

In the Matter of the Application of Kansas Gas Service, a	)	Docket No.
Division of ONE Gas, Inc. for Adjustment of its Natural Gas	)	18-KGSG-560-RTS
Rates in the State of Kansas	)	

STAFF DIRECT TESTIMONY

PREPARED BY

LEO M. HAYNOS

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

October 29, 2018

**Direct Testimony of Leo M. Haynos**  
**Docket No. 18-KGSG-560-RTS**

1   **Q.     Would you please state your name and business address?**

2   **A.**My name is Leo M. Haynos. My business address is 1500 Southwest Arrowhead Road,  
3           Topeka Kansas, 66604.

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

5   **A.**I am employed by the Kansas Corporation Commission (Commission), Utilities Division  
6           as the Chief Engineer.

7   **Q.     Please state your educational and employment background.**

8   **A.**I received a Bachelor of Science Degree in Petroleum Engineering from New Mexico  
9           Institute of Mining and Technology, Socorro, New Mexico. I have worked in various  
10          capacities as an engineer for the past 36 years, primarily in the oil and gas industry. I am  
11          licensed as a professional engineer in the State of Kansas. For the past 19 years, I have  
12          worked for the Kansas Corporation Commission where I have been responsible for  
13          several functions including managing the pipeline safety program and the administration  
14          and enforcement of the underground utility damage prevention program. Prior to  
15          working for the Commission, I worked three years as an engineer for the Kansas  
16          Department of Health and Environment Bureau of Air and Radiation and 13 years with  
17          Atlantic Richfield Corporation.

18   **SUMMARY OF TESTIMONY**

19   **Q.     What is the purpose of your testimony?**

20   **A.**My testimony recommends the Commission deny Kansas Gas Service (KGS) Adjustment  
21          IS-13. In this adjustment, KGS is proposing to require its customers to participate in  
22          funding a national research and development (R&D) program for natural gas operations.

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1   **Q.     Please describe the KGS proposal.**

2   **A.     KGS is requesting to include an annual expense of \$316,479 in its operating expenses for**  
3         the purpose of participating in the Operations Technology Development Program (OTD)  
4         that is administered by the Gas Technology Institute (GTI).

5   **Q.     Did KGS offer any support for this proposal to increase operating expenses by**  
6         **\$316,500?**

7   **A.     Other than describing gas related research as a positive endeavor of the industry, KGS**  
8         offers no support of how the R&D effort will benefit Kansas customers. In his Direct  
9         Testimony, KGS witness Justin Clements provided a brief description of the OTD along  
10        with some examples of the types of research projects that OTD is researching. He also  
11        notes the proposed expense amount is derived by charging each customer \$0.50 per meter  
12        per year.<sup>1</sup> However, Mr. Clements' testimony provided no information regarding KGS  
13        oversight of OTD to ensure its customers' OTD contributions would be appropriately  
14        invested.

15   **Q.     Has KGS made previous requests for funding the OTD?**

16   **A.     In Docket 16-KGSG-491-RTS (16-491), KGS requested funding of the OTD. KGS also**  
17         has made similar requests to fund GTI in Docket 03-KGSG-602-RTS and its follow-up  
18         general investigation 04-GIMG-814-GIG (04-814).

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<sup>1</sup> Page 5, lines 1-9, Direct Testimony of Justin Clements.

1    **Q.     In those previous dockets, did the Commission require ratepayers to participate in**  
2           **funding R&D projects?**

3    **A.**    No. In the 04-814 and 16-491 Dockets, the Commission agreed with Staff's  
4           recommendation not to provide ratepayer funding for R&D projects.

5    **Q.     Can you provide a more detailed description of OTD?**

6    **A.**    Yes. Based on the information filed in the Docket 16-491 rate case<sup>2</sup>, my understanding of  
7           the OTD is as follows:

8           The OTD is a 501(c)(6) not-for-profit corporation comprised of a member-controlled  
9           partnership of natural gas local distribution companies (LDCs) whose mission is to  
10          develop, test, and implement new technologies relating to gas operations and its  
11          infrastructure.<sup>3</sup> GTI serves as the administrator of the OTD. It works with parties  
12          proposing R&D projects to communicate the needs of the OTD and develop the  
13          proposals for the OTD board's consideration. GTI personnel also serve as officers of the  
14          OTD non-profit organization.<sup>4</sup> The OTD Board of Directors, comprised of LDC  
15          representatives, provides recommendations and strategic direction to GTI regarding R&D  
16          needs. Once a prospect is identified, each LDC participating in the OTD selects which  
17          projects its company wishes to fund. After deducting GTI administrative costs  
18          (approximately \$700,000 per year)<sup>5</sup>, any remaining funds are available for investment in  
19          R&D projects, some of which will be successful. Profits associated with a successfully  
20          commercialized R&D project are re-invested in the OTD program. Participation in OTD

