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

In the Matter of the Joint Application of Mid Continent Market Center, LLC for Permission to Cease Operating an Approximately Eighteen-Mile Twelve-Inch Natural Gas Pipeline Located in Kingman County, Kansas and of Kansas Gas Service, A Division of ONE Gas, Inc. for Permission to Cease Providing Service to Five Farm Tap Customers Served from this Natural Gas Pipeline.	)))))))))	Docket No. 23-MCIG-888-CCS

NOTICE OF FILING 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 regarding Mid Continent Market Center, LLC's ("Mid Continent") and Kansas Gas Service, a Division of ONEOK, Inc.'s ("KGS") join application for permission to cease operation of an 18.4 mile natural gas intrastate pipeline ("1204 Pipeline") and abandon the five KGS farm tap customers on the 1204 Pipeline.

Staff has reviewed all testimony, exhibits, and discovery responses in this Docket as detailed in the Report and Recommendation. Staff recommends the Commission approve the joint application of Mid Continent and KGS with the following additional requirements: (1) installation of a full propane tank, hot water tank, line from the tank, three appliance conversions, and any tax costs to be paid by KGS, and (2) KGS be required to reimburse the five farm tap customers for costs exceeding the KGS estimate regardless of whether an agreement was otherwise entered.

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

Respectfully Submitted,

/s/ Brett W. Berry

Brett W. Berry, #15026
Litigation Counsel
1500 SW Arrowhead Road
Topeka, Kansas 66604-4027
Phone: (785) 271-3287

1500 SW Arrowhead Road
Topeka, KS 66604-4027

Kansas
Corporation Commission

Phone: 785-271-3100
Fax: 785-271-3354
http://kcc.ks.gov/

REPORT AND RECOMMENDATION
UTILITIES DIVISION

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

FROM: Ashlyn Hefley, Utilities Engineer
Leo Haynos, Chief Engineer
Jeff McClanahan, Director of Utilities

DATE: October 11, 2023

SUBJECT: Docket No. 23-MCIG-888-CCS: In the Matter of the Joint Application of Mid Continent Market Center, LLC for Permission to Cease Operating an Approximately Eighteen-Mile Twelve-Inch Natural Gas Pipeline Located in Kingman County, Kansas and of Kansas Gas Service, A Division of ONE Gas, Inc. for Permission to Cease Providing Service to Five Farm Tap Customers Served from this Natural Gas Pipeline.

Executive Summary:

Mid Continent Market Center, LLC (MCMC) is requesting to cease the operation of an 18.4 mile twelve inch natural gas pipeline located in Harper and Kingman County, Kansas. MCMC is requesting to abandon the line because the cost to make the necessary repairs are cost prohibitive based on expected revenues that could be generated. There are five farm tap customers on the line served by Kansas Gas Service (KGS). In the joint Application, KGS requests permission to abandon service to the five customers and convert them to an alternative source. Staff did not receive any objections or complaints regarding the line abandonment. Staff recommends the Commission approve the Application.

Background:

MCMC is a Kansas intrastate natural gas pipeline regulated pursuant to Chapter 66 statutes and traditional rate-making principles. MCMC is a wholly owned subsidiary of ONEOK. MCMC provides services on certain intrastate pipeline, gathering, compression and storage facilities under Commission approved tariffs. Tariffs and associated rates for intrastate natural gas pipelines operating within the state are subject to the Commission's authority pursuant to K.S.A. 66-117, K.S.A. 66-1,217, K.S.A. 66-1,218, and K.A.R. 82-10-1 et seq.

On June 5, 2023, MCMC and KGS filed a joint application to cease operation of an 18.4 mile pipeline, abandon service to five farm tap customers, and equally share the costs to convert the farm tap customers to an alternative source. MCMC operates the pipeline while KGS provides service to five farm tap customers on the line. As of October 11, 2023, three of the five farm tap customers accepted the agreement. Two of the customers that accepted the agreement have been issued a check from KGS.

Analysis:

Through discovery, Staff learned it would cost approximately $845,000 to reactivate the line. Staff agrees it is more cost effective to convert the five customers to an alternative source. KGS offered the farm tap customers a base amount of $5,000 to convert to an alternative fuel source. KGS has stated it will reimburse customers if the conversion costs exceeds $5,000 if the customer provides invoices for any costs above that amount. This statement was not included in the letter sent to affected customers. The affected customers should be aware of reimbursement above $5,000.

The estimates used by KGS to determine the offer amount included the rental of a propane tank, new line for the tank, and converting three appliances from gas to propane. KGS doubled the sum of estimates to be inclusive of variation in customer situations. A summary of the costs Staff recommends KGS cover is below in Table 1. Staff contends $5,000 is not enough for each customer to be made whole. Through the discovery process, Staff obtained a copy of the letter sent to the farm tap customers. The letter states that if the customers accept the offer, they will receive a Form 1099 from KGS. It is Staff's opinion that the customers should not responsible for paying taxes on the conversion. At this time, Staff is unable to determine the tax bracket and filing status of each customer to determine the correct amount needed to be made whole after income taxes. Therefore, Staff has taken a generous approach of using a 22% federal tax and 5.7% state tax rate. In order to avoid issuing a Form 1099 to the customers, KGS could hire and pay contractors directly to perform the necessary tasks to complete the conversion. It is Staff's understanding that KGS has used this method in previous customer abandonment cases. KGS has not expressed opposition to this method.

Table 1. Propane Conversion Cost Estimate[1]

Item	**Staff's Cost Estimate**	**KGS' Cost Estimate**
Purchase Tank	$3,270	-
Tank Rental	-	$75
New Line	$800	$800
Fill Tank	$728	$728
Convert 3 Appliances	$800	$800
Hot Water Tank	$1,400	-
Federal and State Tax (1099)	$2,682	-
Total Cost Estimate	$9,682	$2,403
Doubled Cost Estimate	-	$5,000

It is Staff's understanding that hot water tanks are unable to be converted, therefore Staff recommends a hot water tank be included in the estimate. In contrast to KGS' estimate, Staff recommends KGS cover the cost to purchase a full propane tank, purchase a hot water tank, and

[1] Taken from KGS DR responses in docket number 24-KGSG-056-CCS and the subject docket

cover the tax costs the customers will be responsible for. While KGS has stated they will reimburse costs above $5,000, Staff contends KGS' estimate is inadequate.

<u>Recommendation:</u>

Staff recommends the following:

1. The Commission approve MCMC's request to cease operation of the 18.4 mile pipeline
2. The Commission approve KGS's request to abandon service to the five farm tap customers
3. The Commission order KGS cover the cost to purchase a full propane tank, purchase a hot water tank, line from the tank, three appliance conversions, and cover the income tax costs
4. The Commission order KGS to reimburse the customers for costs exceeding the estimate regardless if an agreement was signed

CERTIFICATE OF SERVICE

23-MCIG-888-CCS

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing Staff's Report and Recommendation was served via electronic service this 14th day of November, 2023, to the following:

JAMES G. FLAHERTY, ATTORNEY
ANDERSON & BYRD, L.L.P.
216 S HICKORY
PO BOX 17
OTTAWA, KS 66067
jflaherty@andersonbyrd.com

BRETT W. BERRY, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
b.berry@kcc.ks.gov

ROBERT E. VINCENT, MANAGING ATTORNEY
KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
7421 W. 129TH STREET
OVERLAND PARK, KS 66213
robert.vincent@onegas.com

/s/ Ann Murphy

Ann Murphy