

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

In the Matter of the Application of Kansas )  
Gas Service, a Division of ONE Gas, Inc. )  
for Adjustment of its Natural Gas Rates in ) Docket No. 24-KGSG-610-RTS  
the State of Kansas. )

**REBUTTAL TESTIMONY  
OF  
MARK W. SMITH  
ON BEHALF OF KANSAS GAS SERVICE  
A DIVISION OF ONE GAS, INC.**

**July 22, 2024**

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**A DIVISION OF ONE GAS, INC.**  
**DOCKET NO. 24-KGSG-610-RTS**

1       **I.       Position and Qualifications**

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

3       A.       My name is Mark W. Smith, and my business address is 15 E. 5th Street Tulsa,  
4               Oklahoma 74103.

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

6       A.       I am the Vice President and Treasurer for ONE Gas, Inc. ("ONE Gas") and its division  
7               Kansas Gas Service ("KGS" or the "Company").

8       **Q.       Are you the same Mark W. Smith who submitted direct testimony in this docket?**

9       A.       Yes.

10      **Q.       What is the purpose of your rebuttal testimony?**

11      A.       The purpose of my rebuttal testimony is to explain why the Kansas Corporation  
12               Commission ("Commission") should reject the Citizens' Utility Ratepayer Boards'  
13               (CURB) proposal to use of a hypothetical capital structure in this case.

14      **II.      Response to CURB's Capital Structure Analysis**

15      **Q.       Do you agree with CURB's witness Dr. Woolridge's testimony on capital**  
16               **structure?**

1       **A.**     No, I do not. Dr. Woolridge's use of a hypothetical capital structure in this case runs  
2               contrary to Kansas' securitization laws. Equally troubling is that Dr. Woolridge's use of  
3               a hypothetical capital structure fails to account for a company's actual cost of capital  
4               and overlooks critical factors affecting financial stability and costs. Imposing an  
5               artificially low equity ratio can negatively impact credit ratings, increase borrowing  
6               costs, reduce economic resilience, and disrupt the regulatory framework. As I stated  
7               in my direct testimony, imputing a hypothetical capital structure prevents a company  
8               from earning its actual cost of capital. Dr. Woolridge's approach is shortsighted, as it  
9               does not consider the cost of debt, the ability to withstand economic conditions, or the  
10              effects on credit ratings and higher debt costs.

11       **Q.**     **What is a Securitized Utility Tariff Bond?**

12       **A.**     In Kansas, public utilities may issue Securitized Utility Tariff Bonds to recover  
13               Commission-approved energy transition costs or qualified extraordinary costs.

14       **Q.**     **Has ONE Gas issued Securitized Utility Tariff Bonds?**

15       **A.**     Yes. In Docket No. 22-KGSG-446-TAR, the Commission authorized Kansas Gas  
16               Service to issue \$328 million of Securitized Utility Tariff Bonds to recover the  
17               Commission-approved qualified extraordinary costs associated with Winter Storm Uri.  
18               As a reminder, KGS is not a separate company and does not issue its own debt or  
19               equity. KGS relies entirely on ONE gas for its funding. That is why it is appropriate to  
20               use ONE Gas' capital structure for KGS.

21       **Q.**     **Does that impact how the Commission evaluates issues in this case?**

22       **A.**     Yes. Among other things, there are two Kansas statutory provisions which impact this  
23               rate case. First is K.S.A. 66-1,242(a)(1), which states in relevant part:

25                       The Commission shall not, in exercising its powers and carrying out its  
26                       duties regarding any matter within its authority, consider the: . . .

1           Securitized Utility Tariff Bonds issued pursuant to a financing order to be  
2           the debt of the public utility other than for federal and state income tax  
3           purposes.  
4

5           Likewise, K.S.A. 66-1,242(f) states:

6           The Commission shall not, directly or indirectly, utilize or consider the debt  
7           reflected by the securitized utility tariff bonds in establishing the public  
8           utility's capital structure used to determine any regulatory matter, including,  
9           but not limited to, the public utility's revenue requirement used to set its  
10          rates.

11       **Q.    Are you concerned Dr. Woolridge's analysis violates these requirements?**

12       A.    Yes. The crux of support for Dr. Woolridge's proposed capital structure is a comparison  
13           he makes to other utilities. In Panel A of Dr. Woolridge's Exhibit JRW-3, he presents  
14           the equity ratios of two proxy groups. Based on this comparison, he concludes the  
15           proxy group companies have lower common equity ratios than that proposed by KGS.  
16           It is clear Dr. Woolridge did not remove ONE Gas' securitized debt from this  
17           calculation. For example, Dr. Woolridge indicates ONE Gas' common equity ratio is  
18           47.4%. The only way to reach this conclusion is by including ONE Gas' Securitized  
19           Utility Tariff Bonds associated with Winter Storm Uri.