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<sup>2</sup> See Docket 16-KGSG-491-RTS, Direct Testimony of Leo Haynos and Direct and Rebuttal Testimonies of Ronald B. Edelstein filed on behalf of KGS.

<sup>3</sup> <http://www.otd-co.org/about/Pages/default.aspx>.

<sup>4</sup> Response to Staff Data Requests 173 and 174 in Docket 16-KGSG-491-RTS.

<sup>5</sup> See Docket 16-KGSG-491-RTS, Direct Testimony of Leo M. Haynos, Page 6, lines 1-3.

1 does not offer any advantage or disadvantage to the LDC in purchasing and using an  
2 OTD project that is commercialized.

3 **Q. What is your opinion of the research projects selected by the OTD?**

4 **A.** I reviewed a list of OTD projects that ONE Gas participates in through its operations in  
5 Oklahoma.<sup>6</sup> Based on the titles of the projects, they appear to be relevant to natural gas  
6 operations and may have potential to improve overall safety for gas operations.

7 **Q. How are the ratepayers expected to benefit from investing in the OTD?**

8 **A.** Successful OTD projects offer no monetary benefit to the ratepayer because any net  
9 revenues received from the R&D projects are re-invested in OTD. Theoretically, the  
10 ratepayer may see an improvement in safety or a reduction in operating costs if the  
11 projects are successful and the LDC purchases the commercialized product, but there  
12 does not appear a way to quantify those benefits for the ratepayer.

13 **Q. Do LDC shareholders also invest in the OTD?**

14 **A.** No. It is my understanding that all OTD funding flows from ratepayers or from royalties  
15 from projects that are successfully commercialized.

16 **Q. Does ONE Gas participate in the OTD in other states?**

17 **A.** ONE Gas has natural gas distribution operations in Texas and Oklahoma. It contributes  
18 \$400,000 of ratepayer funds from its Oklahoma operations but does not contribute any  
19 funding from its Texas operations.<sup>7</sup>

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<sup>6</sup> Response to Staff Data Request 114.

<sup>7</sup> Response to Staff Data Requests 187 and 188.

1 **Q. Does ONE Gas have any representation on the OTD board of directors or the OTD**  
2 **committees?**

3 **A.** Yes. ONE Gas has one seat on the 25-member board of directors for the OTD.<sup>8</sup> It also  
4 has a representative of Oklahoma Natural Gas, a division of ONE Gas, on the Technical  
5 Project Committee of OTD which selects candidate projects for R&D investment.<sup>9</sup>

6 **Q. Does ONE Gas or its Oklahoma operations provide any review of the performance**  
7 **of their \$400,000 annual investment of Oklahoma ratepayer funding?**

8 **A.** No. Oklahoma Natural Gas was not required to and has not provided the Oklahoma  
9 Corporation Commission with reports or testimony regarding OTD program progress. In  
10 addition, there are no reports internal to ONE Gas management that summarizes the  
11 performance of their Oklahoma investments.<sup>10</sup>

12 **Q. In your opinion, do Kansas ratepayers have other investment requirements that**  
13 **have a higher priority than R&D investments?**

14 **A.** Yes. As described in the Direct Testimony of KGS witness Dennis J. Okenfuss, KGS has  
15 an ongoing program of pipe replacement that is expected to continue for the next 35  
16 years.<sup>11</sup> Not only will the KGS pipe replacement plans require funding, the customers  
17 should also anticipate an increase in rates to fund these projects over the next several  
18 years.

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<sup>8</sup> Response to Staff Data Request 112.

<sup>9</sup> Response to Staff Data Request 113.

<sup>10</sup> Response to Staff Data Requests 189 and 190.

<sup>11</sup> Page 10, line 3, to Page 11, line 7, Direct Testimony of Dennis J. Okenfuss.

