARY

On August 20, 2025, Atmos Energy Corporation ("Atmos") filed an Application for approval of its updated Gas System Reliability Surcharge ("GSRS") rider to recover $16,770,194 of additional capital costs for eligible infrastructure system investments.[1] Staff reviewed all testimony, exhibits, and discovery responses from Atmos in this docket and found that the proposed infrastructure system investments meet both the eligibility and financial criteria as contained in the Gas Safety and Reliability Policy Act.[2] Given that Staff found the project investment met the statutory criteria, Staff recommends the Commission approve Atmos' Application for an incremental increase of its GSRS revenue requirement of $1,948,875. If approved, the GSRS rate will increase residential customer bills by $0.80 per month, from the current rate of $1.60 to $2.40 per month.

BACKGROUND:

On August 20, 2025, Atmos filed its request for an updated tariff schedule reflecting revised surcharge rates for its GSRS Rider. The GSRS Rider was designed for the yearly adjustment of Atmos' rates and charges for recovery of capital costs related to eligible infrastructure system investments. In this filing, Atmos requested an increase to its GSRS revenue requirement of $1,948,875, associated with the recovery of $16,770,194 of eligible infrastructure system investments.

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[1] Throughout this Report, "infrastructure system investments" may be used interchangeably with "projects."
[2] *See* K.S.A. 66-2201, *et seq*.

K.S.A. 66-2204 requires Staff to examine information from the utility and confirm that the underlying costs are in accordance with the statutory provision of the Gas Safety and Reliability Policy Act. Staff is required to file a Report and Recommendation in this Docket by October 17, 2025. The Commission is required to issue a Final Order on the Application within 120 days of the filing date which, in this docket, is by December 18, 2025.

History

The Gas Safety and Reliability Policy Act, K.S.A. 66-2201, *et seq.*, was enacted by the Kansas Legislature in July 2006 and revised in 2018. The statutory provisions allow natural gas public utilities to recover costs for infrastructure system investments through a monthly customer surcharge as long as the infrastructure investments:

1) Do not increase revenue by directly connecting the infrastructure system to new customers.
2) Are in service and used and required to be used; and
3) Were not included in the natural gas public utility's rate base in its most recent general rate case.[3]

In order to be eligible for recovery, the infrastructure investments must also meet at least one of the following five criteria:

1) Pipeline system components installed to replace, upgrade or modernize obsolete[4] facilities;
2) Projects extending the useful life or enhancing the integrity of pipeline system components, for example, projects undertaken to comply with state or federal safety requirements;
3) Facility relocations required due to public works projects;
4) System security costs including allocated corporate costs incurred by a natural gas public utility; and
5) Investments made in accordance with the utility's safety and risk management programs.[5]

In addition to each project meeting the eligibility criteria above, the Gas Safety and Reliability Policy Act requires the infrastructure investments meet the following financial criteria in order to be recovered:

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[3] *See* K.S.A. 66-2202(d)(1-3).

[4] "Obsolete facility" is defined as a facility: (1) Comprised of materials that are no longer produced or supported by the manufacturer; (2) that shows signs of physical deterioration; or (3) does not meet current safety codes or industry standards. K.S.A. 66-2202(h).

[5] *See* K.S.A. 66-2202(f).

1. The annualized GSRS revenues requested are below the lesser of $1,000,000 or 0.5% of the natural gas public utility's base revenue level approved by the Commission in the natural gas public utility's most recent general rate proceeding;[6]
2. The total annualized GSRS revenues do not exceed 20% of the utility's base revenue level approved by the Commission in the natural gas public utility's most recent general rate proceeding; and
3. The utility has had a general rate proceeding decided or dismissed by issuance of a Commission Order within the past 60 months.[7]

In its review of the Application, Staff reviews the infrastructure investments included in the Application to determine if they meet the eligibility and financial criteria contained in the Gas Safety and Reliability Policy Act. Staff also evaluates the proposed surcharge to ensure it has been derived solely from infrastructure investments that meet the eligibility criteria. When evaluating a project for inclusion in the GSRS, Staff reviews the project descriptions to ensure the replaced facilities do not support increased revenues by connecting to new customers, are in service and used and required to be used and were not included in Atmos's rate base in its most recent general rate case. Projects satisfying the conditions are then considered an infrastructure investment eligible for the recovery of costs.

If each of the infrastructure investments included in the GSRS Application satisfy at least one of the five project criteria and all of the financial criteria, the Commission is required to approve the Application pursuant to the Gas Safety and Reliability Policy Act.