20       **Q.    Did KGS make an appropriate adjustment to remove its securitized debt?**

21       A.    Yes. On pages 3 through 6 of my direct testimony, I detail ONE Gas' proposed capital  
22           structure, which is based on its actual capital structure. In Table MWS-2 I remove  
23           certain debt instruments, including ONE Gas' Kansas securitized debt, to calculate  
24           ONE Gas' capital structure for regulatory purposes.

25       **Q.    Did Dr. Woolridge include other utilities' securitized debt when calculating their  
26           common equity ratios?**

27       A.    It appears so. For example, CMS Energy Corporation's subsidiary Consumers, as well  
28           as CenterPoint Energy, Inc. have securitized debt.

1       **Q.     What are the consequences of not removing other utilities' securitized debt in a**  
2       **capital structure comparison?**

3       A.     It distorts the comparison. If securitization debt cannot be considered when evaluating  
4       ONE Gas or KGS's capital structure, then the securitization debt of those who KGS is  
5       being compared to should also be excluded.

6       **Q.     Does Commission Staff's analysis contain a similar issue?**

7       A.     No. Commission Staff recognized KGS does not issue its own debt or equity, and basis  
8       their analysis on ONE Gas' actual capital structure as of April 30, 2024. In addition,  
9       Staff notes securitization bonds should not be included in ONE Gas' capital structure.

10      **Q.     How would Dr. Woolridge's impact ONE Gas' cost of debt if it were to lower its**  
11      **equity percentage of 52.45%?**

12      A.     Lowering ONE Gas' equity percentage to 52.45% would likely result in a credit rating  
13      downgrade from its current rating of A-/A3 from Standard and Poor's and Moody's  
14      respectfully to BBB/Baa2 or BBB-/Baa3. This downgrade would likely increase ONE  
15      Gas' cost of debt by 1.00% to 1.50%.

16      **Q.     Did Dr. Woolridge take any cost of debt increase into consideration in his**  
17      **analysis?**

18      A.     No, he did not. Dr. Woolridge 's analysis neglects to account for the higher debt costs  
19      associated with a lower credit rating. This oversight significantly underestimates the  
20      true cost of capital under CURB's proposed capital structure.

21      **Q.     Were the peers used by Dr. Woolridge the same as ONE Gas or did they have**  
22      **lower credit ratings?**

23      A.     The peer companies used in Dr. Woolridge's analysis generally had lower credit  
24      ratings than ONE Gas, making them poor benchmarks for capital structure  
25      comparisons.

1       **Q.     Did Dr. Woolridge take the economic resilience of a lower debt rating into effect**  
2       **when considering his hypothetical capital structure?**

3       A.     No, he did not. A strong balance sheet and credit rating are crucial for weathering  
4       economic crises, as evidenced by recent events like Winter Storm Uri, the COVID-19  
5       pandemic, and the 2008 financial crisis. Dr. Woolridge's proposed capital structure  
6       would weaken ONE Gas' ability to manage such challenges. Dr. Woolridge's analysis  
7       fails to account for the reduced economic resilience associated with a lower debt  
8       rating. By not considering how a lower credit rating could impair the Company's  
9       capacity to handle financial stress and unexpected economic shocks, his analysis  
10      overlooks critical aspects of long-term financial health and stability. This omission  
11      leads to an underestimation of risks and costs associated with a weaker capital  
12      structure.

13      **Q.     Does this conclude your testimony.**

14      A.     Yes, it does.

## VERIFICATION

STATE OF OKLAHOMA                    )  
  ) ss.  
COUNTY OF TULSA                    )

Mark W. Smith, being duly sworn upon his oath, deposes and states that he is the Vice President and Treasurer for ONE Gas, Inc.; that he has read and is familiar with the foregoing Rebuttal Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.



Mark W. Smith

Subscribed and sworn to before me this 22 day of July 2024.



NOTARY PUBLIC

My appointment Expires:

02/10/27

## CERTIFICATE OF SERVICE

I, Robert Elliott Vincent, hereby certify that a copy of the above and foregoing *Rebuttal Testimony* was served via electronic service this 22nd day of July, 2024, addressed to:

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