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**Q. What has been the rate of funding increase for safety related capital expenditures over the last few years?**

**A.** Based on the data presented in Mr. Okenfuss’ testimony, KGS’s safety related capital expenditures has increased at a rate of \$5.5 million per year over the last few years.<sup>12</sup> Assuming a 9.3% rate of return and a 2% depreciation rate, the rate of investment *increase* equates to a \$621,000 year-over-year increase in customer payments for safety related capital investments.

**Q. Does KGS expect to increase safety related capital spending in the future?**

**A.** Yes. According to KGS’s “Final Plan for Replacement of Obsolete Materials in Populated Areas” filed in Docket 18-KGSG-317-CPL, the total program cost for accelerated pipe replacement will continue to increase until year 2023.<sup>13</sup>

**Q. How do you relate the safety related capital plan to the proposal to invest in R&D?**

**A.** A Commission mandated \$316,500 investment in R&D would be another increase in costs over and above the ongoing annual increase for pipeline safety investment that would be borne by the ratepayer. Or, to put it another way, the proposed R&D customer expense of \$316,500 would fund \$2.8 million worth of pipeline replacements.<sup>14</sup>

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<sup>12</sup> *ibid.* page 11. The slope of the graph depicting historical safety related capital expenditures represents an increase in spending of \$5.5 million per year.

<sup>13</sup> Docket 18-KGSG-317-CPL, Final Plan for Replacement of Obsolete Materials in Populated Areas, page 13.

<sup>14</sup> Assuming a 9.3% rate of return and a 2% depreciation rate, a \$316,500 ratepayer payment equates to \$2.8 million in capital expenses.

1    **Q.     Would a successful R&D program blunt the rate of increased spending for pipe**  
2           **replacement by providing operational savings from successfully commercialized**  
3           **projects?**

4    **A.     In my opinion, no. Any savings realized from KGS purchasing a successfully**  
5           **commercialized R&D project that had been funded by the ratepayers would occur years**  
6           **in the future.**

7    **Q.     What are your conclusions regarding KGS's request to use customer funds to**  
8           **purchase an annual membership in OTD?**

9    **A.     Although OTD appears be a well-organized natural gas research operation, I recommend**  
10           **the Commission not approve of KGS's request to use ratepayer funds to purchase a**  
11           **membership in OTD. Given the aggressive pipe replacement program that KGS has**  
12           **undertaken at the request of the Commission, KGS ratepayers will be faced with a**  
13           **continual increase in safety related capital expenditures for the next several years. In my**  
14           **view, an optional investment in R&D that provides no quantifiable benefits to the**  
15           **customer during a time of aggressive capital investment to provide safe and reliable**  
16           **service would not be a prudent use of investment dollars. This position is consistent with**  
17           **past positions taken by Staff regarding natural gas R&D efforts. I believe KGS customers**  
18           **and the public interest in general have higher priorities for the customers' investment**  
19           **dollars.**

20    **Q.     Does this conclude your testimony?**

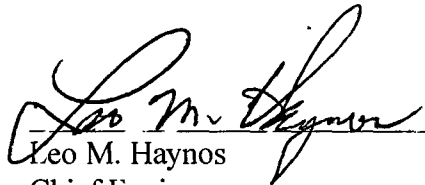
21    **A.     Yes.**



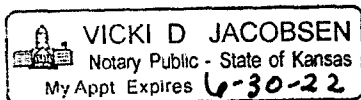
STATE OF KANSAS                     )  
  ) ss.  
COUNTY OF SHAWNEE             )

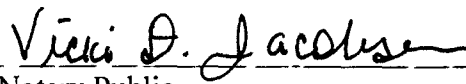
**VERIFICATION**

Leo M. Haynos, being duly sworn upon his oath deposes and states that he is the Pipeline Safety Chief Engineer for the Utilities Division of the Kansas Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Direct Testimony*, and attests that the statements contained therein are true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Leo M. Haynos  
Chief Engineer  
State Corporation Commission of the  
State of Kansas

Subscribed and sworn to before me this 29<sup>th</sup> day of October, 2018.



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

My Appointment Expires:

June 30, 2022

## **CERTIFICATE OF SERVICE**

18-KGSG-560-RTS

I, the undersigned, certify that a true and correct copy of the above and foregoing Staff Direct Testimony was served via electronic service this 29th day of October, 2018, to the following:

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18-KGSG-560-RTS

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