ANALYSIS:

Pipeline Safety

Atmos requested $16,770,194 of capital expenditures be included in the proposed surcharge for recovery. The capital expenditures were associated with the completion of seven identifiable safety related projects, three projects associated with road relocation or public improvements, and 29 functional or bundled projects. To support the recovery of the infrastructure investments, Atmos provided Exhibit 5, attached to the Direct Testimony of witness Kathleen R. Ocanas. Exhibit 5 details the specific projects and performs the calculation of depreciation, accumulated reserve and accumulated deferred income taxes.[8] Staff reviewed Exhibit 5, as well as Atmos' responses to Staff discovery requests, and has determined that broadly, the infrastructure investments requested for GSRS recovery can be categorized in two groups: investments defined as safety related system improvements; and investments related to government mandated relocation projects that have not been fully reimbursed to Atmos.

Safety Related System Improvements:

Exhibit 5 supports the safety-related system improvements, providing line-item descriptions for seven safety-related projects. The majority of the projects with descriptions provided are related to the replacement of bare steel piping or the replacement of equipment that is obsolete. Based on

[6] *See* K.S.A. 66-2203(a).
[7] *See* K.S.A. 66-2203(b).
[8] *See* Direct Testimony of Kathleen R. Ocanas, p. 2 (Aug. 20, 2025) (Ocanas Direct).

Staff's review of Atmos' Application and discovery requests, each project fits into one of the criteria of K.S.A. 66-2204. Therefore, Staff recommends the Commission find that the safety-related projects are eligible for recovery under GSRS. The capital cost amount associated with the safety-related category that Staff considers eligible for recovery is $3,521,702.

Exhibit 5 also identifies 29 projects as functional or bundled system replacement projects. Past GSRS filings have identified a functional project as a group of work orders of similar projects that are of relatively small dollar amounts that are bundled together to form one line item in the GSRS filing. Based on the descriptions of the functional projects included in Exhibit 5, the bundled projects fit into one of the criteria of K.S.A. 66-2204. Therefore, Staff recommends the Commission find that the functional projects are eligible for recovery under GSRS. The capital cost amount associated with the functional category that Staff considers eligible for recovery is $12,815,452.

Government Mandated Relocation Projects:

There are three government-mandated relocation projects listed in Exhibit 5 for which costs have not been fully reimbursed to Atmos. After review, Staff concludes each project is a facility relocations project required due to public works. Therefore, Staff recommends the Commission find that the three relocation projects meet the criteria for recovery of capital costs through the GSRS. The capital cost amount associated with the relocation category that Staff considers eligible for recovery is $433,040.

Staff recommends the Commission find the total cost of $16,770,194 for all 39 projects to be eligible for capital cost recovery through the GSRS.

Accounting:

Staff recommends approval of Atmos' requested increase of $1,948,875 in incremental GSRS revenue to be collected by Atmos via the monthly GSRS surcharge, as supported by Exhibit 1 of the Application.

Staff notes that Atmos has not included the GSRS projects in its rate case filing in Docket No. 26-ATMG-026-RTS. Pursuant to K.S.A 66-2204(f)(1), the GSRS revenue requirement included in its Application in this proceeding is required to be rebased when new rates are approved by the Commission in a rate case proceeding.[9] As stated by Kathleen Ocanas in her testimony, Atmos did not include these impacts in its direct filing in the rate case.[10] For the Commission's information, Staff plans to include the GSRS-related projects and the associated revenue requirement in its Direct Testimony filing to comply with the GSRS Statute language, allowing the GSRS to be reset to zero when new base rates are approved by the Commission.

[9] Per K.S.A. 66-2204(f)(1), A natural gas public utility that has implemented a GSRS pursuant to the provisions of K.S.A. 66-2202 through 66-2204, and amendments thereto, shall file revised rate schedules to reset the GSRS to zero when new base rates and charges become effective for the natural gas public utility following a commission order establishing customer rates in a general rate proceeding that incorporates in the utility's base rates.

[10] *See* Kathleen Ocanas Testimony in the 26-064 Docket, page 4.

RECOMMENDATION:

Staff recommends that the Commission approve Atmos' Application for an incremental increase of GSRS revenue requirement of $1,948,875, to be collected via the per-customer surcharge amounts found on Exhibit 2 of the Application, which lists the surcharges for each customer class, including a $2.40 per month surcharge for the Residential class. Staff will ensure that any over or under collection of Commission approved GSRS revenues will be reflected in a future GSRS filing or a future true-up filing.

CERTIFICATE OF SERVICE

26-ATMG-064-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing was served via electronic service this 17th day of October, 2025, to the following:

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